



## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2017

The following management's discussion and analysis ("MD&A") of the operating results and financial condition of Verde AgriTech Plc ("Verde", the "Group" or the "Company") and its subsidiaries covers the quarter ended March 31, 2017. The following discussion provides information that management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition. This MD&A should be read in conjunction with unaudited consolidated financial statements for the quarter ended March 31, 2017. The unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union and with IFRS and their interpretations issued by the IASB. All amounts herein are expressed in Canadian Dollars unless otherwise stated, and the information is current to May 12, 2017.

Additional information relating to the Group is available under the Group's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and the Group's website at [www.verdeagritech.com](http://www.verdeagritech.com).

### FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements. Although the Group believes that its expectations reflected in forward-looking information to be reasonable, such information involves known or unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group or the Group's projects in Brazil to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such risk factors include, but are not limited to: general business, economic, competitive, political and social uncertainties; the actual results from current development activities; conclusions of economic evaluations; unexpected increases in capital or operating costs; changes in equity markets, inflation and changes in foreign currency exchange rates; changes in project parameters as plans continue to be refined; changes in labour costs; future prices of commodities; possible variations of mineral grade or recovery rates; accidents, labour disputes and other risks of the mineral exploration industry; political risks arising from operating in Brazil; delays in obtaining governmental consents, permits, licenses and registrations; approvals or financing; as well as those factors discussed in the section entitled "Risks" in this MD&A.

Although the Group has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information contained herein, unless stated otherwise, is made at the date of this MD&A and the Group takes no responsibility to update them or to revise them to reflect new events or circumstances, except as required by law.

## GROUP OVERVIEW

The principal activity of the Group is the development of innovative agri-tech products of high agronomic efficiency that foster sustainable, profitable and productive agriculture to help feed and nourish the world's growing population. Verde remains focused on advancing the Cerrado Verde Project towards production while at the same time continues to evaluate the potential of its mineral resource for additional products for the agricultural market.

Cerrado Verde, located in the heart of Brazil's largest agricultural market, is the source of a naturally occurring potassium silicate rock from which the Group intends to produce innovative solutions for crop nutrition, crop protection, soil improvement and increased sustainability. The Group is also developing its Calcario limestone project; limestone being a key raw material in Verde's process to produce TK47™.

The Group's ordinary shares trade on the Canadian Toronto Stock Exchange ("TSX") under the symbol "NPK".

## HIGHLIGHTS OF THE FIRST QUARTER

Verde's Super Greensand has been approved for use in organic agriculture in the United States by the Organic Materials Review Institute, the official certifier of organic products in the US.

On February 9, 2017, Verde announced that it was granted an environmental license. The Company's targeted production for the first half of 2017 is 19,500 tonnes of Super Greensand and 500 tonnes of Alpha.

Mr. Paulo Sergio Ribeiro Machado joined the Company's Board of Directors. Mr. Machado is a former executive at Vale and has spent his career developing and operating large mining projects. From 1988 to 2002, Mr. Machado was the General Manager of Vale's Igarapé Bahia Gold Mine, at the time the largest gold producer in Latin America, where he was responsible for implementation, operation and decommissioning. Between 2002 and 2006 Mr. Machado was the Director for all iron ore mines in the central region of Minas Gerais state, overseeing management and operations of mining activities, plants and railway terminals. Mr. Machado was also a director of CEMIG, one of the largest power generators and distributors in Brazil.

## SUBSEQUENT EVENTS

On April 27, 2017 the Company announced that it had been awarded a mining permit by the Brazilian Ministry of Mines for the production of 20,000 tonnes per annum to start up its planned production.

## PROJECT OVERVIEW

A summary of the Group's current projects are as follows:

### **Cerrado Verde**

#### *Summary of the Cerrado Verde Project*

During 2008 the Group staked a large mineral occurrence of a potassium silicate rock, that is believed to be uniquely suited to Brazil's domestic fertilizer needs.

Throughout 2009-2014, the Group advanced and completed a large drilling program at Cerrado Verde, which has a strike length exceeding 100km. Potassium mineralization was found from surface to a maximum depth of 80m, rendering the deposit amenable to open pit mining. Cerrado Verde has an NI 43-101 Measured and Indicated Mineral Resource Estimate of 1.47 billion tonnes at a grade of 9.2% K<sub>2</sub>O which includes a Measured Mineral Resource of 83 million tonnes with an average grade of 10.1% K<sub>2</sub>O. Additionally, the Inferred Mineral Resource Estimate is 1.85 billion tonnes at a K<sub>2</sub>O grade of 8.6%. The mineral resource was estimated from data collected from a total of 41,021m of reverse circulation drilling from 710 drill holes with a collar spacing ranging from 100m x 100m (measured resource) to 400m x 400m (inferred resource) and 1,717m of DC drilling from 25 drill holes.

The Group plans to produce a premium agri-tech fertilizer product, TK47™, a 100% natural product for organic agriculture, Super Greensand™, an all-natural product for crop protection, Alpha, and a product for lawn care, Camel Lawn. The Group continues to evaluate its potassium silicate rock for additional agricultural products.

In 2009, at the beginning of agronomic research, TK47™ was understood to be only a source of potash. After numerous agronomic studies involving the long-term impact of TK47™ across a multitude of crops, a number of other benefits of TK47™ have been identified and new research continues to reveal additional advantages in terms of increased productivity, sustainability and profitability. Research has now shown that by integrating TK47™ into their nutrient management systems, farmers benefit from the products multi-functionality in 4 key aspects: crop nutrition, crop protection, soil improvement and increased sustainability.

Super Greensand™ is both a fertilizer and a soil conditioner. As a fertilizer it provides potassium, magnesium, silicon, iron and manganese. As a soil conditioner it increases the soil's capacity to retain water and nutrients. A 100% natural product, Super Greensand™ is expected to be certified for use by organic agriculture. The Group will progress with product registration in Brazil and the United States.

Alpha is an all-natural product for crop protection. The product is a source of plant available silicon, which has been proven to induce crops' resistance and increase its protection against pests and diseases.

The Group is focusing its regulatory efforts on securing an environmental license for up to 233,000 tonnes per year of ore mining. The Group has completed all necessary studies required from various federal, state and local governmental authorities, filed an updated environmental impact assessment and is presently awaiting the environmental agencies review and decision. As part of the process to obtain an environmental license in Brazil, a public audience was held in the city of Sao Gotardo, Minas Gerais, to present and discuss the Group's Cerrado Verde Project and its social and environmental impact to various stakeholders. At the public audience, the Group's project received a high level of support and at the end of August 2016, the environmental agency

conducted a site visit of the Group's Cerrado Verde property as part of their review of the Group's environmental license application. A site visit is one of the agency's final steps in their review process.

### *Project Developments*

In 2009, the Group focused its activities on the geological mapping of the area of the Cerrado Verde Project, bibliographic research, drilling, planning and development of new metallurgical processes for the economic exploitation of potassium silicate.

In October 2010, the Group staked exploration permits over an area of 7,505 hectares with geological potential for limestone deposits near the Group's Cerrado Verde Project. See "*Calcário Limestone Project*" below.

On February 7, 2011, the Group initiated a wide-spaced drilling program at Cerrado Verde aimed at producing an NI 43-101 compliant mineral resource estimate for the majority of the deposit, which has a strike length exceeding 100km. At the time, the Group had an Inferred Mineral Resource Estimate of 105.1 million tonnes grading 10.3% K<sub>2</sub>O, using a cut-off of 7.5% K<sub>2</sub>O. On the completion of some widely separated drill holes in May 2011, the Group reported on high grade potash drill intersections close to surface, including 10.3% K<sub>2</sub>O at 62m, 10.4% K<sub>2</sub>O at 46m and 11.0% K<sub>2</sub>O at 36m depth. Drilling successfully extended the high-grade potassium mineralization in all new targets tested at Cerrado Verde and on August 3, 2011, the Group announced an updated mineral resource estimate for the Cerrado Verde Project for five out of thirteen targets (being Targets 4, 6, 7, 10 and 11). The estimate comprised an Indicated Mineral Resource of 74 million tonnes with an average grade of 9.22% K<sub>2</sub>O and an Inferred Mineral Resource of 1.07 billion tonnes with an average grade of 9.37% K<sub>2</sub>O (applying a 7.5% K<sub>2</sub>O cut-off). Potassium mineralization was found from surface to a maximum depth of 80m, rendering the deposit amenable to open pit mining.

In April 2011, the Minas Gerais State government signed a memorandum of understanding to provide the Group with support in the form of tax incentives, potential financing for working capital and fixed investment. This support will enable the implementation of an industrial unit and the installation of a distribution center located in the State of Minas Gerais destined for the manufacture and commercialization of TK47™.

On February 28, 2012, the Group filed a technical report titled "*NI 43-101 Preliminary Economic Assessment, Cerrado Verde Potash Project, Minas Gerais, Brazil*" that released the details of an increased resource estimate for the Cerrado Verde Project composed of an Indicated Mineral Resource Estimate of 71 million tonnes with an average grade of 9.22% K<sub>2</sub>O and an Inferred Mineral Resource Estimate of 2.76 billion tonnes with an average grade of 8.91% K<sub>2</sub>O (applying a 7.5% K<sub>2</sub>O cut-off). This resource estimate included Targets 1 to 7, 10 to 14, 16 and 17. The Funchal Norte Target became included with Target 7.

In October 2012, the Group completed its 2012 infill drilling campaign at the Cerrado Verde project site aimed at defining measured and indicated resources 15,080m in 252 reverse circulation ("RC") holes and 785m in 12 diamond core ("DC") holes were drilled at a spacing ranging from 200m by 200m to 100m by 100m. The objective of this program was to transform the inferred and indicated resources into indicated and measured categories.

Subsequently in March 2014, the Group announced the results and completion of additional drilling at the Cerrado Verde Project. Cerrado Verde now has an NI 43-101 Measured and Indicated Mineral Resource Estimate of 1.47 billion tonnes at a grade of 9.2% K<sub>2</sub>O which includes a Measured Mineral Resource of 83 million tonnes with an average grade of 10.1% K<sub>2</sub>O. In addition, the revised Inferred Mineral Resource Estimate is 1.85 billion tonnes at a K<sub>2</sub>O grade of 8.6%. Over 1.4 billion tonnes of resource has been upgraded from the inferred to the measured and indicated categories.

The new mineral resource was estimated from data collected from a total of 41,021m of RC drilling from 710 drill holes with a collar spacing ranging from 100m x 100m (measured resource) to 400m x 400m (inferred resource) and an additional 1,717m of DC drilling from 25 drill holes. The final drilling program consisted of 15,080m of drilling from 252 RC drill holes and an additional 785m from 12 DC drill holes.

Earlier in June 2013, TK47™ was approved for use as a potassium fertilizer by the Brazilian Ministry of Agriculture (“MAPA”) ensuring the product eligible for sale in Brazil. Over the past four years the Group and a number of research partners have conducted 42 lab tests and 47 field tests with 15 different crops on more than 50 hectares (500,000m<sup>2</sup>). The results of these tests have demonstrated the product's efficacy as a source of potassium, silicon and calcium, as well as its ability to address the acidity of Brazilian soils.

On September 12, 2013, the Group announced positive results from a 30 month field test of TK47™ with coffee crops. The trial indicated that TK47™ was more efficient in the delivery of potassium than KCl, generating an equivalent coffee yield while using 36% of the potash that was applied to the KCl test plots. The test was conducted by Verde in conjunction with the Agricultural Research Company of Minas Gerais (“EPAMIG”).

On February 18, 2014, Inova Agro, a Brazilian government program intended to fund innovative projects in the agriculture sector, selected the Group to obtain financing from the Brazilian Development Bank (“BNDES”) for its Cerrado Verde Project. The Group had submitted its business plan for the development of a greenfield 1,000 tonnes per day TK47™ production facility requesting R\$ 250 million (approximately US\$ 105 million at the time). Inova Agro approved the Group's business plan which included funding for investments in market development, pre-construction costs and working capital post commissioning for six months. The Group expects to initiate production by subcontracting most required industrial steps to existing local companies. BNDES, under its Inova Agro program, is just one of the potential sources of capital for the project, and has expressed the possibility to provide funding for this initial production.

On March 11, 2014 the Group announced the results of tests establishing that the quality of coffee, when grown using TK47™, is higher than the quality of coffee grown using KCl. The degree of improvement was such that, for the coffee crop tested, the TK47™ product surpassed the threshold to render it specialty coffee, a category that commands a premium price.

The field tests were lead by EPAMIG. Coffee produced during EPAMIG field trials was sent to independent experts at Cooxupé, a leading Brazilian coffee cooperative that is the world's largest individual coffee exporter. Experts at Cooxupé then sampled the coffee as per the guidelines of the Specialty Coffee Association of America (“SCAA”), under pre-established quality criteria for physical and sensory attributes. Coffee grown with TK47™ received a grade of 83 out of 100 points, a measurement that qualifies the coffee as specialty coffee. The grade for the same harvested coffee but grown using KCl was 73 points. Coffee must receive a grade of 80 or above to be regarded as specialty coffee. Specialty coffee growers enjoy a 40% premium in sales price compared to growers of conventional coffee. The premium coffee sector, which accounts for approximately 20% of the coffee market, is growing rapidly as consumers seek better tasting coffee.

Given the Group's focus on expediting cash flow with the lowest capex possible, the Group is focusing its regulatory efforts on securing an environmental license for up to 233,000 tonnes per year of ore mining. For the environmental license, the mine pit for TK47™ occupies 32ha vs. 2,000ha in the case of KCl. Given the smaller footprint and minimal environmental impact, the TK47™ project is classified by Brazilian environmental authorities as Class III, which allows the Group to apply for the LP (preliminary permit) and the LI (construction permit) simultaneously. Verde's work on securing an environmental license for TK47™ is ongoing. The Group has completed all necessary studies required from various federal, state and local governmental authorities, filed an updated environmental impact assessment and is presently awaiting the environmental agencies review and decision.

On June 30, 2014, the Group announced the results of a Pre-Feasibility Study ("PFS") for the production of TK47™. The PFS was prepared by AMEC plc, Andes Mining Services Ltd. and NCL Ingeniería y Construcción SpA on the Cerrado Verde Project located in Minas Gerais State, Brazil. The PFS evaluated the technical and financial aspects of a plant to produce 1,000 tpd of TK47™. The PFS assumed open pit mining and a pyrometallurgy process for the production of TK47™.

Verde took a conservative approach to the PFS, limiting the production rate to 330,000 tonnes per year ("tpy") of TK47™. The mineral reserve estimate for the TK47™ Project has been prepared by NCL based on resources determined by AMS. Due to Cerrado Verde's vast mineral resource, only a necessary fraction of its total mineral potential was established as proven and probable reserves, for a total of 7,020 kt at 10.8% K<sub>2</sub>O, which is enough for a projected mine life of 31 years.

The PFS estimated a project capital cost of US\$113.6 million, a net present value (NPV) of US\$145.7 million, based on an average sales price for TK47™ of US\$187.74 and an internal rate of return (IRR) of approximately 23.5%. A total estimated operating cost of US\$55.29 per tonne of TK47™ includes production, work force, and variable costs of US\$47.12 per tonne plus estimated administrative, marketing and other costs of US\$8.18 per tonne. For a full discussion on the technical and financial aspects of the PFS as well as its assumptions, a copy is available on SEDAR at [www.sedar.com](http://www.sedar.com).

On April 30, 2014, the Group announced results of a two-year-long independent trial on sugarcane, demonstrating TK47™'s superiority over KCl. The Federal University of Uberlândia ("UFU") conducted the field trials over a growing cycle of two years (2011/2012 and 2012/2013 harvests) at Cia Energética Vale do São Simão, a large sugar mill and ethanol producer located in Minas Gerais State. In the first growing cycle, 50kg of K<sub>2</sub>O was applied using TK47™. The TK47™ fertilized plot yielded three tonnes per hectare ("t/ha") more sugarcane than an equal plot fertilized using 100kg of K<sub>2</sub>O from KCl. When two growing cycles were taken into account and an equal dosage of K<sub>2</sub>O, 100kg, was applied, the TK47™ applied area produced 12.3 t/ha more sugarcane as compared to the KCl applied area. The total cultivated area for these tests was 1.5 ha (15,000m<sup>2</sup>).

These tests confirm that farmers can reduce the dosage of fertilizer applied when using TK47™ and still increase crop yields. The main reason for this is because TK47™ is not leached in water as other potassium salt fertilizers such as potassium chloride, potassium sodium nitrate, potassium nitrate, potassium sulfate and potassium magnesium sulfate. A potassium-leaching test conducted by UFU in 2010 established that TK47™ suffers minimal nutrient loss as a result of leaching, 0.3%, whereas KCl loses 26% under the same conditions.

The production optimization, which is another benefit of TK47™, will require a number of agronomic tests for a full understanding of its reach. Such research will allow the Group to pave the way for a much broader usage of the product in Brazil and quantify all economic merits of the product. The Group intends to draw down on the funds over the next three years. Initially, Verde intends to ask for R\$1M (approximately C\$370K) to pay for the production of TK47™ for a major field trial to be implemented with a selected partner. Receipt of the funds is conditional upon BNDES' comprehensive review of the project, including a risk and market analysis. Such a review is done on a program-by-program basis.

Lima & Zanette, a Brazilian engineering and consulting firm, completed the mine engineering work (mechanical, electrical and civil) in November 2014.

In January 2015, Verde obtained permission from The Institute of Historical and Artistic Heritage (IPHAN)<sup>1</sup>, to commence an archaeological study to identify if the deposit and surrounding areas contain any archaeological material. The request was filed in September 2014 and approval was

received in January 2015. As soon as Verde received approval, its team initiated work early February 2015 and the study was completed at the beginning of May 2015.

The hydrogeological study, initiated in August 2014 by MDGEO - Serviços de Hidrogeologia Ltda, a Brazilian consulting firm, was completed in February 2015. This study was required to identify and measure the mine's impact on groundwater during the dry and wet season. The Group initially expected completion of the study in Q4 of 2014 (as previously announced on August 13, 2014), however, due to Brazil's current water shortage crisis, the study could only be finalized in February 2015.

Engineering studies, developed by IC Ambiental delineated some improvements required on secondary roads accessing the mine site, for which an environmental impact study is required. The study was completed at the end of April 2015.

Verde signed a 30-year lease agreement with landowners for the area where the mine will be located. The Group now controls the land where the mine and its required infrastructure are to be constructed, as well as the area that hosts the mineral resource for its proposed greenfield plant.

In May 2015, the Group provided an update on the Company's market development of TK47™. The Group's efforts to fully value the wide array of benefits offered by TK47™ have generated more than 40 agriculture partners with some of the world's largest food producers. The product is being used to grow sugarcane, coffee, potatoes, corn, soybeans, oranges, eucalyptus, tomatoes, tobacco, garlic and carrots.

In June 2015, the Group announced superior agronomic results for carrot and corn crops grown using TK47™ as well as results showing a significant reduction in the amount of pesticide used due to TK47™. The tests validate the product's multi-functionality benefits for crop nutrition, crop protection, soil improvement and increased sustainability (see the June 2, 2015 press release for detailed results).

In July 2015, the Group received results from an independent study aimed at evaluating the economic benefits to farmers who adopt TK47™ as the potassium source in their nutrient management systems. The assessment was based on agronomic results achieved from a 10 months field trial on carrot and corn crops, carried out in Minas Gerais State by an independent agronomic consultancy company. The results show that even at higher costs per hectare, the products' superior benefits still translate into higher profits for farmers.

Results demonstrated that higher yields were achieved using half the standard applied dosage of K<sub>2</sub>O from TK47™. Of the total carrot production, the TK47™ plot produced 67.01% of Class A carrots, which have a higher market value, whereas the KCl plot produced 49.76%. Also, less discarded carrots were produced from the TK47™ plot than from KCl's, 9.08% vs. 10.91%, respectively.

The independent economic study also evaluated the productivity of carrots after reducing certain pesticides and showed that applying less pesticide translated to potential additional cost reductions to farmers of US\$118,000 per 1,000 hectares.

In October 2015, the Group announced its evolution from a commodities company into an agri-tech company focused on continual innovation. Verde has been devoted to the development of its potassium silicate mineral asset through technology that converts it into solutions for sustainable and profitable agriculture. As a result, subsequently in June 2016, the Group changed its name to Verde AgriTech to better reflect its progression and commitment to agricultural technology innovation.

In February 2016, the Group announced a new product development, Super Greensand™, expected to be used both as a fertilizer and as a soil conditioner. Verde will progress with product registration in Brazil and the United States. Super Greensand™ is produced as an intermediate

step in the TK47™ production process. The production flowsheet for TK47™ allows the same plant to produce two products without any additional investment. If Verde decides to significantly reduce upfront capex it could initiate production with Super Greensand™, because its production process does not require a kiln, only a mill.

In April 2016, the Group announced a new product development for the crop protection market, Alpha. The Group has developed a proprietary technology to produce Alpha from its potassium silicate mineral deposit. Alpha is applied directly on crop leaves to provide plant available silicon, an element that has been proven to induce crops' resistance and increase its protection against pests and diseases. The product's development is a strategic addition to the Group's expanding portfolio of products and solutions that foster sustainable, more profitable and productive agriculture.

The Group is conducting 18 field trials with some of the world's largest agriculture corporations, 3 field trials with leading independent research companies and an overall evaluation being carried out by one of Brazil's leading agronomy universities. Alpha is being tested on coffee, rice, corn, soybeans, cotton and potato, among others. While Verde's TK47™ and Super Greensand™ are used in soil application, Alpha is applied as foliar feed (i.e. technique of feeding plants directly through their leaves).

Also in April 2016, a public audience was held in the city of Sao Gotardo, Minas Gerais, to discuss the Group's application for an environmental license to mine Verde's potassium silicate rock. The public audience is an important step of the process to obtain an environmental license in Brazil and serves as an opportunity for the Group to present the project and its social and environmental impact to various stakeholders. Such stakeholders included the mayor of São Gotardo, city councilors, representatives from the Regional Superintendencies of Environmental Regulation ("SUPRAM"), members of civil associations, religious communities, social organizations, the business community, public servants, union representatives and residents of São Gotardo and neighboring towns. The Group's Cerrado Verde Project received a high level of support. See the May 2, 2016 press release for more details on the public hearing.

In May 2016, the Group received positive results from tests using TK47™ on rice crops. The results showed that TK47™ reduced the occurrence of rice blast, a plant-pathogenic fungus, by approximately 44%. Losses due to plant pathogens put a significant constraint on global food production.

Rice crop is vulnerable to attacks by many plant pathogens such as fungi, viruses, bacteria and nematodes, which can harm the productivity and quality of the harvested grain. For example, when environmental conditions are favourable to the pathogen, the damage caused by rice blast can compromise up to 100% of production. TK47 has a high concentration of plant available silicon, an element which induces plants natural resistance against pests and diseases.

In addition to the Group's TK47™, Super Greensand™ and Alpha products, a trademark application has been filed for Camel Lawn with the United States Patent and Trademark Office (USPTO) as well as with the Organic Materials Review Institute to have the product certified as organic in the United States. On September 20<sup>th</sup>, the USPTO issued a Notice of Allowance for TK47™. A trademark for TK47™ was awarded in Brazil. Verde's Super Greensand has been approved for use in organic agriculture in the United States by the Organic Materials Review Institute.

The Group acquired two properties in Minas Gerais State. The first property, purchased for approximately \$153,000 (R\$345,000), can be used in the future for several purposes, including storage of ore and equipment installation. The Group is in the process of finalizing its purchase of the second property for approximately \$146,000 (R\$330,000). As part of environmental regulations, this second property was purchased for environmental compensation purposes and will be used for forest protection.



On August 17<sup>th</sup> and 19<sup>th</sup>, the Minas Gerais State Environmental Agency conducted a site visit of the Group's Cerrado Verde property as part of its review of the Group's environmental license application. The site visit was booked on the first day after the environmental agency's strike was over. A site visit is one of the agency's final steps in its review process. The environmental agency also conducted a site visit to the property Verde is proposing for environmental compensation.

On October 18<sup>th</sup>, 2016, Verde applied for a subsidized loan for innovation called Inovacred. On October 27<sup>th</sup>, the Company was informed of its approval and in order to progress, several documents, which the Company has already submitted and the bank is reviewing, as well as collateral have been requested. The loan is for approximately \$442,000 (R\$1M) and has a 2-year grace period with repayment of up to 6 years. The current base rate in Brazil is 12.25%; the rate for the loan is 7.5%. The loan was subsequently declined by the bank.

On February 9, 2017, Verde announced that it was granted an environmental license. The Company's targeted production for the first half of 2017 is 19,500 tonnes of Super Greensand and 500 tonnes of Alpha.

### **Calcario**

The production of TK47™ requires significant quantities of limestone as one of its raw materials. In June 2011, the Group announced the discovery of a high grade limestone unit located approximately 100km from the site of the Cerrado Verde Potash project. A total of 20 RC drill holes for 1,888m were completed (approximately 200 to 570m spacing over 8km<sup>2</sup>). Drilling targeted the calcitic limestone unit and returned an average grade of 53.0% CaO and 1.8% SiO<sub>2</sub> over an average thickness of 36.4m. The development of the Calcario Project is a strategic component of Verde's production strategy.

In September 2011, the Group announced an independent mineral resource estimate for its Calcario Limestone Project. The resource included 89 million tonnes in the Indicated category at an average grade of 54.7% CaO and 180 million tonnes in the Inferred category at an average grade of 54.7% CaO (no cut off applied). The maiden resource was based on 15 additional, vertical RC drill holes, totalling 1,395m, drilled with a hole spacing ranging from 200 to 400m, on a grid pattern over an area of 275 hectares. In 2012, exploration work was completed on a number of limestone tenements and in November 2012, the Company filed the final exploration reports with the National Department of Mineral Production ("DNPM") for the drilled areas. The DNPM approved the technical report for the tenement 833.841/2010. The approval of the exploration report allowed the Company to submit the application for a mining concession (Requerimento de Lavra) and an Economic Development Plan (Plano de Aproveitamento Econômico – "PAE"), that, when approved, grants the tenement holder the right to mine the resource. The Group is awaiting approval of the PAE.

### **SUMMARY OF EXPLORATION CLAIM AREAS**

Verde holds mineral claim titles in two categories of the Brazilian land tenure process. *Requerimento de Pesquisa* applications for exploration licences and *Autorização de Pesquisa* for granted exploration licences. Applications filed with the DNPM are normally granted the permit on a priority of application basis. Applications are sequentially numbered and dated upon filing with the DNPM. An exploration permit from the DNPM allows the holder to prospect a mineral property and is valid for one to three years; it can be renewed for a further period under special conditions and may be transferred. Licence areas are in hectares.

Project	State	Permit Applications	Granted Permits	Total
Cerrado Verde	Minas Gerais	4,350.86	52,273.94	56,624.80
Calcario	Minas Gerais	0	5,450.77	5,450.77

### SUMMARY OF DEFERRED EXPLORATION EXPENSES

During the quarter ended March 31, 2017, the Group incurred and capitalized project acquisition and exploration costs. The following table summarizes the deferred exploration costs of active projects capitalized to intangible assets by the Group:

#### Project

	To December 31, 2015 \$'000	12 months to December 31, 2016 \$'000	3 months to March 31, 2017 \$'000		Total \$'000
			Additions	Exchange difference	
Cerrado Verde	20,763	3,456	191	502	<b>24,912</b>
Calcario	623	102	-	19	<b>744</b>
<b>Total</b>	<b>21,386</b>	<b>3,558</b>	<b>191</b>	<b>521</b>	<b>25,656</b>

Movement for the period is expenditure incurred net of exchange differences.

### OUTLOOK

Verde continues to develop its Cerrado Verde Project. The Group will continue engineering studies, construction, finance and environmental licensing efforts to advance the project. The Group will also continue working on its Calcario Project.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides information on selected operating results for the past eight fiscal quarters:

All amounts in \$'000	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Revenue	-	-	-	-
Administrative expenses	377	274	299	287
Net loss	(353)	(264)	(296)	(282)
Loss per share (basic and diluted) (\$)	(0.009)	(0.007)	(0.008)	(0.007)
All amounts in \$'000	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Revenue	-	-	-	-
Administrative expenses	344	335	573	379
Net loss	(330)	(321)	(555)	(342)
Loss per share (basic and diluted) (\$)	(0.009)	(0.009)	(0.015)	(0.009)

In 2015 the business adopted a cost reduction focus and as part of this approach introduced various cost saving measures, which directly resulted in the reduction of administrative costs. The focus on cost savings has continued, as has the trend of decreasing administrative expenses, with the exception of quarter 3, 2015.. Expenses have again risen significantly quarter on quarter, mainly due to an increased share based payment, following 2 share option issues in the quarter.

## RESULTS OF OPERATIONS

**Three months ended March 31, 2017 as compared to the three months ended March 31, 2016.**

All amounts in \$'000	3 months ended March 31, 2017	3 months ended March 31, 2016
Revenue	-	-
Administrative salary and consultancy costs	166	194
Legal and professional	60	58
Travel and investor relations	9	24
General administrative expenses	39	26
Share based payments	103	42
<b>Administrative expenses</b>	<b>(377)</b>	<b>(344)</b>
<b>Operating loss</b>	<b>(377)</b>	<b>(344)</b>
Corporation tax	-	-
Interest income	24	14
<b>Net loss</b>	<b>(353)</b>	<b>(330)</b>

**Three months ended March 31, 2017 compared with three months ended March 31, 2016**

Compared to the three months ended March 31, 2016, the net loss for the three months ended March 31, 2017 has risen by \$23,000, an increase of 7%, The loss per share remains \$0.009.

**Administrative salary and consultancy costs**

The administrative salary and consultancy costs include the remuneration of the directors and the administrative staff and consultants employed in Brazil.

### **Legal and professional**

Legal and professional fees include legal, accountancy, audit related and regulatory costs. These expenses are inline quarter on quarter, rising slightly in the three months ended March 31, 2017 by \$2,000 to \$60,000.

### **Travel and investor relations expenses**

Travel and investor relations expenses include international flights, travel within Brazil, public relations and attendance at trade shows. As part of the cost saving measures introduced, the Company has reduced international travel.

### **General administrative expenses**

These costs include general office expenses, rent and occupancy fees, insurance, foreign exchange variances, equipment depreciation and taxes. The Group has reduced general office expenses and rental costs by relocating to a smaller office in Brazil.

### **Share based payments**

These costs represent the expense associated with stock options granted to employees, directors and consultants. Stock-based compensation expense recognized during the three months ended March 31, 2017 was \$116,000, an increase of \$74,000 over the three months ended March 31, 2016.

## **LIQUIDITY AND CASH FLOWS**

For additional detail see the consolidated statements of cash flows for the quarters ended March 31, 2017 and March 31, 2016 in the annual financial statements.

Cash received from/(used for): \$'000	<b>3 months ended March 31, 2017</b>	3 months ended March 31, 2016
Operating activities	<b>(218)</b>	(226)
Investing activities	<b>(167)</b>	(150)
Financing activities	-	-

On March 31, 2017, the Group held cash of \$1,381,000, a reduction of \$382,000 from the cash balance at December 31, 2016.

### **Operating activities**

For the three months ended March 31, 2017, net cash utilised in operating activities was \$218,000, compared to \$226,000 for the three months ended March 31, 2016 reflecting reduced cash operating losses.

### **Investing activities**

For the three months ended March 31, 2017, net cash utilised in investing activities was \$167,000, an increase of \$17,000 from the three months ended March 31, 2016. This is a direct result of increased capital expenditure on evaluation and exploration assets.

### Financial condition

On December 31, 2017 the Group had current assets of \$1,607,000 and current liabilities of \$231,000 providing a working capital surplus of \$1,376,000 which represents a decrease of \$426,000 since December 31, 2016.

In view of the level of the working capital surplus, the directors consider that sufficient funds will be available to progress the Group's planned development programs and that it has adequate working capital for at least the next twelve months.

However, the existing funds will not be sufficient to bring the projects into development and production, should it be warranted, and in due course further funding will be required. In the event that the Group is unable to secure further finance it may not be able to fully develop its projects, which may have a consequential impact on the recoverability of the carrying value of the related intangible assets.

### COMMITMENTS

The Group has the following exploration and development capital expenditure commitments in respect of its projects:

	31 Mar 2017	31 Dec 2016
	\$'000	\$'000
Amount payable within one year	190	188
Amounts payable after more than one year and less than five years	72	70
After five years	426	420
	<u>516</u>	<u>674</u>

In addition, there is a commitment to rebuild a small house and a commitment of \$5,335 (R\$15,000) per hectare for any damage to land caused during mining, which is expected to be up to 35 hectares. The Group only makes payments on a per hectare basis at the time of impact.

The total commitments under non-cancellable operating leases in respect of land and buildings were as follows:

	31 Mar 2017	31 Dec 2016
	\$'000	\$'000
Amount payable within one year	-	3
Amounts payable after more than one year and less than five years	-	-
	<u>-</u>	<u>3</u>

Brazilian labour law entitles a former employee to lodge within two years of leaving the company claims for alleged unpaid remuneration and compensation in the event of dismissal. The Company, whilst contesting each claim notes that should a claim be successful future liability may arise.

## OFF-BALANCE SHEET FINANCING

The Group has not entered into any off-balance sheet financing arrangements.

## CORPORATE GOVERNANCE

### **Director Term Limits and Representation of Women on the Board and in Executive Positions**

The Group does not have term limits for its directors. While there is benefit to adding new perspectives to the Board from time to time, there are also benefits to be achieved through continuity and directors having in depth knowledge of each facet of the Group's business, which necessarily takes time to develop. Also, setting director term limits forces valuable, experienced and knowledgeable directors to leave. Board renewal is one of many factors taken into consideration as part of the Board's annual assessment. Pursuant to requirements for issuers listed on the TSX, directors of the Group are to be elected (including the re-election of incumbent directors) at each annual meeting of the Company, and in all cases, the term of any director will expire at the close of the next annual meeting of shareholders following such director's appointment.

The Group does not have a formal policy with respect to the identification and nomination of women directors or executive management, or adopted targets for the representation of women on the Board or in executive management. The Board is currently comprised of five men and no women, such that none of the Group's directors are women. The Group's executive team is currently comprised of three men and no women, such that 0% of the Group's executive officers are women. However, approximately 42% of the staff within various departments in the organization are women including the Corporate, Finance and Human Resources Departments.

While diversity is one issue of importance, the Board believes that the key to effective leadership is to choose directors that, having regard to a wide array of factors, possess the range of necessary independence, skills, experience, commitment and qualifications that are best suited to fostering effective leadership and decision making at the Company. The Board reviews its size and composition from time to time to determine the impact the directors have on its effectiveness, and the Board and the Group's management use a rigorous identification and selection process for new directors, having regard to a variety of factors, and through these processes the Board believes that it is well-positioned to address any problems or deficiencies that may arise.

Furthermore, according to the Charter of the Corporate Governance Committee, when identifying new candidates, the Committee takes into consideration the criteria approved by the Board and such other factors, as it deems appropriate. These factors include judgement, skill, integrity, independence, diversity, experience with business and organisations of comparable size, the interplay of a candidate's experience with the experience of other Board members, willingness to commit the necessary time and energy to serve as a director, and a genuine interest in the Group's business. The Group believes the aforementioned factors are all encompassing and although gender is not specifically listed as one of the factors, gender is taken into account when considering diversity in director nominations.

Although the Group and the Board do not believe that quotas or strict policies necessarily result in the identification or selection of the best candidates, the Board is mindful of the benefits of gender diversity on the Board and in executive positions and the need to maximize effectiveness of the Board and management team's decision making abilities. Accordingly, although the Board

believes that the current directors comprise an appropriate mix of individuals with accounting, financial, legal, specific industry and general business experience that is appropriate for the Group's current size, as the Group's business grows, it plans to expand the size of its Board and in conducting searches for new directors, the Board intends to focus on increasing the level of female representation but does not have a representation target at this time. Similarly, although there is no current intention to make changes or additions to the Group's executive team, the Board will be mindful of the benefit of gender diversity in any appointment of new executive officers. The Board believes that the current executive management team comprises an appropriate number and mix of individuals with considerable experience in the agriculture resource industry that is appropriate for the Group's current size.

## FINANCIAL INSTRUMENTS

The Board of Directors determines, as required, the degree to which it is appropriate to use financial instruments and hedging techniques to mitigate risks. The main risks for which such instruments may be appropriate are foreign exchange risk, interest rate risk and liquidity risk, each of which is discussed below. There is no perceived credit risk as the Group has no trade receivables and minimal other receivables and bank deposits are made with financial institutions considered to be safe by the Board of Directors. There were no derivative instruments outstanding on December 31, 2016.

### Foreign currency risk

The Group's cash resources are mainly held in Canadian Dollars and Brazilian Reais. Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian Dollars and its costs are primarily incurred in Canadian Dollars and Brazilian Reais. The appreciation of Brazilian Reais against the Canadian Dollar could increase the actual capital and operating costs of the Group's mineral exploration projects and materially adversely affect the results presented in the Group's financial statements. Currency exchange fluctuations may also materially adversely affect the Group's future cash flow from operations, its results of operations, financial condition and prospects. The Group has a general policy of not hedging against foreign currency risks. The Group manages foreign currency risk by regularly reviewing the balances held in currencies other than the functional currency.

The Group had the following cash and cash equivalents in currencies other than its presentational currency. The amounts are stated in Canadian Dollar equivalents.

	<b>31.03.17</b>	31.03.16
	<b>\$'000</b>	\$'000
Canadian Dollars	<b>1,075</b>	3,108
Brazilian Reais	<b>302</b>	227
British Pounds	<b>4</b>	23
	<b>1,381</b>	3,358

The results of a foreign currency risk sensitivity analysis showing a 10% weakening/strengthening of the Brazilian Reais against Canadian Dollars, with all other variables held constant, are as follows:

	Equity	
	31.03.17	31.03.16
	\$'000	\$'000
10% weakening of Brazilian Real	(39)	(33)
10% strengthening of Brazilian Real	48	40
	48	40

#### Liquidity risk

To date the Group has relied on shareholder funding to finance its operations. As the Group has finite cash resources and no material income, the liquidity risk is significant and is managed by controls over expenditures and cash resources. In addition, the Group does not have any borrowings and only has trade and other payables with a maturity of less than one year.

#### Interest rate risk

The Group's policy is to retain its surplus funds in the most advantageous term of deposit available up to twelve month's maximum duration. Given that the directors do not consider that interest income is significant in respect of the Group's operations no sensitivity analysis has been provided in respect of any potential fluctuations in interest rates.

#### Financial assets

The floating rate financial assets comprise interest earning bank deposits at rates set by reference to the prevailing LIBOR or equivalent to the relevant country.

#### Fair values

In the Directors' opinion there is no material difference between the book value and fair value of any of the Group's financial instruments.

#### Classes of financial instruments

The classes of financial instruments are the same as the line items included on the face of the balance sheet and have been analysed in more detail in the notes to the accounts. All the Group's financial assets are categorised as loans and receivables and all financial liabilities are measured at amortised cost.

## CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of financial statements requires the Group to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. A summary of critical accounting estimates is provided below:

#### Deferred exploration and evaluation expenditure

All costs incurred prior to the application for the legal right to undertake exploration and evaluation activities on a project are expensed as incurred.

Exploration and evaluation costs arising following the application for the legal right are capitalized on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical and administrative overheads and include:



- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise such as:

- (i) unexpected geological factors that render the resource uneconomic;
- (ii) title to the asset is compromised;
- (iii) variations in metal prices that render the project uneconomic;
- (iv) substantive expenditure on further exploration and evaluation of mineral resources is neither budgeted nor planned; and
- (v) the period for which the Group has the right to explore has expired and is not expected to be renewed.

The Group may periodically revise its evaluation based on additional exploration results and determine that the carrying value of the property on the balance sheet is impaired. When such a change in estimate is made, there may be a consequent material effect on the balance sheet and income statement.

### Share-based payments

The Group charges the consolidated statement of comprehensive income with the fair value of share options issued. This charge is not based on historical cost, but is derived based on assumptions input into an option pricing model. The model requires management to make several assumptions as to future events, including; an estimate of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Group's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given there is no market for the options and they are not transferable. The value derived from the option pricing model is highly subjective and dependent entirely upon the input assumptions made.

## NI 52-109 COMPLIANCE

### Disclosure Controls and Procedures ("DC&P")

As at December 31, 2016, the CEO and the CFO evaluated the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P was effective as at December 31, 2016.

### Internal control over financial reporting ("ICFR")

Based on the evaluation of the design and operating effectiveness of the company's ICFR, the CEO and the CFO concluded that the company's ICFR was effective as at December 31, 2016.

There have been no changes during the period ended December 31, 2016 that have a material effect on the disclosure controls and procedures or the internal controls over financial reporting.

## FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the reporting period ended December 31, 2016:

<b>IFRS /Amendment</b>	<b>Title</b>	<b>Application date of standard</b>	<b>Application date for Group</b>
IFRS 9	Financial Instruments – Classification and Measurement	January1, 2018	January1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	January 1, 2018

Management has reviewed the impact of the above standards and have determined that they do not result in any changes on the loss or financial position of the Group.

### OUTSTANDING SHARE DATA

As at the date of this MD&A the following securities are outstanding:

Ordinary shares	37,617,430
Stock options	3,599,998
Total	<u>41,217,428</u>

### RISKS

The exploration for and exploitation of natural resources are speculative activities that involve a high degree of risk. The following risk factors should be considered in assessing the Group's activities. Should any one or more of these risks occur it could have a materially adverse effect on the business, prospects, assets, financial position or operating results of the Group. The risks noted below do not necessarily comprise all those faced by the Group. Additional risks not currently known to the Group or that the Group currently deems unlikely to influence an investor's decision to purchase securities of the Group may also impact the Group's business, prospects, assets, financial position or operating results.

#### **Early Stage Projects and Dependence on Mineral Exploration Projects**

Each of the Group's projects is at the exploration/development stage. There is no certainty that the expenditures made by the Group towards the search and evaluation of mineral deposits on these or any other properties will result in discoveries of commercially exploitable reserves. Furthermore, unless the Group acquires additional properties or projects, any adverse developments affecting these projects or the Group's rights to develop mining concessions that are held on these properties, could materially adversely affect the Group's business, financial condition and results of operations.

#### **Mineral Resources and Reserves**

The resource estimates for the Cerrado Verde Project are estimates only and no assurances can be given that the estimated levels of potash will actually be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling and exploration results and industry practices. Estimates made at any given time may significantly change when new information becomes available or when parameters that were used for such estimates change. While the Group believes that the resource estimates included are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. The extent to which resources

may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery.

The evaluation of reserves or resources is always influenced by economic and technological factors, which may change over time. Currently, the Group has measured, indicated and inferred mineral resources on the Cerrado Verde Project. The Group does not have proven or probable mineral reserves on any of its properties. No assurance can be given that mineralization will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade, geological formation and proximity to infrastructure; commodity prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. If the Group is unable to upgrade the current estimated mineral resources on the Cerrado Verde Project to measured mineral resources or mineral reserves in sufficient economically feasible quantities to justify commercial operations, it would be unable to develop a mine on the Cerrado Verde Project and its business, financial condition and results of operations could be adversely affected.

### **Exploration and Operating Risks**

The exploration for mineral deposits is a speculative venture involving a high degree of risk. Even a combination of careful evaluation, experience and knowledge may not eliminate such risk. Unusual or unexpected rock formations, unanticipated changes in metallurgical characteristics and mineral recovery, environmental hazards, fires, power outages, labour disruptions, flooding, cave-ins, landslides, unfavourable operating conditions and the inability of the Group to obtain suitable machinery, equipment or labour are all risks involved with the conduct of exploration programs and the operation of mines. Should any of these risks and hazards adversely affect the Group's mining operations or activities, it may cause an increase in the cost of operations to the point where it is no longer economically feasible to continue such operations or activities. It may also require the Group to write down the carrying value of one or more mines or a property, cause delays or a stoppage in mineral exploration, development or production, result in damage to or destruction of mineral properties or processing facilities, and may result in personal injury or death or legal liability, all of which may have a material adverse effect on the Group's financial condition, results of operations, and future cash flows. Substantial expenditures may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site, and substantial additional financing would be required. There is no assurance that commercial quantities of potash or other commercially desirable minerals will be discovered on the Group's current properties or other future properties, nor is there any assurance that the Group's exploration program on such properties will yield positive results.

### **Economic Extraction of Minerals from Identified Deposits May Not be Viable**

The development of any of the Group's projects into commercially viable mines cannot be assured. Whether a mineral deposit will be commercially viable depends on a number of factors, including the particular attributes of a deposit, such as its size, grade and geological structure (including the fact that there can be no assurance that potassium silicate deposits will prove suitable for the commercial mining and production of potash); prevailing commodity prices, which are highly cyclical; costs and efficiency of recovery and production methods that can be employed; proximity to infrastructure; availability and costs of additional funding; and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of commodities and environmental protection. Estimates of mineral resources and mineral reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and technical report studies. This information is used to calculate estimates of the capital cost and operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the mineral resource, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that the actual

capital cost, operating costs and economic returns of any proposed mine may differ from those estimated and such differences could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The effect of these factors cannot be accurately predicted but any combination of these factors may result in the Group not receiving an adequate return on its invested capital, if any, and/or may result in the Group being unable to develop a mineral deposit into an operating mine. There can be no assurance that the Group will be able to complete development of any development project at all or on time or on budget due to, amongst other things, and in addition to those factors described above, changes in the economics of the mining project, delays in receiving required consents, permits and licences (including mineral subsurface rights), the delivery and installation of plant and equipment and cost overruns, or that the Group's personnel, systems, procedures and controls will be adequate to support operations. Should any of these events occur, it would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### **Dependence on New Product Development**

The Group's future performance will depend on its ability to develop and implement a new process to produce TK47™ from the Group's potassium silicate rock. Substantial expenditures may be required to develop a commercially viable method for producing TK47™ and substantial additional financing may be required. There is no assurance that such commercially viable methods will be developed to the point of commercial production and there is no guarantee that the proposed process being tested by the Group will be successful. In such a scenario, there could be a material adverse effect on the Group's business and financial condition.

#### **Expected Market Potential of TK47™, Super Greensand™ and Alpha**

TK47™, Super Greensand™ and Alpha are new products without an established market. Substantial investment may be required to develop the market in Brazil and, if relevant, internationally. Although an established market for potassium-based fertilizers already exists, there is no assurance that the Group's market development efforts will result in sales.

#### **Uncertainty of Acquiring Necessary Permits**

The Group's current and future operations will require approvals and permits from various federal, state and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of such approvals and permits for the existing operations or additional approvals or permits for any possible future changes to operations. Prior to any development on any of its properties, the Group must receive permits from appropriate governmental authorities. There can be no assurance that the Group will continue to hold all permits necessary to develop or continue operating at any particular property or obtain all required permits on reasonable terms or on a timely basis.

#### **Uninsurable Risks**

The exploration, development and production of mineral properties involves numerous risks including unexpected or unusual geological operating conditions such as rock bursts, cave-ins, fires, flooding and earthquakes. Insurance may not be available to cover all of these risks, may only be available at economically unacceptable premiums or may be inadequate to cover any resulting liability. Any uninsured liabilities that arise would have a material adverse effect on the Group's business and results of operations.

#### **Operations in Foreign Countries and Regulatory Requirements**

The Group's principal properties are located in Brazil and mineral exploration and mining activities as well as project development may be affected in varying degrees by changes in political, social and financial stability, inflation and changes in government regulations relating to the mining industry. Any changes in regulations or shifts in political, social or financial conditions are beyond the control of the Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production,

price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. Brazil's status as a developing country may make it more difficult for the Group to obtain any financing required for the exploration and development of its properties due to real or perceived increased investment risk. Currently there are no restrictions on the repatriation from Brazil on the earnings of foreign entities. Capital investments registered with the Central Bank in Brazil may similarly be repatriated. There can be no assurance that restrictions on repatriation of earnings and capital investments from Brazil will not be imposed in the future.

### **Competition**

The Group competes with other mining companies as well as other companies producing agricultural products, many of which have greater financial and technical resources and experience, particularly with respect to the potash industry and the limited number of mineral opportunities available in South America. Competition in the mining industry is primarily for properties which can be developed and can produce economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. In addition, many competitors not only explore for and mine potash, but conduct refining and marketing operations on a world-wide basis. Such competition may result in the Group being unable to acquire desired properties on terms acceptable to the Group, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. The Group's inability to compete with other mining companies for these resources would have a material adverse effect on the Group's business and results of operations. In the future, if the Cerrado Verde Project is brought into production, the Group may also compete with other potash mining and/or marketing companies, many of which have greater marketing, financial and technical resources and experience, in exporting and marketing its potash or potassium-based products. In addition, in such circumstances the Group will be vulnerable to increases in the supply of potash beyond market demand either from the opening of new potash mines or the expansion of existing potash mines by the Group's competitors, which could depress prices and have a material adverse effect on the Group's business, financial condition and results of operations.

### **Title Matters**

While the Group has diligently investigated title to all mineral properties and to the best of its knowledge, title to all properties is in good standing; this should not be construed as a guarantee of title. The properties may be affected by undetected defects in title, such as the reduction in size of the mineral claims and other third party claims affecting the Group's priority rights, at the discretion of DNPM. The Group's interests in mineral properties are comprised of exclusive rights under government licences and contracts to conduct operations in the nature of exploration and, in due course if warranted, development and mining, on the licence areas. Maintenance of such rights is subject to on-going compliance with the terms of such licences and contracts.

### **No Production Revenues**

The Group does not commercially mine, produce or sell any mineral products at this time. The Group does not expect to generate revenues from mining operations in the foreseeable future. The Group expects to continue to incur losses until such time as its properties enter into commercial production and generate sufficient revenues to fund its continuing operations. The exploration and development of the Group's properties will require the commitment of substantial resources to conduct time-consuming exploration and development programs. There can be no assurance that the Group will generate any revenues or achieve profitability. There can be no assurance that the underlying assumed levels of expenses will prove to be accurate. There can be no assurance that significant additional losses will not occur in the near future or that the Group will be profitable in the future. The Group's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of on-going exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic

partners, the Group's acquisition of additional properties and other factors, many of which are beyond the Group's control.

### **Uncertainty of Additional Capital**

In the past, the Group has relied on sales of equity securities to meet its capital requirements. The development of the Group's properties depends upon the Group's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There is no assurance that the Group will be successful in obtaining the required financing. The ability of the Group to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of the Group. Development of the Group's projects will require substantial additional financing. Failure to obtain such financing may result in the delay or indefinite postponement of development or production on any or all of the Group's projects or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Group. If additional financing is raised by the Group through the issuance of securities from treasury, control of the Group may change and security holders may suffer additional dilution.

### **Government Royalties**

The Federal Government of Brazil collects royalties on mineral production, with up to half of such royalties being paid to surface rights owners. The current Brazilian federal royalty applicable to fertilizer production is a 2% net smelter return ("NSR") and a 3% NSR in the case of potash. This level, and the level of any other royalties, payable to the Brazilian government in respect of the production of minerals, may be varied at any time as a result of changing legislation, which could materially adversely affect the Group's results.

### **Market Factors and Volatility of Commodity Prices**

The Group's future profitability and long term viability will depend, in large part, on the global market price of minerals produced and their marketability. The marketability of mineralized material which may be acquired or discovered by the Group will be affected by numerous factors beyond the control of the Group. These factors include market fluctuations in the prices of minerals sought, which are highly volatile, inflation, consumption patterns, speculative activities, international political and economic trends, currency exchange fluctuations, interest rates, production costs and rates of production. The effect of these factors cannot be accurately predicted, but may result in the Group not receiving an adequate return on invested capital. Prices of certain minerals have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the control of the Group. Future mineral prices cannot be accurately predicted. A severe decline in the price of a mineral being produced or expected to be produced by the Group would have a material adverse effect on the Group, and could result in the suspension of mining operations by the Group.

### **Cyclical Industry**

The market for potash tends to move in cycles. Periods of high demand, increasing profits and high capacity utilisation lead to new plant investment and increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilisation until the cycle repeats. This cyclicity in prices can result in supply/demand imbalances and pressures on potash prices and profit margins which may impact the Group's financial results and common share prices. The potash industry is dependent on conditions in the economy generally and the agriculture sector. The agricultural sector can be affected by adverse weather conditions, cost of inputs, commodity prices, animal diseases, the availability of government support programs and other uncertainties that may affect sales of fertilizer products.

### **Exchange Rate Fluctuations**

Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian Dollars and its costs are incurred primarily in Canadian Dollars, and Brazilian Reals. The appreciation of the Brazilian Real against the Canadian Dollar could increase the actual capital and operating costs of the Group's mineral

exploration projects and materially adversely affect the results presented in the Group's financial statements. Currency exchange fluctuations may also materially adversely affect the Group's future cash flows from operations, its results of operations, financial condition and prospects. The Group does not currently have in place a policy for hedging against foreign currency risks. The Group manages foreign currency risk by regularly reviewing the balances held in currencies other than the functional currency.

#### **Dependence on Key Executives and Technical Personnel**

The Group is currently dependent on the services of a relatively small management team. Locating mineral deposits in Brazil depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of the Group, the loss of members of the management team or the Group's inability to attract and retain additional highly skilled employees may materially adversely affect its business and future operations. The Group does not currently carry any "key man" life insurance on any of its executives. The non-executive directors of the Group devote only part of their time to the affairs of the Group.

#### **Lack of Hedging Policy**

The Group does not have a resource hedging policy and has no present intention of establishing one. Accordingly, the Group has no protection from declines in mineral resource prices. The Group will keep under review the merits of hedging foreign currency reserves against foreign currency exchange rate fluctuations.

#### **No History of Earnings**

The Group has no history of earnings, and there is no assurance that any of the properties it now or may hereafter acquire or obtain an interest in will generate earnings, operate profitably, or provide a return on investment in the future. The Group has not generated operating revenue since incorporation. Management anticipates that the Group will experience net losses as a result of on-going exploration and general corporate and administrative costs and expenses until such time as revenue generating activity is commenced.

#### **Dilution**

The Group currently has 3,599,998 share options outstanding. To the extent the Group should, in future, issue any warrants, additional options, convertible securities or other similar rights, the holders of such securities will have the opportunity to profit from a rise in the market price of the Ordinary Shares with a resulting dilution in the equity interest of any persons who become holders of Ordinary Shares. The Group's ability to obtain additional financing during the period such rights are outstanding may be adversely affected and the existence of the rights may have an adverse effect on the price of the Ordinary Shares. The holders of warrants, options and other rights may exercise such securities at a time when the Group would, in all likelihood, be able to obtain any needed capital by a new offering of securities on terms more favourable than those provided by the outstanding rights. In some circumstances, the increase in the number of Ordinary Shares issued and outstanding and the possibility of sales of such shares may have a depressive effect on the price of the Ordinary Shares. In addition, as a result of such additional Ordinary Shares, the voting power of the Group's existing shareholders may be diluted.

#### **Future Sales of Ordinary Shares by Existing Shareholders**

Sales of a large number of Ordinary Shares in the public markets, or the potential for such sales, could decrease the trading price of the Ordinary Shares and could impair the Group's ability to raise capital through future sales of Ordinary Shares.

#### **Conflicts of Interest**

Directors of the Group are or may become directors of other reporting companies or have significant shareholdings in other mineral resource companies and, to the extent that such other companies may participate in ventures in which the Group may participate, the directors of the Group may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The Group and its directors attempt to minimise such conflicts. In the event

that such a conflict of interest arises at a meeting of the directors of the Group, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases the Group will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. The directors of the Group are required to act honestly, in good faith and in the best interests of the Group. In determining whether or not the Group will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Group, the degree of risk to which the Group may be exposed and its financial position at that time.

**Further information**

Additional information relating to the Group can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Group's website at [www.verdeagritech.com](http://www.verdeagritech.com).