ITAFOS

(formerly MBAC Fertilizer Corp.)

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Years Ended
December 31, 2016 and 2015

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the audited consolidated financial statements of Itafos (the "Company") as at and for the year ended December 31, 2016 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains "forward-looking information" that is subject to certain risk factors including those set out in the cautionary note and elsewhere in this MD&A. All figures are in thousands of United States dollars ("$" or "USD"), except price per tonne and earnings per share, or unless otherwise noted. References herein to C$ or CAD are to the Canadian dollar and R$ or BRL are to the Brazilian Real. This MD&A has been prepared as of March 29, 2017. A copy of this MD&A and additional information relating to the Company are available online under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Throughout this MD&A, reference to "the quarter", "the three-month period" or "Q4 2016" shall refer to the period from October 1, 2016 to December 31, 2016. References to "the comparative quarter" or "Q4 2015" shall refer to the period from October 1, 2015 to December 31, 2015. References to "the prior year" shall refer to the period from January 1, 2015 to December 31, 2015.

HIGHLIGHTS AND OVERALL PERFORMANCE

YEAR ENDED DECEMBER 31, 2016

HIGHLIGHTS

During 2016, the following events took place:

- The Company continued to satisfy its working capital needs with funds provided under a bridge loan arrangement that was granted by Zaff LLC ("Zaff"), a related party, to the Company in July 2015.
- The Company received court approval and initiated the issuance of debentures and warrants, a restructuring transaction under an Extrajudicial Restructuring Proceeding in Brazil (the "Brazilian Restructuring").
- The Company initiated and implemented a recapitalization and restructuring process in accordance with the provisions of the Companies' Creditors Arrangement Act (Canada) and the Canada Business Corporations Act (collectively, the "Canadian Restructuring" and together with the Brazilian Restructuring, the "Company Restructuring").
- The Company redomiciled from Canada to the Cayman Islands by way of continuation and ceased to be incorporated in Canada.
- Zaff became the holder of approximately 96.25% of the issued and outstanding shares of, and a related party to, the Company upon implementation of the Canadian Restructuring on October 27, 2016. Zaff's interest in the Company later increased to approximately 96.60% upon closing of the Zaff Private Placement on December 8, 2016.
- The Company became the holder of approximately 31.3% of the issued and outstanding shares of GB Minerals Ltd. ("GBL") and approximately 36.5% of the issued and outstanding shares of Stonegate Agricom Ltd. ("STG") upon implementation of the Canadian Restructuring on October 27, 2016, acquiring non-controlling interest that had previously been held by Zaff. Subsequent to year end, the Company's interest in STG later decreased to approximately 29.6% upon closing of a non-brokered private placement by STG on January 5, 2017, in which the Company did not participate. See Note related to Investments in Associates in the financial statements for further details.
- The Company's securities were delisted from the Toronto Stock Exchange (the "TSX") and listed on the TSX Venture Exchange ("TSXV") under the symbol "MBC". Trading in the Company's securities was suspended on April 5, 2016 and resumed on November 7, 2016.
- The Company completed a non-brokered private placement (the "Zaff Private Placement") to Zaff for aggregate proceeds of US$10.0 million (CAD$ 13.4 million) and initiated the recommissioning of the Itafós Arraias SSP Operations.

- The Company's Annual General Meeting of Shareholders approved on December 16, 2016, that the name of the Company be changed from "MBAC Fertilizer Corp." to "Itafos". Consistent with the name change, the Company applied to the TSXV to change its trading name from "MBAC Fertilizer Corp." to "Itafos" and its symbol from "MBC" to "IFOS".
- On December 31, 2016 Mhamed Ibnabdeljalil, Ph.D. joined the Board of the Company. Dr. Ibnabdeljalil has broad sector expertise in a wide range of basic materials, chemicals, and industrials. He served as the EVP and Chief Commercial Officer of OCP Group S.A., a global leader in the phosphate industry, and led the corporate and strategic restructuring of OCP and reshaped its role in the phosphate fertilizer sector. Dr. Ibnabdeljalil has a track record in leading multi-billion dollar sales, marketing, raw material procurement, logistics and business development efforts across geographies in emerging and developed markets.

Subsequent to year end:

- The Company's interest in Stonegate Agricom Ltd. decreased to approximately 29.6% Ltd. upon closing of a non-brokered private placement (in which the Company did not participate) by Stonegate Agricom Ltd. on January 5, 2017.
- The Company's shares commenced trading on the TSXV on January 6, 2017 under the trading symbol "IFOS" due to the change in the Company's name to "Itafos" in Q4 2016.
- On January 16, 2017, Marten Walters joined the Company as Vice President of Operations. Mr. Walters has more than 35 years' experience in the design, start-up and operation of fertilizer and chemical plants. Mr. Walters has designed and started up phosphoric acid, granulation, and animal feed plants in Australia, Brazil, China, Morocco, US and UK. He was Project Manager for beneficiation and fertilizer plant feasibility studies including: Minemakers, Australia (Bankable Feasibility Study); Cominco, DR Congo; VKG, Estonia; GB Minerals, Guinea-Bissau (Bankable); Sunkar, Kazakhstan; Texuna, Uzbekistan (Bankable); Vale, Peru and Mozambique; Wadi Group, Egypt.
- On February 5, 2017, David Andrew Parsons resigned from the Board of the Company to allow for the appointment of G. David Delaney.
- On February 6, 2017, G. David Delaney joined the Board of the Company. Mr. Delaney most recently was the EVP and Chief Operating Officer of Potash Corporation of Saskatchewan, Inc. ("PotashCorp") (NYSE: POT, TSX: POT.TO) where he oversaw operations across the company's business segments, spanning 16 different sites. As President of Sales at Potash, Mr. Delaney led the centralization of the global sales function and had oversight of all PotashCorp's Sales, Marketing, Market Research, Transportation and Distribution activities.
- On February 17, 2017, Cristiano Melcher stepped down as Chief Executive Officer. On that same date, the Company appointed Brian Zatarain as Chief Executive Officer and Rafael Rangel as Chief Financial Officer. Mr. Zatarain has over 19 years of hands-on and diverse corporate and business development, mergers and acquisitions, capital raising and investment management experience. Mr. Zatarain recently lead the successful restructuring and recapitalization of the Company as its Chief Financial Officer. Mr. Rangel has over 25 years of finance, accounting and tax experience and had previously held the role of Chief Financial Officer of the Company on an interim basis from April 2016 to October 2016.
- On February 23, 2017, the Company received funding from Zaff in the amount of US$3 million and documented that transaction by means of a promissory note to Zaff (the "Zaff Note"). Funds were utilized to provide bridge financing to support the funding of the recommissioning of the Company's Itafós Arraias SSP Operations, working capital, general corporate expenses and for strategic purposes.
- On March 9, 2017, the Company completed a private placement of shares at a price of C$2.10 for gross proceeds of US$34 million (the "Private Placement").
- In Q1 2017, the Brazilian subsidiaries changed their functional currency to USD based on the Itafós Arraias project re-commencing development to start production and based on the financing of the entity; and the parent entity and other subsidiaries have changed from C$ to USD based on the location of the head office operations and financing of the entity.

The Company's registered office is at Ugland House, Grand Cayman, Grand Cayman KY1-1104.

CORE BUSINESS

The Company is engaged in the mining, production and exploration of phosphate fertilizers. The Company is focused on becoming a significant integrated producer of phosphate based fertilizers and related products. The Company operates the Itafós Arraias Single Super Phosphate ("SSP") Operations, which consists of an integrated fertilizer producing facility located in central Brazil. The facility is comprised of a phosphate mine, a mill, a beneficiation plant, a sulphuric acid plant, an SSP acidulation plant and a granulation plant and related infrastructure (the "Itafós Arraias SSP Operations"). The Company's exploration portfolio includes several additional projects in Brazil, including the "Itafós Santana Project", a high-grade phosphate deposit located in close proximity to the largest fertilizer market of Mato Grosso State and animal feed market of Pará State, and the "Itafós Araxá Project", a high-grade rare earth elements, niobium and phosphate deposit located in close proximity to two operating mines, therefore benefiting from existing local infrastructure.

In addition to its main assets in Brazil, the Company also has minority interest in two world class phosphate rock development assets. Firstly, the Company holds a 31.3% interest in GB Minerals (TSXV: GBL), which owns 100% interest in the high-quality Farim phosphate rock mine project in Guinea Bissa.. The Company acquired interest in GB Minerals because it is one of the highest-grade phosphate rock greenfield projects in the world, has a strategic location and has substantial existing infrastructure to support development of the project. Second, the Company holds a 29.6% interest in Stonegate Agricom (TSX: ST), which owns a high-grade phosphate rock deposit in the US and Peru. The Paris Hills project, located in Idaho USA, is strategically located and is a relatively low capital intensity and low estimated operating cash cost project. Although both projects will require further capital to develop, they offer potential avenues for growth of the Company's cash flows in the future.

OPERATIONS UPDATE

ITAFÓS ARRAIAS SSP OPERATIONS

The Itafós Arraias SSP Operations are located in the municipality of Arraias, in the state of Tocantins, Brazil, and its production is expected to meet the domestic demand in the new agricultural frontier in central northern Brazil. SSP is a type of phosphate fertilizer widely used in Brazil. The Itafós Arraias target region includes part of seven (7) states (West Bahia, North Goias, Tocantins, North East Matto Grosso, South Piaui, South Maranhao, and South East Para), The target market of the Company is known to be one of the areas with the largest agricultural growth in the country, the Cerrado. According to SIACESP/ANDA (the Association of Fertilizer and Agriculture in the state of Sao Paulo, Brazil), the total SSP market size in Brazil is estimated to be approximately 5 million tonnes per year, of which approximately 1.2 million tonnes are estimated to be consumed in the Company's target market area. Once fully ramped up, the Itafós Arraias SSP Operations would be the largest fully integrated SSP producing facility in this market and would be among one of the largest SSP producing facilities in Brazil. Based on the Itafós Arraias Technical Report (as defined below), proven and probable reserves are currently estimated at 64.8 million tonnes at an average P_2O_5 grade of 5.08%. The mine has a life of approximately 25 years. The Company has significant unexplored property in its land package.

In May 2016, following the announcement by the Company in April 2016 of a proposed recapitalization and restructuring transaction, the Company's Brazilian subsidiaries (i.e., Itafós Mineracao S.A., MBAC Fertilizantes S.A. and MBAC Desenvolvimento S.A., collectively, the "Brazilian Restructuring Entities") initiated the Brazilian Restructuring seeking to implement a reorganization plan (the "Brazilian Plan"). Participants in the plan are the Company, the Brazilian Restructuring Entities, Zaff and its affiliates.

On May 16, 2016, the Brazilian Court issued a decision which, among other things, granted a 180 day stay period and directed the publication of a public announcement to notify the Brazilian Restructuring Entities' unsecured creditors of the deadline to object to the Brazilian Proceedings. Certain objections were filed in connection with the Brazilian Proceedings. Those objections were rejected by the Brazilian Court, which on August 29, 2016 confirmed the Brazilian Plan. Generally, and pursuant to applicable bankruptcy laws in Brazil, such appeals neither stay the proceedings nor prevent the implementation of the Brazilian Plan.

As a result of the Brazilian Proceedings, certain unsecured creditors of the Brazilian Restructuring Entities received payment in cash in November 2016. The remaining unsecured creditors received in March 2017 a combination of (i) restructured debt ("Brazilian Debentures") of the respective Brazilian Restructuring Entity; and (ii) warrants of the respective Brazilian Restructuring Entity ("Warrants"). Brazilian Debentures and Warrants are convertible into preferred shares of the applicable Brazilian Restructuring Entity. The Warrants' conversion right is only available for a period of 180 days following issuance of the Warrants. Failure to exercise the conversion right within the exercise period will result in the cancellation of such Warrants. The Debentures' conversion right is available throughout the 10-year term of the Debentures, to the extent of outstanding principal at the time of conversion.

As part of the Restructuring process, the Company is restarting the Itafós Arraias operations. During 2016, a review of Itafós Arraias' physical condition was performed and, during the physical analysis of the plant, damaged assets at the plant site were noted and adjusted by $9.5 million. Based on an internal review, the Company estimated that as at December 31, 2016, the carrying value of the Itafós Arraias cash generating unit (CGU) exceeded its recoverable value by approximately $53.9 million, of which $48.5 million was recorded as an impairment of property, plant and equipment and $5.4 million was recorded as an impairment of mineral properties (see Note 10 in the financial statement).

ITAFÓS TECHNICAL REPORT

The Company's technical report for the Itafós Arraias SSP Operations is titled "Updated Technical Report Itafós Arraias SSP Project" dated and effective as of March 27, 2013 prepared by Carlos Guzmán, FAusIMM, RM (Chilean Mining Commission), of NCL Brazil Ltda. ("NCL"), Beau Nicholls (BSc (Geol) MAIG), an associate consulting geologist with Andes Mining Ltd. ("AMSL"), Bradley Ackroyd (BSc (Geol) MAIG), the principal consulting geologist for AMSL, and Homero Delboni Jr. (registered member CIM & SME), owner of HDA Serviços S/S Ltda, each a "qualified person" within the meaning of National Instrument 43-101 (the "Itafós Arraias Technical Report"). The Updated Itafós Arraias Technical Report was prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and is filed under the Company's profile on SEDAR at www.sedar.com.

Proven and probable mineral reserves based on the production schedule used for the Updated Itafós Arraias Technical Report are as follows. Information below is based on assumptions, qualifications and procedures which are not fully described herein and reference should be made to the full text of the Itafós Arraias Technical Report:

Category	Tonnage (million tonnes)	P_2O_5 %
Proven reserves	15.9	5.09
Probable reserves	48.9	5.07
	64.8	5.07

PROJECT UPDATES

The Company's current focus in Brazil remains entirely on the Itafós Arraias SSP Operations. However, the Company intends to review their exploration and development projects in 2017. These projects are in the early feasibility study stage.

ITAFÓS SANTANA PROJECT

The Company, through two of its subsidiaries, is the beneficial holder of eight (8) exploration properties, with one of these being a mining permit under application, and one (1) additional exploration permit under application for a total of nine (9) claims totalling 87,855 hectares, forming the Itafós Santana Project.

The Company's technical report for the Itafós Santana Project is titled "Feasibility Study – Itafós Santana Phosphate Project Pará State, Brazil," dated and effective as of October 28, 2013, prepared by Bradley Ackroyd of AMSL, Carlos Guzmán of NCL and Robert Alexander of PegasusTSI, each a "qualified person" within the meaning of NI 43-101 (the "Itafós Santana Feasibility Study"). The Itafós Santana Feasibility Study was prepared in accordance with NI 43-101 and is filed under the Company's profile on SEDAR at www.sedar.com.

Given the early stage of the Itafós Santana Project, fluctuations in commodity prices and time since the Itafós Santana Feasibility Study was prepared, the realizable value of the project may differ significantly from the NPV calculated in the Itafós Santana Feasibility Study. Additionally, the carrying value of the Itafós Santana cash generating unit (CGU) exceeded its recoverable value by approximately $5 million, of which $4.8 million was recorded as an impairment of mineral properties and $0.2 million was recorded as an impairment of property, plant and equipment. The Itafós Santana phosphate project was written down to its recoverable amount of approximately $11 million. That recoverable value was determined using a market approach which referenced the weighted average enterprise value multiples of phosphate companies with comparable size, stage of development, ore grade and content.

ITAFÓS ARAXÁ PROJECT

The Company, through one of its subsidiaries, wholly owns the Itafós Araxá project. The Itafós Araxá Project is the beneficial holder of four (4) exploration claims, totalling 214 hectares, of a rare-earth elements, niobium and phosphate deposit located in the southwestern part of Minas Gerais State, Brazil.

During 2012, the Company announced the results of an initial preliminary economic assessment, based on the technical report titled "A Preliminary Economic Assessment in the form of an Independent Technical Report on MBAC Fertilizer Corp. – Itafós Araxá Project", effective October 1, 2012 as amended and restated January 25, 2013 (the "Amended Itafós Araxá PEA"). The Amended Itafós Araxá PEA was prepared by Bradley Ackroyd and Andrew N. Clay of Venmyn Rand (Pty) Limited, each of whom is a "qualified person" within the meaning of NI 43-101. Information below is based on assumptions, qualifications and procedures which are not fully described herein and reference should be made to the full text of the Amended Itafós Araxá PEA which is available for review under the Company's SEDAR profile at www.sedar.com. The Amended Itafós Araxá PEA is preliminary in nature, includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the Amended Itafós Araxá PEA will be realized.

Given the early stage of the Itafós Araxá Project, fluctuations in commodity prices and time since the Amended Itafós Araxá PEA was prepared, the realizable value of the project may differ significantly from the NPV calculated in the Amended Itafós Araxá PEA. The Company has determined that although the Itafós Araxá Project has great potential, it is considered a non-core project given the Company's focus on agricultural inputs. The foregoing factors will impact the timelines and the project economics described in the Amended Araxá PEA.

The Itafós Araxá Project write-down of $1.8 million is related to capitalized costs for feasibility studies which are not expected to have economic benefits in the future. The Company maintained a cost base of approximately $0.1 million on the financial statements related to the mineral rights of Itafós Araxá.

FINANCIAL INFORMATION

The following selected financial data is derived from the audited consolidated financial statements of Itafos for the years presented:

STATEMENTS OF OPERATIONS

	12 months ended December 31, 2016	12 months ended December 31, 2015	12 months ended December 31, 2014
Selling, general and administrative expenses	10,176	5,612	8,352
Exploration and evaluation expenditures	–	–	135
Operations care and maintenance expenses	20,602	21,878	–
Disposal of property, plant and equipment and mineral properties	11,159	–	–
Impairment of property, plant and equipment and mineral properties	59,781	–	–
Operating loss	(101,718)	(27,490)	(8,487)
Unrealized foreign exchange gain (loss)	23,343	(43,696)	(10,377)
Realized foreign exchange loss	–	(120)	(1,692)
Other income (expense)	(3,568)	(7,828)	704
Gain on restructuring	25,380	–	–
Finance expense	(42,766)	(37,226)	(6,901)
Loss from investment in associates	(201)	–	–
Loss before income taxes	(99,530)	(116,360)	(26,753)
Current and deferred income tax expense	1,138	1,257	1,761
Net loss	$ (100,668)	$ (117,617)	$ (28,514)
Other comprehensive income	5,817	(28,851)	(20,643)
Comprehensive loss	$ (94,851)	$ (146,468)	$ (49,157)
Basic and diluted net loss per share	$ (8.87)	$ (64.73)	$ (0.16)

FOR THE YEAR ENDED DECEMBER 31, 2016

Selling, general and administrative ("SG&A") expenses

SG&A expenses of $10.1 million (year ended December 31, 2015 – $5.6 million) variation is primarily related to professional services expenses relating to the Company Restructuring.

Operations care and maintenance expenses

The Operations care and maintenance expenses of $20.6 million (year ended December 31, 2015 – $21.8 million) are comprised primarily of depreciation expense and operational salaries and wages related to recommissioning at the Itafós Arraias plant.

Impairment and disposal of property, plant and equipment and mineral properties

Impairment and disposal of property, plant and equipment and mineral properties of $70.9 million (year ended December 31, 2015 – $Nil) was related primarily to: (i) Itafós Arraias cash generating unit (CGU) exceeding its recoverable value by approximately $53.9 million, (ii) Itafós Santana cash generating unit (CGU) exceeding its recoverable value by approximately $5 million, and (iii) the review of Itafós Arraias' physical condition adjustment plus the Itafos Araxá write-off of an approximate amount of $12 million.

Unrealized foreign exchange gain (loss)

The unrealized foreign exchange gain of $23.3 million (year ended December 31, 2015 – loss of $43.6 million) was primarily comprised of foreign exchange conversion on BRL denominated intercompany loans and foreign currency denominated debt.

Gain on restructuring

Gain of $25.3 million (year ended December 31, 2015 – Nil) was primarily due to write-off accounts payable and third-party loans as a result of the Company Restructuring process.

Other expense

Other expense of $3.5 million (year ended December 31, 2015 – expense of $7.8 million) was primarily related to late payment penalties in Brazil, and changes on other provisions.

Finance expense

Finance expense of $42.7 million (year ended December 31, 2015 – $37.2 million) was primarily comprised of interest expense on long-term debt, amortization of deferred financing charges, and interest and penalties on overdue trade payables.

Current and deferred income tax expense

The deferred income tax expense of $1.1 million (year ended December 31, 2015 – $1.2 million) was primarily due to unrealizable withholding tax credits.

FINANCIAL CONDITION

The following selected financial data is derived from the audited consolidated financial statements for the periods presented.

BALANCE SHEET

		December 31, 2016		December 31, 2015
Current				
Cash	$	2,875	$	25
Restricted cash		–		146
Inventories		481		1,320
Other current assets		3,381		1,745
Non-current				
Investments in associates		17,813		–
Other long-term assets		17,320		15,558
Property, plant and equipment		222,564		246,714
Mineral properties		40,324		42,921
Total Assets	$	304,758	$	308,429
Current				
Accounts payable and accrued liabilities		19,345		29,428
Provisions		975		2,969
Current Debentures and Debt		340		232,995
Other current liabilities		2,387		–
Non-current				
Other long-term tax liability		7,261		4,903
Provisions		586		658
Long-term portion of Debentures		2,479		–
Other liabilities		1,775		–
Total Liabilities		35,148		270,953
Shareholders' Equity		269,610		37,476
Total Liabilities and Shareholders' Equity	$	304,758	$	308,429

Assets

Total assets were $304.8 million as at December 31, 2016 (December 31, 2015 – $308.4 million).

The movement in significant assets is described below:

Other long-term assets

Other long-term assets are primarily comprised of tax credits. Tax credits consist of Brazilian state and federal taxes accumulated primarily on purchases of property, plant and equipment. Those tax credits can be partially reimbursed or utilized to offset certain value added taxes and other taxes payable in future periods. As of December 31, 2016, the Company had tax credits of $17.6 million (December 31, 2015 – $15.5 million), of which $0.37 million (December 31, 2015 – $0.32 million) were included in "Other current assets".

Property, plant and equipment

During the year, property, plant and equipment decreased by $24.1 million (year ended December 31, 2015 – $143.7 million), which was caused primarily by depreciation of $18.2 million and impairment of $58.1 million with those partially offset by a foreign exchange increase of $52.2 million.

Mineral properties

During the year, mineral properties decreased by $2.5 million (year ended December 31, 2015 – decreased by $17.7 million), primarily related to impairment of certain capitalized development costs of $10.9 million, offset by foreign exchange impact of $9.5 million, and capitalized interest expense incurred up to Q2 2016 of $0.73 million.

Accumulated depreciation and depletion

Depreciation and depletion of property, plant and equipment and mineral properties for the year ended December 31, 2016 was $18.2 million (year ended December 31, 2015 – $18.7 million). During 2016, depreciation expense related to the Itafós Arraias SSP Operations was recorded as "Operations care and maintenance expenses" in the consolidated statement of operations.

Liabilities

Total liabilities as at December 31, 2016 were comprised of current liabilities of $23.0 million (December 31, 2015 – $265.3 million) and long-term liabilities of $12.1 million (December 31, 2015 – $5.6 million). The movement in significant liabilities is described below:

Accounts payable and accrued liabilities

Total accounts payable and accrued liabilities were primarily comprised of trade payables and accruals of $0.4 million (December 31, 2015 – $20.1 million), payroll and related tax liabilities of $7.4 million (December 31, 2015 – $6.7 million), taxes payable of $6.8 million (December 31, 2015 – $2.1 million), other provision for legal claims of $4.8 million (December 31, 2015 – $0.4 million). Overall, accounts payable and accrued liabilities have decreased for the year ended December 31, 2016 by $10 million primarily due to impact of recapitalization and restructuring process and related payables settlement, foreign exchange, offset by an increase in taxes payable.

Debt

The overall decrease of $230.2 million in debt since December 31, 2015 was primarily due to debt restructuring and conversion of debt to equity as part of the Company Restructuring. Following completion of the Company Restructuring, the remaining outstanding debt obligations of the Company are (i) debentures issued in the Canadian Restructuring to Zaff and to Banco Modal S.A in the amount of $2.8 million; (ii) debentures issued in the Brazilian Restructuring in the amount of $2.1 million; and (iii) warrants issued in the Brazilian Restructuring in the amount of $2.1 million value. Refer to notes in the financial statements for further details.

Shareholders' Equity

		December 31, 2016		December 31, 2015
Share capital	$	374,508	$	262,235
Contributed surplus		246,626		15,315
Warrant reserve		–		8,621
Accumulated other comprehensive loss		7,171		9,332
Deficit		(358,695)		(258,027)
	$	269,610	$	37,476

Net Equity as of December 31, 2016, was $269.6 million (December 31, 2015 – $37.5 million). The change in share capital, warrant reserve and contributed surplus was due to the impact of debt restructuring and the Company Restructuring. Prior to the Company's continuance into the Cayman Islands in connection with the Canadian Restructuring, the Company was authorized to issue an unlimited number of common shares. As at December 31, 2016, the Company had 57,528,838 issued and outstanding common shares (December 31, 2015 – 181,607,492).

During the year, the Company had a 1/100 reverse stock split whereby as the first step of the Company's CCAA restructuring process, the number of shares outstanding were reduced from 181,607,492 to 1,816,066. In addition, as part of the debt consolidation and forgiveness, the Company issued an additional 50,337,972 shares. Finally, the Company executed the Zaff Private Placement to raise $10 million in return for issuance of 5,374,800 shares. See subsequent events note for additional relevant information about private placements.

As outlined in the provisions of the Extrajudicial Restructuring Proceeding in Brazil, the Company initiated the issuance of debentures and warrants in Brazil. The warrants are convertible into preferred shares of Itafós' Brazilian subsidiaries at a conversion rate of one BRL per share. At December 31, 2016, the warrants (convertible to 60 million units, equivalent to approximately 15% of the subsidiaries share capital which would be accounted for as a non-controlling interest, if exercised in consideration of 1% of the face value) are recorded at its fair value of $2.1 million using the same conversion ratio as the equivalent type of creditors that elected cash. These warrants are expected to be issued by the end of Q1 2017. The fair value of the warrants has been recognized in other current liabilities.

For commentary on movement in accumulated other comprehensive loss, see the "Foreign Exchange" section of this MD&A.

CASH FLOW INFORMATION

	December 31, 2016	December 31, 2015
Cash flows from operating activities	$ (13,814)	$ (7,124)
Cash flows used in investing activities	(1,033)	(258)
Cash flows from financing activities	17,750	9,026
Foreign currency effect on cash	(53)	–
Increase in cash	$ 2,850	$ 1,644

YEAR ENDED DECEMBER 31, 2016

Operating activities

Cash flows used in operating activities amounted to $ 13.8 million for the year ended December 31, 2016 (December 31, 2015 – used $7.1 million). The change is primarily due to higher financial expenses (offset by the change of foreign exchange).

Investing activities

During the year, investing activities used $1.0 million (year ended December 31, 2015 – used $0.3 million) of cash.

Financing activities

During the year, the Company generated $17.7 million (year ended December 31, 2015 – generated $9.0 million) from financing activities, comprised primarily of the proceeds of the Zaff Private Placement and from new borrowings from Zaff.

LIQUIDITY AND CAPITAL RESOURCES

Cash as at December 31, 2016 was $2.8 million (December 31, 2015 – $0.02 million) and total restricted cash as at December 31, 2016 was $Nil (December 31, 2015 – $0.1 million).

Subsequent to year end, the Company received funding from Zaff in the amount of $3 million and documented such transaction by means of a promissory note. The note with Zaff was subsequently settled on March 9, 2017 via the issuance of 1,906,541 shares in the Company when the Company completed a private placement of shares at a price of C$2.10 for gross proceeds of $34 million.

SUMMARY OF QUARTERLY RESULTS

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net loss	$ (40,413)	$ (46,743)	$ (9,398)	$ (4,114)
Basic and diluted loss per share	$ (0.69)	$ (0.26)	$ (0.05)	$ (0.02)
Total assets	$ 304,758	$ 345,613	$ 371,121	$ 339,964

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net loss	$ (15,431)	$ (46,218)	$ (12,764)	$ (43,204)
Basic and diluted loss per share	$ (0.09)	$ (0.25)	$ (0.07)	$ (0.24)
Total assets	$ 308,429	$ 314,429	$ 401,105	$ 398,370

OTHER HIGHLIGHTS OF THE FOURTH QUARTER

As part of the Company restructuring, the Company intends to restart the Itafós Arraias operations in Q2 2017. The primary event in the fourth quarter was the restructuring of the Company's capital and organizational structure. Total assets decrease of $40.8 million during the quarter was primarily related to impairment on Itafós Arraias plant. Total liabilities decrease of $337.0 million during the quarter was primarily related to the debt conversion that was part of the restructuring process. Net equity increase by $296.2 million was driven by the net movement of the asset and liability sections. The impact of these events is also discussed within the MD&A sections above. See highlight and overall performance section for further details.

CAPITALIZATION

Share capital as at December 31, 2016 was $374.5 million (December 31, 2015 – $262. 2 million). As at December 31, 2016, the Company had 57,528,838 issued and outstanding common shares (December 31, 2015 – 181,607,492). As discussed above, in connection with the Canadian Restructuring, all stock options and warrants previously outstanding were cancelled on October 27, 2016 and the outstanding common shares of the Company were consolidated at a ratio of one (1) post-consolidation common share for each 100 pre-consolidation common shares. Refer to notes in the financial statements for further details.

The following common shares, debentures and restricted share units of the Company were outstanding as at March 30, 2017:

	Expiry date	Exercise price	Securities outstanding	Common shares on exercise
Common shares	–	–	79,318,507	79,318,507
Canadian Convertible Debentures (1)	October 27, 2026	C$25.00	147,648	147,648

(1) Upon implementation of the Canadian Restructuring, Zaff and Banco Modal S.A. received a combination of shares and restructured debt of the Company in the form of debentures ("Canadian Convertible Debentures"). The Canadian Convertible Debentures mature in ten (10) years and, with respect to the principal amount thereof only, are convertible into shares of the Company at a price per share equal to the greater of: (i) C$25.00; and (ii) if applicable, the closing market price of shares on the TSXV for the most recent trading day preceding the eleventh business day following the date on which shares commence trading on the TSXV, subject to TSXV approval.

OUTLOOK AND STRATEGY

The Company's vision is to be a significant integrated producer of phosphate fertilizer and related products. The fundamentals of the agribusiness sector in Brazil and other markets continue to be positive.

As previously mentioned, the Company's primary focus in Brazil remains on the Itafós Arraias SSP Operations. Based on the favorable outcome of the Brazilian Restructuring and funding received by the Company to date, the Company intends to resume operations at the Itafós Arraias SSP Operations in Q2 2017.

The Company's action plan nevertheless remains as specified below:

- Putting the balance sheet on solid footing by ensuring a healthy working capital position, allowing the Company to achieve its operational goals;
- Optimizing the ramp-up by strengthening our team with people with significant experience, knowledge and background in operations and maintenance (see Highlights section above for recent changes at the Board and management levels);
- Operational excellence by setting up a discipline to capture value throughout the whole organization in a structured and focused manner;
- Position the Company as a "Supplier of Choice" in its target region by leveraging competitive advantages with logistics, client proximity and the quality of our product;
- Future growth strategy will be undertaken by pursuing its attractive greenfield and brownfield project pipeline. The pipeline includes the projects that the Company current owns or has significant interest. In addition, the Company is constantly evaluating other avenues for growth such as acquisition of assets that may meet its strategic directive.

CONTRACTUAL OBLIGATIONS

Except for the presentation of all debt as current as at December 31, 2016 under IFRS requirements, the table below provides a breakdown of the Company's contractual obligations as at December 31, 2016:

	Total	Less than 1 year	1 -3 years	4 -5 years	Thereafter
Accounts payable and accrued liabilities	$ 5,212	$ 5,212	$ –	$ –	$ –
Provisions	1,561	975	–	–	586
Debentures (Canada)	2,819	340	550	550	1,379
Debentures and Warrants (Brazil)	4,162	2,387	412	412	951
	$ 13,754	$ 8,914	$ 962	$ 962	$ 2,916

PHOSPHATE FERTILIZER MARKETS

According to the Ministry of Agriculture (MAPA), Brazilian agribusiness exports in 2016 totaled $84.93 billion. That represents a decrease of approximately 3.7% compared to 2015 (when exports reached $88.22 billion). The trade balance was $71.31 billion surplus, a decrease of approximately 5.1% (when the trade surplus was $75.15 billion). The five contributors of Brazilian agribusiness exports for 2016 and 2015 were soy, meat, sugar (including ethanol), forest products and coffee. It's worth noting that the significant increase of 32% in dollar amount of sugar during 2016 partially offset decreases recorded among the other four exports. The latest survey of grains for 2015-2016, as conducted by Brazil National Supply Company (CONAB) in March 2016, indicated that Brazil's annual soybean production is estimated to increase from 95.4 million tonnes in 2015/2016 to 107.6 million tonnes in 2016/2017. That increase represents growth of 13% from year to year. Total planted area for grains in Brazil for the 2016/2017 harvest is estimated to reach 59.9 million hectares versus 58.3 million in 2015/2016. Soybean crop is estimated to occupy the most area with 56.5% of total area, a slight decrease from 57.0% recorded in 2015. Corn gained a bit of market share from 27.3% to 28.0%. Despite reductions in the dollar amount caused primarily by reduced commodity prices, the figures continue to demonstrate the strength of the Brazilian agribusiness sector and its competitiveness internationally. The Brazilian economy depends on agribusiness as a major revenue earner and contributor of surplus to the economy.

Crop financing, known as 'Plano Agricola e Pecuario', will amount R$185.5 billion for the period 2016/17, faintly down from previous year's R$187.7 billion, albeit flattish in dollar terms as national currency seems to have stabilized after an intense period of volatility last year. Although negative outlook and macroeconomic have stabilized, Brazil has still a long path before growth comes back. Nonetheless, the importance of the agricultural sector for the Brazilian economy remains intact. This initiative makes credit lines available for Brazilian farmers to invest in food production and supplies. The money can be used for the purchases of fertilizers, equipment and the improvement of infrastructure in rural properties. For this year, the most anticipated change within the plan was the interest rates of these subsided loans. As it stands, interest rates for loans related to support costs of production are set at 8.5% annually for medium-sized producers. For large producers, the rate was set at 9.5% per year. Loans for infrastructure development were set at 8.5%. Despite the increase compared to last year's plan, the rates are still highly subsidized for Brazilian farmers since Brazil Central Bank's lending rate is currently at 12.25%. These funds are provided by Governmental lending institutions to assist in the funding, investment and marketing of the agricultural sector. According to Agriculture Minister Abreu, in the next ten years, Brazil will increase crop production by 50 million tons and meat production by 8 million tons "without any pressure on natural resources such as land and water."

According to the National Association of Fertilizer Producers – Brazil (ANDA), total consumption of fertilizer in Brazil for 2016 was 34.1 million tonnes. This represents an increase of 12.8% over the 30.2 million tonnes consumed in 2015. Although the Brazilian currency has appreciated in 2016 from the low levels that existed towards the end of 2015, the recovery of Soybean prices in USD terms helped provide a recovery of farming profits. The increase in farm profits will create conditions for resumption of fertilizer consumption growth.

The Company's initial product is SSP which is an excellent source of three plant nutrients – phosphorous, sulphur and calcium. The presence of these nutrients in SSP provides great benefit to the development of crops. Especially in regions where these nutrients are deficient, such as in Brazil's Cerrado region, where the soils are very old. It is also the preferred fertilizer for development of new cropping areas such as Brazil's new agricultural frontier in central and northern Brazil. According to ANDA, during 2016, Brazil consumption for SSP has remained steady at over 5.1 million tonnes. There has been an increase in imports of SSP, which is now closer to 0.7 million tonnes. Prices for phosphate fertilizers were under pressure in 2016. Although there is a premium embedded in the SSP prices related to the calcium and gypsum content, the SSP prices do follow prices for MAP in Brazil as farmers will look at equivalent cost of delivering the same nutrients to their farms. However, the outlook for 2017 phosphate prices is positive on the back of improved global demand sentiment and important production curtailment announcements in China. In addition, the phosphate prices are expected to be supported by an uptick in input prices, mainly ammonia and sulfur.

FOREIGN EXCHANGE

Items included in the financial statements of each entity consolidated within the Itafós group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Brazilian subsidiaries of the Company is the Brazilian Real, the functional currency of the Zaff Cayman Companies and the USA subsidiary is the US Dollar. The functional currency of all other entities is the Canadian dollar. The presentation currency of the Company is USD. Accordingly, fluctuations in the exchange rates (BRL/USD and CAD/USD) may significantly impact the consolidated results of operations and the consolidated reported net assets. The effect of changes in currency fluctuations from the functional currency to the presentation currency on the operations' net assets is recorded in the Company's shareholders' equity as a cumulative translation adjustment.

The following is a summary of the changes in foreign exchange rates during the respective periods and the related impact on the financial statements:

	December 31, 2016	December 31, 2015
BRL strengthening (weakening) against USD	17.8 %	(49.0) %
CAD strengthening (weakening) against USD	3.0 %	(19.3) %
Unrealized and realized foreign exchange gain (loss)	$ 23,343	$ (43,816)
Cumulative translation gain (loss)	$ 8,920	$ (28,851)

The total foreign exchange gain of $23,343 for the year ended December 31, 2016 was primarily comprised of unrealized foreign exchange gains on the Company's BRL denominated intercompany loans and foreign currency denominated external debt.

In Q1 2017, the Brazilian subsidiaries changed their functional currency to USD based on the Itafós Arraias project re-commencing development to start production and based on the financing of the entity; and the parent entity and other subsidiaries have changed from C$ to USD based on the location of the head office operations and financing of the entity.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2016, the Company did not have any off-balance sheet arrangements.

INCOME TAXES

On October 27, 2016, the Company redomiciled to the Cayman Islands, which resulted in its statutory tax rate being 0%. Prior to October 27, 2016, the Company's combined Canadian federal and provincial statutory tax rate was 26.5%. Several factors affect the Company's effective tax rate. Those factors include the rate differential and proportion of income earned in each jurisdiction, tax benefits that were not recognized, foreign currency gains and losses and changes in tax rates. Thus, the Company's effective tax rate may fluctuate from period to period.

The interpretation of tax regulations and legislation and their application to the Company's business is complex and subject to change. Accordingly, the Company's ability to realize future income tax assets could significantly affect net income or cash flow in future periods.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Company's reported financial results. 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. Estimates are deemed critical if the Company's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods

Please refer to Note 4 to the financial statements for further details.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The IASB has issued the following applicable standards, which have not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements. Please refer to Note 5 to the financial statements for further details.

RELATED PARTY TRANSACTIONS

The following transaction were carried out with related parties:

Key management compensation

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

	December 31, 2016	December 31, 2015
Management compensation and director fees	$ 2,066	$ 1,505
Termination benefits related to restructuring	612	100
Other benefits	124	353
	$ 2,802	$ 1,958

Zaff Working Capital

Upon implementation of the Canadian Restructuring, Zaff became a related party to the Company. During 2015, the Company received senior secured loans amounting to $3.25 million (including interest) from Zaff. As of December 31, 2016, the total amount lent by Zaff as part of the restructuring was $11.4 million, which was converted to shares and debentures issued to the Company. Please refer to Note 13 Debt for details on Zaff's acquisition of the Company's debt through issuance of equity. Note 13 also provides details on the Company's working capital loan movement with Zaff. Also, refer to Note 25, Subsequent Events, for transactions with Zaff after year-end.

In connection with the Canadian Restructuring, all stock options and warrants previously outstanding were cancelled on October 27, 2016. This resulted in a stock based compensation recovery of $257 related to options previously granted to key management. This amount has been included within the disclosure of key management compensation as noted above.

CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. Based on the Company's knowledge and assessment of events, the Company does not believe that the outcome of any of the matters not recorded in the financial statements, individually or in aggregate, would have a material adverse effect on the financial condition of the Company. The Company continues to monitor its legal contingencies for proper and accurate reporting.

RISKS AND UNCERTAINTIES

Exploration, development and mining of minerals involve numerous inherent risks. As such, an investment in the securities of the Company is subject to various risks. Although the Company assesses and minimizes these risks by applying high operating standards, including careful management and planning of its facilities, hiring qualified personnel and developing their skills through training and development programs, these risks cannot be eliminated. Such risks include changes in local laws governing the mining industry, a decline in fertilizer prices and the activity in the mining sector, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in local currency against the United States Dollar.

In addition to the other information contained in this MD&A and the Company's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. Any of the matters highlighted in these risk factors could have a material adverse effect on the Company's business prospects or financial condition.

UNCERTAINTY IN THE ESTIMATION OF MINERAL RESERVES AND MINERAL RESOURCES

The calculation of reserves, resources and corresponding grades being mined or dedicated to future production are imprecise and depend on geological interpretation and statistical inferences or assumptions drawn from drilling and sampling analysis, which might prove to be unpredictable. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Until resources are actually mined and processed, the quantity of resources and grades must be considered to be estimates only. Any material change in the quantity of reserves, resources, grade or stripping ratio may affect the economic viability of Itafós's properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests.

MINE DEVELOPMENT AND COMPLETION

Feasibility studies are used to determine the economic viability of a mineral deposit. Many factors are involved in the determination of the economic viability of a deposit, including the achievement of satisfactory mineral reserve estimates, the level of estimated metallurgical recoveries, capital and operating estimates and the estimate of future commodity and fertilizer prices. Capital and operating cost estimates are based on many factors, including anticipated tonnage and grades of ore to be mined, the configuration of the ore body, ground and mining conditions, expected recovery rates of the ore and anticipated environmental and regulatory compliance costs. Each of these factors involves uncertainties and, thus, the Company cannot give any assurance that the estimates in the definitive feasibility study will be correct or that the project will produce profitable operating mine(s). If a mine is developed, actual operating results may differ from those anticipated in the definitive feasibility study. There can be no assurance that delays will not be experienced.

OPERATING AND POLITICAL RISKS

The Company holds mining properties in Brazil and is exposed to the laws governing the mining industry in that country. The government in Brazil is currently supportive of the mining industry but changes in government regulations including taxation, the repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property, shifts in the political stability of the country and labour unrest could adversely affect the Company and its exploration and production initiatives in Brazil.

To mitigate land title risks, the Company makes no commitments and does not undertake exploration without first determining that necessary property rights are in good standing. However, despite the Company's best efforts, land title may still be affected by undetected defects.

INCOME TAXES

The interpretation of tax regulations and legislation and their application to the Company's business is complex and subject to change. Accordingly, the Company's ability to realize future income tax assets, could significantly affect net income or cash flow in future periods.

CURRENCY FLUCTUATIONS

Currency fluctuations may affect Itafos' capital costs and the costs that Itafós Arraias incurs in its operations. The appreciation of the Brazilian Real against the United States Dollar would increase the costs of phosphate production at such mining operations, which could materially and adversely affect Itafos's earnings and financial condition.

CREDIT RISKS

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. For cash and accounts receivable, credit risk is represented by the carrying amount on the balance sheet. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties, limiting the amount of exposure to each counterparty and monitoring the financial condition of counterparties.

EQUIPMENT AND SUPPLIES

The Company is dependent on various supplies and equipment to carry out its operations and exploration and development activities. The shortage of supplies, equipment and parts could have a material adverse effect on its ability to carry out its operations and therefore limit or increase the cost of operations, exploration and development and related activities. An increase in demand for services and equipment could cause operational, exploration, development or construction costs to increase materially, could result in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and could increase potential scheduling difficulties and costs due to the need to coordinate the availability of services or equipment. Any such material increase in costs would adversely affect the Company's results of operations and financial condition.

COMMODITY PRICES

The profitability of Itafos' operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of Itafos. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are, in turn, influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years. Future price declines could cause commercial production to be impracticable which would have a material adverse effect on Itafos' business, financial condition and results of operations. Furthermore, reserve and/or resource calculations and life-of-mine plans using significantly lower mineral prices could result in material write-downs of Itafos' investment in mining properties with increased amortization, reclamation and closure charges. In addition to adversely affecting Itafos' resource estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of projects. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

ENVIRONMENTAL RISKS AND HAZARDS

All phases of Itafós' operations are subject to environmental regulation in Brazil. These regulations mandate, among other things, water quality standards and land reclamation and regulate the generation, transportation, storage and disposal of hazardous waste. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect Itafos' business, financial condition and results of operations.

Environmental hazards may also exist on the properties in which Itafos holds interests that are unknown to Itafos at present and that have been caused by previous or existing owners or operators of the properties. Government environmental approvals and permits are currently, or may in the future be, required for aspects of Itafos's operations. To the extent that such approvals are required and not obtained, Itafos may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including Itafos, may be required to compensate those suffering loss or damage because of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Itafos and cause increases in exploration expenses and, capital expenditures or abandonment or delays in development of new mining properties.

DEPENDENCE UPON KEY MANAGEMENT PERSONNEL AND EXECUTIVES

Itafos is dependent upon several key management personnel. The loss of the services of one or more of such key management personnel could have a material adverse effect on Itafos. Itafos's ability to manage its operating, development, exploration and financing activities will depend in a large part on the efforts of these individuals. Itafos faces intense competition for qualified personnel and there can be no assurance that Itafos will be able to attract and retain such personnel. Itafos has entered into employment agreements with certain of its key executives requiring sufficient notice of departure allowing for an adequate transition period.

FINANCING RISKS

The Company was ramping up production of granulated SSP at the Itafós Arraias SSP Operations in 2014 meeting industry specifications and making deliveries to customers. This production ramp-up was delayed and then stopped due to severe financial constraints resulting in additional funding requirement to finance the working capital and debt service needs. As of December 31, 2016, the Company had court approval on the Brazilian Restructuring, had implemented the Canadian Restructuring, and had successfully completed the Zaff Private Placement. These transactions have significantly improved the Company's cash and financial position at December 31, 2016.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its filings under Canadian securities legislation is recorded, processed, summarized and reported in a timely manner. The system of disclosure controls and procedures includes, among other things, the Company's Code of Business Conduct and Ethics policies, the review and approval procedures of the Disclosure Committee and continuous review and monitoring procedures by senior management.

Both the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the design of the Company's disclosure controls and procedures as at December 31, 2016, pursuant to the requirements of National Instrument 52-109. There has been no change in the Company's disclosure controls and procedures during the period from January 1, 2016 to December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in the rules of the Canadian Securities Administrators. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in Canada for external purposes. The Company's internal control over financial reporting includes:

- maintaining records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Company;
- providing reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements in accordance with generally accepted accounting principles;
- providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the directors of the Company; and
- providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis.

The Company has limited administrative staffing and in many instances, the implementation of internal controls relying on segregation of duties is not always possible. During 2016, the restructuring measures undertaken by management as well as the continuation of the strategic review process resulted in higher than normal staff reductions and turnover. The Company continues to rely on senior management review and approval to ensure that the controls are effective.

The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

The CEO and CFO have reviewed and evaluated the effectiveness of the Company's internal control over financial reporting and concluded that the Company's internal controls over financial reporting were effective as of the end of the period covered by this MD&A and have concluded that they are effective at a reasonable assurance level.

LIMITATIONS OF CONTROLS AND PROCEDURES

The Company's management, including the President and CEO and the CFO, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

QUALIFIED PERSON

Unless otherwise indicated, the responsible qualified person, within the meaning of NI 43-101, who has reviewed and approved the scientific and technical information contained in this MD&A is Carlos Guzmán, FAusIMM (229036), Mining Engineer, RM (Chilean Mining Commission).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein may constitute forward-looking information, including any information as to the Company's strategy, vision, plans or future financial or operating performance. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "estimates", "intends", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

In particular, forward-looking information included in this MD&A includes, without limitation, statements with respect to:

- the Company's vision and goal to become a significant integrated producer of phosphate fertilizer and related products;
- the Company's current estimate of mine life stipulated in the Itafós Arraias Technical Report and its potential increase;
- the Company's expectations related to resources and reserves stipulated in the Itafós Arraias Technical Report;
- the Company's ability to resume exploration and evaluation efforts towards increasing the mine life at the Itafós Arraias SSP Operations and respective expansion strategy;
- the Company's expectations to successfully implement the Brazilian Plan and related transactions;
- the Company's expectations for future financing sources and use of funds;
- the Company's ability to carry out any action plan;
- the Company's expectation to resume operations at the Itafós Arraias SSP Operations after the re-evaluation of its working capital position;
- the Company's expectations around the growth of Brazilian and global fertilizer markets in the foreseeable future and increase in fertilizer and phosphate prices;
- the Company's expectations that the Itafós Santana Project, together with the Itafós Arraias SSP Operations, have the potential to make the Company one of the largest SSP producers in Northern Brazil and the second largest SSP producer in Brazil;
- the Company's expectation that consumption of SSP in the Company's target area for Itafós Arraias SSP Operations will be sufficient to absorb competitively the entirety of the Company's output and the Company's expectations of higher average selling price;
- the Company's expectations around the project design, economics, resource and reserve potential, technical feasibility, development timelines, the underlying assumptions as well as forecasted market conditions stipulated in the Itafós Santana Feasibility Study and the Amended Araxá PEA, as well as in relation to the advancement of those projects;
- the Company's ability to potentially produce DCP at the Itafós Santana Project in the future;
- the Company's expectation of the sufficiency of capital resources to fund all projected capital expenditures for the Itafós Santana Project;
- the Company's expectations in relation to the strategic initiatives regarding the Itafós Santana Project and the Itafós Araxá Project;
- the Company's expectations that the timelines contemplated and the project economics in the Amended Araxá PEA and the Itafós Santana Feasibility Study may be impacted by the decision to retain a financial advisor to review the sale of an interest in the Itafós Araxá Project and the Itafós Santana Project; and
- the Company's projections of future levels of taxable income.

Conclusions, forecasts and projections are based on the following factors and assumptions, among others:

- fertilizer market strength and SSP prices;
- future agricultural imports and exports and fertilizer market in Brazil;
- general economic and industry growth rates;
- currency exchange rates;
- cash flows from the Itafós Arraias SSP Operations will support borrowing under the project financing facilities and working capital loans;
- the sufficiency of capital resources to fund all projected capital expenditures for the Itafós Santana Project;
- sufficient mineral resources being confirmed at the Itafós Arraias SSP Operations to justify potential expansion in the future; and
- expert conclusions, assumptions and estimates contained in the Company's current technical reports filed on SEDAR, in the Itafós Santana Feasibility Study and in applicable industry reports relied upon.

The forward-looking information contained in this MD&A is based on the opinions, assumptions and estimates of management set out herein, which are reasonable as at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking information. These factors include:

- exploration, development and operating risks;
- environmental risks and hazards;
- risks in connection with current global financial conditions;
- uncertainty with respect to the estimation of mineral reserves and mineral resources;

- uncertainty with respect to inferred mineral resources;
- fluctuations in commodity prices;
- infrastructure risks;
- the Company's ability to obtain all necessary permits;
- insurance and uninsured risks;
- risks relating to potential disputes to the Company's title to its properties;
- the possibility that the Company's concessions may be terminated in certain circumstances;
- competition with other companies possessing greater financial and technical resources than the Company;
- risks relating to additional capital requirements;
- currency fluctuations;
- potential write-downs and impairments;
- litigation risks;
- risks relating to future acquisitions and the integration of these acquisitions into the Company's business structure;
- risks relating to a potential sale or disposition of certain assets by the Company;
- risks relating to governmental regulation of the mining industry;
- risks relating to the Company's foreign operations;
- risks relating to labour, employment and other workforce matters;
- risks relating to the transfer of cash and assets to and from the Company's foreign subsidiaries;
- the Company's dependence upon key management personnel and executives;
- possible conflicts of interests of the Company's directors and executive officers;
- possible damage to the Company's reputation;
- risks relating to potential malicious acts of destruction to the Company's property;
- risks relating to weather and climate change;
- volatility with respect to the Company's stock price and the ability to maintain a listing on a stock exchange;
- uncertainty with respect to current or pending litigation;
- uncertainty with respect to the commercial viability of phosphate ore deposits;
- uncertainty with respect to mine development and completion;
- uncertainty with respect to the accuracy of estimates and findings for the Itafós Arraias SSP Operations, the Itafós Araxá Project and the Itafós Santana Project;
- operating risks, political risks and credit risks;
- risks relating to the Company's equipment and supplies;
- risks relating to the successful implementation of the Company Restructuring; and

Although the Company 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 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. The reader is cautioned not to place undue reliance on forward-looking information. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company's expected financial and operational performance and the Company's plans and objectives and may not be appropriate for other purposes.