

Consolidated financial statements of

Formation Metals Inc.

February 28, 2015

(Stated in Canadian dollars)

Formation Metals Inc.

February 28, 2015

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SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FORMATION METALS INC.

We have audited the accompanying consolidated financial statements of Formation Metals Inc., which comprise the consolidated statements of financial position as at February 28, 2015 and 2014, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Formation Metals Inc. as at February 28, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
May 21, 2015

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Formation Metals Inc.

Consolidated Statements of Financial Position

(Stated in Canadian dollars)

	Note	**February 28, 2015**	February 28, 2014
		$	$
Assets			
Current assets			
Cash and cash equivalents		**4,522,450**	5,691,140
Precious metals inventory	4	**-**	281,427
Trade and other receivables		**5,894**	1,395,194
Prepaid expenses and deposits		**71,755**	79,989
Total current assets		**4,600,099**	7,447,750
Reclamation bond	5	**2,799,255**	2,479,321
Long term deposits		**-**	133,599
Mineral properties	6	**70,761,824**	71,578,592
Property, plant and equipment	7	**39,847,704**	44,494,645
Total assets		**118,008,882**	126,133,907
Liabilities			
Current liabilities			
Accounts payable		**90,138**	117,507
Accrued liabilities		**354,910**	424,411
Total current liabilities		**445,048**	541,918
Provision for site reclamation and closure costs	9	**5,674,924**	2,884,461
Deferred tax liabilities	10	**28,364**	60,437
Total liabilities		**6,148,336**	3,486,816
Equity			
Common shares	11	**160,945,419**	150,016,217
Share purchase warrants		**7,343,318**	19,957,509
Share-based payments reserve		**8,697,121**	8,584,375
Foreign currency translation reserve		**723,693**	632,557
Deficit		**(65,849,005)**	(56,543,567)
Total equity		**111,860,546**	122,647,091
Total liabilities and equity		**118,008,882**	126,133,907

Nature of operations and going concern (Note 1)
Commitments (Note 18)
Subsequent events (Note 19)

Approved by the Board and authorized for issue on May 21, 2015.

"Scott B. Hean" Director

"James Engdahl" Director

See accompanying notes to the consolidated financial statements.

Formation Metals Inc.

Consolidated Statements of Operations and Comprehensive Loss

(Stated in Canadian dollars)

	Note	**Year ended February 28, 2015**	Year ended February 28, 2014
		$	$
Expenses			
Accounting and audit		**77,604**	96,632
Accretion expense	9	**83,135**	452,647
Bank charges and interest expense		**3,073**	523,797
Depreciation		**47,211**	63,615
Director's fees	12(b)	**253,712**	421,333
Foreign exchange (gain) loss		**(535,476)**	(889,881)
Legal fees		**68,550**	504,031
Listing and filing fees		**69,249**	52,719
Office		**294,699**	426,892
Retirement and severance pay	12(b)	**-**	2,451,663
Salary and wages	12(b)	**509,808**	775,365
Shareholder relations		**70,950**	662,195
Share based compensation	12(b)	**112,746**	-
Write-off of deferred financing cost		**-**	2,681,116
Loss from operating activities		**(1,055,261)**	(8,222,124)
Impairment of mineral property	6(b)	**(4,240,426)**	(125,162)
Impairment of property, plant and equipment	6(a)	**(5,386,920)**	(10,897,811)
Interest income		**19,062**	47,180
Net loss before taxes from continued operations		**(10,663,545)**	(19,197,917)
Income tax recovery	10	**1,717,062**	5,043,214
Net loss after taxes from continued operations		**(8,946,483)**	(14,154,703)
Gain (loss) from discontinued operations	8	**(358,955)**	340,673
Other comprehensive income:			
Currency translation adjustment		**91,136**	487,476
Total comprehensive loss for the year		**(9,214,302)**	(13,326,554)
Basic and diluted loss per share	11(d)	**(0.10)**	(0.16)
Weighted average number of shares outstanding			
Basic and diluted		**90,887,205**	90,887,205

Formation Metals Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars)

	Note	Common shares without par value		Share Purchase Warrants	Equity portion of convertible debenture	Share-based payments reserve	Foreign currency translation reserve	Deficit	Total shareholders' equity
		Shares	Amount						
			$	$	$	$	$	$	$
Balance, February 28, 2013		90,887,205	148,807,023	21,347,387	199,293	8,385,082	145,081	(42,729,537)	136,154,329
Expiration of warrants	11(c)(ii)	-	1,209,194	(1,389,878)	-	-	-	-	(180,684)
Transfer of equity portion of convertible debenture upon repayment		-	-	-	(199,293)	199,293	-	-	-
Net loss and total comprehensive loss		-	-	-	-	-	487,476	(13,814,030)	(13,326,554)
Balance, February 28, 2014		90,887,205	150,016,217	19,957,509	-	8,584,375	632,557	(56,543,567)	122,647,091
Expiration of warrants	11(c)(ii)	-	10,929,202	(12,614,191)	-	-	-	-	(1,684,989)
Share-based compensation		-	-	-		112,746	-	-	112,746
Net loss and total comprehensive loss		-	-	-	-	-	91,136	(9,305,438)	(9,214,302)
Balance, February 28, 2015		**90,887,205**	**160,945,419**	**7,343,318**	**-**	**8,697,121**	**723,693**	**(65,849,005)**	**111,860,546**

See accompanying notes to the consolidated financial statements.

Formation Metals Inc.

Consolidated Statements of Cash Flows

(Stated in Canadian dollars)

	Note	**Year ended February 28, 2015**	Year ended February 28, 2014
		$	$
Operating activities			
Net loss from continuing operations		**(8,946,483)**	(14,154,703)
Items not involving cash			
Accretion expense on ARO, bonds and convertible debenture	9	**83,135**	452,647
Depreciation		**47,211**	63,615
Deferred income tax recovery	10	**(1,717,062)**	(5,043,214)
Share-based compensation	12(b)	**112,746**	-
Unrealized foreign exchange loss (gain)		**171,212**	101,185
Impairment of mineral property	6(b)	**4,240,426**	125,162
Impairment of property, plant and equipment	6(a)	**5,386,920**	10,897,811
Write down of deferred financing cost		**-**	2,681,116
Change in working capital items	14	**(104,674)**	(1,902,257)
Other adjustments			
Interest paid (disclosed in financing activities)		**-**	260,634
Net cash provided (used) by operating activities from continuing operations		**(726,569)**	(6,518,004)
Net cash provided (used) by operating activities from discontinued operations	14	**1,280,178**	(236,788)
		553,609	(6,754,792)
Investing activities			
Mineral property expenditures	6	**(1,159,596)**	(2,387,154)
Purchase of property, plant and equipment, net of deposits	7	**(373,575)**	(1,826,404)
Net cash provided (used) by investing activities from continuing operations		**(1,533,171)**	(4,213,558)
Net cash provided (used) by investing activities from discontinued operations		**-**	9,882,276
		(1,533,171)	5,668,718
Financing activities			
Repayment of convertible debenture		**-**	(5,618,746)
Interest paid		**-**	(260,634)
Restricted cash		**-**	44,733,408
Federal stimulus recovery zone bonds		**-**	(35,138,132)
Net cash provided (used) by financing activities from continuing operations		**-**	3,715,896
Net cash provided (used) by financing activities from discontinued operations		**-**	-
		-	3,715,896
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(189,128)**	(945,268)
Net cash inflows during the year		**(1,168,690)**	1,684,554
Cash and cash equivalents, beginning of year		**5,691,140**	4,006,586
Cash and cash equivalents, end of year		**4,522,450**	5,691,140
Cash and cash equivalents are comprised of:			
Cash		**142,458**	352,633
Short-term investments		**4,379,992**	5,338,507
		4,522,450	5,691,140

Supplemental non-cash investing and financing information (Note 14)

1. Nature of business and going concern

Formation Metals Inc. ("the Company") was incorporated on June 13, 1988 under the *Company Act of British Columbia* and commenced operations on that date. The Company, is in the process of exploring its mineral properties and has determined that certain of these properties contain measured and indicated resources of cobalt and copper.

The Company's primary project, located in the mining friendly state of Idaho, is the 100% owned and fully environmentally permitted, Idaho Cobalt Project (the "ICP"). The ICP is comprised of the mine and mill located in Lemhi County outside of the town of Salmon, Idaho, and a cobalt production refining facility ("CPF") to be located along a railhead in an industrial hub in southern Idaho. A feasibility level study was completed on the ICP in 2007 to produce a high purity cobalt metal suitable for critical applications in the aerospace sector. By November 2012, the Company had spent US$65.3M and completed two of three stages of construction on the ICP mine and mill site. The project was subsequently placed on care and maintenance in May 2013 due to unfavourable market conditions. In 2014, the Company conducted internal technical updates on the ICP with the intention to produce cobalt chemicals in response to the projected bullish long-term demand for cobalt driven mainly by cobalt used in rechargeable battery applications. The Company commissioned an Preliminary Economic Assessment ("PEA") on the ICP in January 2015. Positive results of the PEA were announced on April 22, 2015 and a National Instrument 43-101 compliant Technical Report on the PEA was filed on SEDAR on May 8, 2015. All obligations, commitments, and permits related to the ICP are in good standing.

Going concern

At February 28, 2015, the Company had working capital of $4,155,051 (2014 - $6,905,832). For the year ended February 28, 2015, the Company reported a comprehensive loss of $9,214,302 (2014 - $13,326,554) and accumulated deficit of $65,849,005 (2014 - $56,543,567). The ability of the Company to continue as a going concern over a longer term is dependent on the Company's ability to complete financing for the construction of the ICP and further development of its refinery operations. While the Company recently took efforts to significantly reduce operating and overhead costs and defer capital expenditures, these material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

The Company's registered office is Suite 1710 – 1177 West Hastings Street, Vancouver, British Columbia V6E 2L3.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Significant accounting policies are described in Note 3.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 21, 2015.

2. Basis of preparation (continued)

(b) Basis of measurement

The annual consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value.

(c) Significant judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Actual results could differ materially from those estimates and would impact future results of operations and cash flows. Significant judgments and estimates were used in the preparation of these consolidated financial statements; these include but are not limited to the following:

Judgments

(i) Annually, the Company assesses whether indicators of impairment exist. If indicators of impairment are identified, then the Company assesses whether its asset carrying values are greater than their recoverable values. The recoverable value is the higher of an asset's fair value, less costs to sell, and its value in use. The determination of the recoverable amount of mineral properties and property, plant and equipment includes critical judgments by management of items including: discount rates, future commodity prices, production levels, operating and capital expenditures, taxes, length of mine life, proven and probable mineral reserves and resources, and other assumptions used within the Company's mine model for assessing possible impairment. Should those judgments prove to be inaccurate, the assessed recoverable amounts could differ materially from their actual amounts.

(ii) The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

(iii) Judgments by management with respect to the useful lives of property, plant and equipment, and related rates of depreciation, could result in carrying values of the underlying assets being over or understated, should those judgments be determined to be incorrect.

2. Basis of preparation (continued)

(c) Significant judgments and estimates (continued)

(iv) The functional and presentation currencies of the Company are the Canadian dollar. The functional currencies of the Company's subsidiaries are either the Canadian dollar or the U.S. dollar, depending on management's assessment of whether the specific subsidiary is a standalone operation or integrated with the operations of the parent company. Should management's judgment about the nature of a subsidiary differ from its actual nature, a material difference in the cumulative translation adjustment and or foreign exchange gain could result.

Estimates

(v) The carrying value of mineral properties, exploration expenditures incurred, and property, plant and equipment, and the likelihood of future economic recoverability of these carrying values is subject to significant management estimates. The application of the Company's accounting policy for and determination of recoverability of capitalized assets is based on assumptions about future events or circumstances. New information may change estimates and assumptions made. If information becomes available indicating that recovery of expenditures are unlikely, the amounts capitalized are impaired and recognized as a loss in the period that the new information becomes available. A change in estimate could result in the carrying amount of capitalized assets being materially different from their presented carrying costs.

(vi) The provision for site reclamation and closure costs (Note 9), requires the Company to examine its site reclamation and closure cost obligations annually. Significant estimates and assumptions are made to determine provision for site reclamation and closure cost due to various factors that will affect the ultimate liability. These factors include estimates of extent and cost of reclamation activities, technological and regulatory changes, cost increases and changes in discount rates. Uncertainty of these factors may result in future actual reclamation expenditure being materially different from current estimates.

(vii) The provision for income and mining taxes including expected recovery and periods of reversals of timing differences and composition of deferred income taxes and liabilities (Note 10) requires significant estimates about the future profitability, ability to utilize deferred tax assets, future income tax rates, among others. Should the Company's performance differ from management's estimates, or should future tax rates change, the Company's estimate of income and mining taxes could differ materially from current estimates.

(viii) The fair value of stock options and warrants are subject to the calculation by the Black-Scholes option pricing model, which requires market data and estimates used by the Company in the determination of the fair value. These inputs are subjective assumptions and changes in these inputs could materially affect the fair value estimated.

3. Significant accounting policies

(a) Basis of Consolidation

These annual consolidated financial statements of the Company include the accounts of Formation Metals Inc. and, either directly or indirectly, its wholly-owned subsidiaries: Formation Capital Corporation, U.S., a Nevada corporation; Essential Metals Corporation®, an Idaho corporation; Coronation Mines Ltd ("Coronation"), a Saskatchewan company; Minera Terranova S.A. de C.V., a Mexican company; Formations Holdings US, Inc., an Idaho corporation; US Cobalt, Inc. an Idaho corporation and Formations Holdings Corp., a British Columbia corporation. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

All inter-company transactions, balances, revenues and expenses have been eliminated.

(b) Functional and presentation currency and translation

Items included in the annual consolidated financial statements of the Company are measured using the currency of the primary economic environment in which Formation Metals Inc. and each of its subsidiaries operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Formation Metals Inc.'s functional currency.

The financial statements of entities that have a functional currency different from that of Formation Metals Inc.'s ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the consolidated statement of financial position, and income and expenses – at the average rate for the period. All resulting changes are recognized in other comprehensive income (loss) as a currency translation adjustment.

The financial statements of entities that have the same functional currency as that of Formation Metals Inc., have foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at reporting period exchange rates for monetary assets and liabilities denominated in currencies other than the subsidiary's functional currency are recognized in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the subsidiary's functional currency are translated at their historic rates of exchange.

(c) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, deposits in banks and highly liquid short-term investments with original maturities of three months or less.

3. Significant accounting policies (continued)

(d) Precious metals inventory

Inventories of precious metals are stated at the lower of cost and net realizable value. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future costs to convert the inventories into saleable form and costs necessary to make the sale. Inventories consist primarily of silver and gold metals.

(e) Mineral properties

Acquisition costs of mineral properties together with direct exploration and development expenditures thereon are capitalized. These costs will be amortized using the unit-of-production method based on proven and probable reserves on the commencement of commercial production or written-down as the properties are sold, allowed to lapse, are abandoned, or, in the case of development properties, are determined to be impaired. Mineral property costs not directly attributable to specific properties are expensed during the year.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use.

Property, plant and equipment are depreciated to estimated residual value using the declining balance method. Management reviews the estimated useful lives, residual values and depreciation methods for the Company's property, plant and equipment annually and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Assets under construction or undergoing refurbishment are depreciated when they are available for their intended use, over their estimated useful lives.

The significant classes of property, plant and equipment and their rate of depreciation are as follows:

- Land — Not depreciated
- Buildings — 5%
- Equipment — 30%
- Furniture and fixtures — 30%

3. Significant accounting policies (continued)

(g) Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there are any indicators that its property, plant and equipment and mineral properties are impaired. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(h) Income taxes

Current taxes

Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the consolidated statement of financial position date, and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred taxes

Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and,

3. Significant accounting policies (continued)

(i) Income taxes (continued)

at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and is derecognized to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the consolidated statement of financial position date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of operations and comprehensive loss.

(j) Share-based payments

Share-based payments made to employees are measured and recognized using the fair value based method. Stock-options are typically issued fully vested and are valued at the date of grant using the Black-Scholes option pricing model with a corresponding increase to the share-based payments reserve. When stock options are issued with a vesting period, each vesting tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model and compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing share-based payments reserve. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in share-based payments reserve is recorded as an increase to common shares.

(k) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants, but are omitted from the diluted loss per share calculation if their effect is anti-dilutive.

(l) Site reclamation and closure cost obligations

The Company records a provision for the estimated future costs of site reclamation and closure of operating projects, which are discounted to net present value using the risk free interest rate applicable to the future cash outflows. Estimates of future costs represent management's best estimate which incorporate assumptions on the effects of inflation, movements in foreign exchange rates, other specific risks associated with the related liabilities. A provision for reclamation and closure is re-measured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates

3. Significant accounting policies (continued)

(l) Site reclamation and closure cost obligations (continued)

and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining activities, changes to cost estimates and changes to the risk free interest rate. A provision for site reclamation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs. Reclamation and closure cost obligations relating to mine development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties.

(m) Financial instruments and fair value

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition and recorded on the consolidated statement of financial position. Measurement in subsequent periods depends on whether the financial instrument has been classified at fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

Financial assets and liabilities at fair value through profit or loss are measured at fair value with changes in fair values recognized in profit or loss. Derivative instruments, including embedded derivatives, are classified at fair value through profit or loss, with the exception of derivatives designated as hedges. The Company has no designated hedges.

Financial assets classified as held-to-maturity and loans and receivables and financial liabilities classified as other liabilities are measured at amortized cost using the effective interest method.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income until realized or a loss in value is determine to be significant or prolonged.

Transaction costs that are directly attributed to the acquisition or issue of financial assets or liabilities (other than those designated as fair value through profit or loss, which are expensed) are included in the fair value of financial instruments on initial recognition.

3. Significant accounting policies (continued)

(m) Financial instruments and fair value (continued)

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significant inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

(n) Derivatives

The Company has periodically uses foreign exchange and commodity contracts to manage exposure to fluctuations in foreign exchange rates. Derivative positions are recorded on the consolidated statement of financial position at fair value with changes in fair value recorded in profit or loss. The Company had no such derivatives as at February 28, 2015 and 2014.

(o) Segment reporting

The Company reports segment results to the Chief Executive Officer based on three operating segments (corporate, exploration and development), and three geographical locations of its assets (Canada, United States, Mexico).

(p) Adoption of new and amended accounting standards

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2014. The Company adopted the following new IFRS pronouncements effective March 1, 2014.

The adoption of the following new or amended IFRS pronouncements did not have a material effect on the Company's consolidated financial statements or disclosures nor did these changes have a material effect on the Company's existing accounting treatment.

(i) IAS 32 *Financial Instruments: Presentation*
(ii) IFRIC 21 *Levies*
(iii) IAS 36 *Impairment of Assets*

3. Significant accounting policies (continued)

(p) *Adoption of new and ame*nded accounting standards (continued)

The following standards will become effective in future periods:

IFRS 9 *Financial Instruments* (2014)

This is a finalized version of **IFRS 9,** which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of **IFRS 9** introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under **IAS 39**; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**. The 2014 version of **IFRS 9** introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from **IAS 39**.

Applicable to annual periods beginning on or after January 1, 2018.

***Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11)**

Amends IFRS 11 *Joint Arrangements* to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 *Business Combinations*) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRS for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

Note: The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted.

Applicable to annual periods beginning on or after July 1, 2016.

3. Significant accounting policies (continued)

(p) Adoption of new and amended accounting standards (continued)

***Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments to IAS 16 and IAS 38)**

Amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Applicable to annual periods beginning on or after July 1, 2016.

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- **IFRS 2** — Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”
- **IFRS 3** — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- **IFRS 8** — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- **IFRS 13** — Clarify that issuing **IFRS 13** and amending **IFRS 9** and **IAS 39** did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- **IAS 16** and **IAS 38** — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- **IAS 24** — Clarify how payments to entities providing management services are to be disclosed

Applicable to annual periods beginning on or after July 1, 2014.

3. Significant accounting policies (continued)

(p) Adoption of new and amended accounting standards (continued)

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- **IFRS 1** — Clarify which versions of IFRS can be used on initial adoption (amends basis for conclusions only)
- **IFRS 3** — Clarify that **IFRS 3** excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- **IFRS 13** — Clarify the scope of the portfolio exception in paragraph 52
- **IAS 40** — Clarifying the interrelationship of **IFRS 3** and **IAS 40** when classifying property as investment property or owner-occupied property

Applicable to annual periods beginning on or after July 1, 2014.

Annual Improvements 2012-2014 Cycle

Makes amendments to the following standards:

- **IFRS 5** — Adds specific guidance in **IFRS 5** for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued
- **IFRS 7** — Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements
- **IAS 9** — Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid
- **IAS 34** — Clarify the meaning of “elsewhere in the interim report” and require a cross-reference

Applicable to annual periods beginning on or after January 1, 2016.

4. Precious metals inventory

Inventory consists of:

	February 28, 2015	February 28, 2014
	$	$
Silver inventory*	**-**	247,442
Gold inventory*	**-**	33,985
	-	281,427

* Silver and gold inventory as at February 28, 2014 are related to discontinued operations (see Note 8) and are comprised of concentrates that are being processed and are maintained at third party refineries as at February 28, 2014.

During the year ended February 28, 2015, the Company expensed $299,284 (2014 - $9,091,489) of inventory to cost of sales. The Company also expensed $128,737 (2014 - $1,150,880) of inventory as a result of a write down to net realizable value.

5. Reclamation bond

In connection with the Idaho Cobalt Project, the U.S. Forest Service requires the Company to place a Reclamation Performance Bond in the amount of US$6,379,617. There has not been any change in the Reclamation Performance Bond since February 29, 2012. Earthwork and Tailing Waste Storage construction on the Idaho Cobalt Project was completed during the year ended February 29, 2012 and disturbances during the years subsequent to that date have been minimal. The Reclamation Performance Bond will be released upon meeting the reclamation requirement of the U.S. Forest Service at the end of the Life of Mine of the Idaho Cobalt Project.

On June 21, 2011, the Company entered into an agreement with an insurance company to issue a surety bond in the amount required by the Reclamation Performance Bond. As part of the insurance agreement, the Company was required to deposit US$2,232,000 in trust as collateral for potential liability, as surety, incurred by the insurance company. The Safekeeping Agreement with the trustee requires the trust proceeds to be invested in any securities backed by the US Treasury, including US Treasury Bills and US Treasury Notes. The trustee can only release the trust proceeds under the following conditions:

(a) Within thirty (30) days following the written request from the insurance company; and

(b) Within thirty (30) days following the written request from the Company subsequent to the expiration and termination of the bond, whereby the insurance company has been exonerated of all past, present and future liability.

	Note		**February 28, 2015**	February 28, 2014
			$	$
Reclamation Peformance Bond Requirement		US$	**6,379,617**	6,379,617
Insured		US$	**6,379,617**	6,379,617
In Trust:				
US Treasury Securities		US$	**2,239,196**	2,239,196
			2,239,196	2,239,196
Reclamation bond		CDN$	**2,799,255**	2,479,321

6. Mineral properties

Mineral properties consist of:

	February 28, 2015	Impairment	Additions	February 28, 2014
	$	$	$	$
Idaho Cobalt Belt (a)				
Idaho Cobalt Project (i)	**69,383,905**	-	3,325,893	66,058,012
Black Pine (ii)	**-**	(3,339,332)	9,321	3,330,011
	69,383,905	(3,339,332)	3,335,214	69,388,023
Other Projects (b)				
Morning Glory/Wallace Creek (i)	**-**	(544,726)	19,033	525,693
El Milagro (ii)	**-**	(93,310)	3,609	89,701
Queen of the Hills (iii)	**-**	(141,247)	12,314	128,933
Kernaghan (iv)	**475,150**	-	7,071	468,079
Virgin River (v)	**869,993**	-	40,041	829,952
Other	**32,776**	(121,811)	6,376	148,211
	1,377,919	(901,094)	88,444	2,190,569
	70,761,824	(4,240,426)	3,423,658	71,578,592

	February 28, 2014	Impairment	Additions	February 28, 2013
	$	$	$	$
Idaho Cobalt Belt (a)				
Idaho Cobalt Project (i)	**66,058,012**	-	1,889,965	64,168,047
Black Pine (ii)	**3,330,011**	-	13,544	3,316,467
Badger Basin (iii)	**-**	(125,162)	-	125,162
	69,388,023	(125,162)	1,903,509	67,609,676
Other Projects (b)				
Morning Glory/Wallace Creek (i)	**525,693**	-	25,130	500,563
El Milagro (ii)	**89,701**	-	18,839	70,862
Queen of the Hills (iii)	**128,933**	-	18,672	110,261
Kernaghan (iv)	**468,079**	-	9,908	458,171
Virgin River (v)	**829,952**	-	92,812	737,140
Other	**148,211**	-	3,319	144,892
	2,190,569	-	168,680	2,021,889
	71,578,592	(125,162)	2,072,189	69,631,565

6. Mineral properties (continued)

(a) Idaho Cobalt Belt

(i) Idaho Cobalt Project

The Company owns a 100% interest in the Idaho Cobalt Project (the "ICP").

In order to assess the recoverability of the non-current assets recorded as part of the ICP, management has estimated the after tax future cash flows of the ICP and compared these results to the carrying value of the ICP. The after-tax cash flows have been determined based on the estimated life of mine and dates for operational commencement, production levels at current estimates of measured, indicated and inferred resources, future operating costs, planned capital expenditures and estimated selling prices for cobalt sulfate.

As a result of the disposition of the partially built cobalt processing facility ("CPF") included in the sale of the Sunshine Precious Metals Refinery on October 10, 2013 (note 8), the Company impaired $10,897,811 of carrying costs of the ICP during the year ended February 28, 2014. For the year ended February 28, 2015, the Company impaired an additional $5,386,920 of carrying costs on the ICP. These were past capitalized business development costs related to the previous CPF that are no longer relevant due to the significant changes of the CPF design in the Technical Report to produce cobalt sulfate heptahydrate. The carrying costs on the ICP at February 28, 2015 is US$98,208,900 or $109,200,333 (2014- $108,149,639), comprised of $69,383,905 for mineral properties and $39,816,429 for property, plant and equipment.

The impairment assessment of the ICP at February 28, 2015 was based on the cash flow model of the Technical Report. A discount rate of 11.0% was used instead of 8.5% and this resulted in a post-tax NPV of US$98,127,355. As the carrying value of the ICP was slightly higher than the assessed fair value, no additional impairment was recognized for the year ended February 28, 2015. The discount rate was derived using the Company's Weighted Average Cost of Capital.

6. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(ii) Black Pine

The Company has a 100% interest in certain mineral claims in Lemhi County, Idaho.

The Company also has a lease option agreement to purchase certain mineral claims located in Lemhi County, which required annual advance royalty payments of US$400 per claim until 2006. During the year ended February 28, 1999 an amendment to the agreement was negotiated which requires payments of $nil if the average price of copper trades below US$0.85 per pound, US$200 per claim per year if the average price of copper trades between US$0.85 to $0.89 per pound and US$400 per claim if the average price of copper trades above US$0.90 per pound. In addition, the Company will be required to pay the lessors a sliding scale net smelter return royalty ("NSR") of between 1% and 5% based on the realized price of copper to a maximum of US$2,000,000 (including the option payments). These payments are only required if the Company enters into a joint venture arrangement on the property. There have been no payments due since the amended agreement was concluded. During the year ended February 29, 2004, the Company again amended the option agreement to extend the term for two five-year terms, which eliminated the requirement to make additional payments based on the price of copper and to share on a 50/50 basis with the optioner any payments received from any prospective joint venture partner.

During the year ended February 28, 2015, the Company impaired $3,339,332 (2014- $nil) on the Black Pine resulting in a carrying cost of $nil. The impairment was the result of the Company not having any plan or budget to explore the property further, and the Company having no basis with which to value the property.

(iii) Badger Basin

The Company has a 100% interest, through staking, in these claims located in Lemhi County, Idaho. During the year ended February 28, 2014, the Company did not renew the claims to the Badger Basin property and impaired 100% of its carrying cost of $125,162.

6. Mineral properties (continued)

(b) Other projects

(i) Morning Glory/Wallace Creek

(a) Morning Glory

The Company has a 100% interest in certain mineral claims located in Lemhi County, Idaho.

The Company also has a 100% lease option on certain additional mineral claims located in the same area. During the year ended February 28, 2001, the terms of the lease option were amended to require annual payments based on the price of gold ranging from no payments to payments of US$3,000. The annual minimum advance royalty payment is applied against a 3% to 5% NSR. A total of US$45,900 (2014 - US$45,900) has been paid to date. To exercise the option, the Company must pay a total purchase price of US$1,000,000, which includes the advance annual minimum royalty payments.

During the year ended February 28, 2015, the Company impaired $544,726 (2014- $nil) on the Morning Glory resulting in a carrying cost of $nil. The impairment was the result of the Company not having any plan or budget to explore the property further, and the Company having no basis with which to value the property.

(b) Wallace Creek

The Company has a 100% interest in certain mineral claims located in Lemhi County, Idaho.

The Company also has a 100% lease option on certain additional mineral claims located in the same area. During the year ended February 28, 2001, the terms of the lease option were amended from a required minimum annual advance royalty payment of US$8,000 to annual payments based on the price of gold ranging from no payments to US$8,000. The annual minimum advance royalty payment is applied against a 3% to 5% NSR. To exercise the option, the Company must pay a total purchase price of US$1,000,000, of which US$25,600 has been paid to date.

(ii) El Milagro

The Company has a 100% interest in the El Milagro property in Tamaulipas, Mexico. During the year ended February 28, 2015, the Company impaired $93,310 (2014- $nil) on the El Milagro resulting in a carrying cost of $nil. The impairment was the result of the Company not having any plan or budget to explore the property further, and the Company having no basis with which to value the property.

6. Mineral properties (continued)

(b) Other projects (continued)

(iii) Queen of the Hills

The Company holds a 100% lease option on certain mineral claims located in Lemhi County, Idaho. During the year ended February 28, 2001, the terms of the lease option agreement were amended from a required minimum annual advance royalty payment of US$1,400 to require annual payments based on the price of gold ranging from no payments to US$1,400. A total of US$25,200 (2014 - US$25,200) has been paid to date. To exercise the option, the Company must pay a total purchase price of US$1,000,000, including the advance annual minimum royalty payments. During the year ended February 28, 2015, the Company impaired $141,247 (2014- $nil) on the Queen of the Hills resulting in a carrying cost of $nil. The impairment was the result of the Company not having any plan or budget to explore the property further, and the Company having no basis with which to value the property.

(iv) Kernaghan Lake

The Company granted an option whereby the optionee has earned 80% interest in certain mineral claims by making certain payments (received), and completing exploration work totaling $1,000,000 (deemed completed).

The Company is participating at the 20% level, and has the option to dilute to a 7% participation level which then becomes a net profit interest. The optionee has the right to purchase all or part of the net profit interest during the first year of commercial production by paying $700,000 per percentage point which increases to $800,000 per percentage point during the second year of production.

The operator, Areva Resources Canada Inc. (Areva), of the project did not conduct exploration work during the year ended February 28, 2015. The project remains in good standing until 2017.

(v) Virgin River

The Company owns 2% of the Virgin River project located in the Athabasca Basin of northern Saskatchewan. Cameco Corporation and Areva each own 49% in the joint exploration agreement with Cameco as the operator of the project. The Company has the first right of offer to acquire up to 10% of the project and has been carried through to $10,000,000 of exploration and development.

During the year ended February 29, 2008, the Company was advised by its joint venture partners that the first $10,000,000 of exploration expenditures has been met. An updated joint venture agreement and confirmation of expenditures were concluded. As at February 28, 2015, over $32,874,800 has been spent on the project. The budget for 2015 expenditures has been approved at $125,000, with the Company's share at $2,500.

7. Property, plant and equipment

	Land	Buildings	Equipment	Furniture and fixtures	Plants undergoing refurbishment	Construction in progress	Total
	$	$	$	$	$	$	$
Cost							
As at February 28, 2013	279,730	764,922	2,766,080	384,305	19,083,156	37,272,232	60,550,425
Additions for the year	-	-	3,568	-	1,300,863	184,549	1,488,980
Impairment for the year	-	-	-	-	(10,897,811)	-	(10,897,811)
Disposal for the year	(101,407)	(239,017)	(2,280,002)	(2,503)	(3,055,517)	-	(5,678,446)
As at February 28, 2014	178,323	525,905	489,646	381,802	6,430,691	37,456,781	45,463,148
Additions for the year	-	-	-	-	-	525,649	525,649
Impairment for the year	-	-	-	-	(5,386,920)	-	(5,386,920)
Foreign exchange adjustment	3,222	-	-	-	258,319	-	261,541
As at February 28, 2015	**181,545**	**525,905**	**489,646**	**381,802**	**1,302,090**	**37,982,430**	**40,863,418**
Accumulated Depreciation							
As at February 28, 2013	-	(353,046)	(2,009,162)	(344,116)	-	-	(2,706,324)
Additions for the year	-	(21,302)	(98,988)	(10,864)	-	-	(131,154)
Disposal for the year	-	190,230	1,678,745	-	-	-	1,868,975
As at February 28, 2014	-	(184,118)	(429,405)	(354,980)	-	-	(968,503)
Additions for the year	-	(18,485)	(20,381)	(8,345)	-	-	(47,211)
As at February 28, 2015	**-**	**(202,603)**	**(449,786)**	**(363,325)**	**-**	**-**	**(1,015,714)**
Carrying Value							
As at February 28, 2014	178,323	341,787	60,241	26,822	6,430,691	37,456,781	44,494,645
As at February 28, 2015	**181,545**	**323,302**	**39,860**	**18,477**	**1,302,090**	**37,982,430**	**39,847,704**

The Company capitalizes the costs associated with refurbishing and constructing its mill and cobalt hydrometallurgical plant and will depreciate those assets when they are put into use. Non-refundable equipment deposits of $nil (2014 - $133,599) have been presented as long-term deposits and will be reclassified to property, plant and equipment when title is transferred. During the year ended February 28, 2015, equipment that will no longer be used at the ICP was impaired and charged to profit and loss in the amount of $5,386,920.

8. Discontinued operations

On October 10, 2013, the Company sold all of the shares of its wholly-owned subsidiary, Formation Metals, U.S., whose primary asset was the Sunshine Refinery to Silver Opportunity Partners LLC, a wholly owned subsidiary of SSM for $12,474,000 or US$12,000,000 (the "Sale"). The Sunshine Refinery is located within the Big Creek Hydrometallurgical Complex (the "Complex") and its core business was processing third party precious metals material and base and precious metals concentrates. The Complex was originally purchased by the Company in order to be retrofitted to process the cobalt concentrates from the ICP, the CPF. The Complex and the CPF concrete pad were also sold in this transaction. The collective assets of the Sale, therefore, were comprised of the Sunshine Refinery, the Complex that housed the Sunshine Refinery and the CPF concrete pad (the "Refinery Assets").

For the year ended February 28, 2014, the Company recognized a gain on disposal of $4,143,025. This resulted from proceeds received, less transaction costs and carrying value of net assets of Formation Metals, U.S., measured as at October 10, 2013. Due to the Sale, the Company no longer has control over Formation Metals, U.S., and the Refinery Assets. Refinery operations prior to the Sale and the sale of remaining inventory after the Sale are classified as discontinued operations, as the Company is no longer in the business of refining metals and is focusing on the development of the ICP.

The gain on disposal of Formation Metals, U.S., and the Refinery Assets was calculated as follows:

	February 28, 2014
	$
Fair value of consideration received	**12,474,000**
Less: transaction costs	**(2,501,996)**
Fair value of consideration received less cost	**9,972,004**
Less carrying value of assets disposed:	
Deposits and prepaids	**5,260**
Inventory	**683,859**
Property, plant and equipment	**5,147,410**
Accounts payable	**(7,550)**
Net assets	**5,828,979**
Gain on disposal	**4,143,025**

8. Discontinued operations (Continued)

Below summarizes the results of discontinued operations of Formation Metals, U.S., and the Refinery Assets for the years ended February 28, 2015 and 2014:

	February 28, 2015	February 28, 2014
	$	$
Revenue	**181,377**	9,025,632
Cost of revenues	**(299,284)**	(11,575,533)
Write down of inventory	**(128,737)**	(1,150,880)
Depreciation	**-**	(58,143)
Other	**-**	(43,428)
Net loss from discontinued operations before gain on disposal	**(246,644)**	(3,802,352)
Gain on disposal of discontinued operations	**(112,311)**	4,143,025
Gain (loss) from discontinued operations	**(358,955)**	340,673

Transaction costs include legal, accounting, financial advisory and other professional fees. It also included a $1,046,600 (US$1,000,000) break fee the Company paid to Waterton Global Value, L.P. ("Waterton") on July 5, 2013 for a full and final mutual release in respect of the June 6, 2013 Letter Agreement. The Letter Agreement to sell the Refinery Assets to Waterton for US$9,000,000 was terminated by the Company on June 26, 2014.

9. Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure relates to the Idaho Cobalt Project and is based on the Company's legal obligations for environmental remediation, reclamation, and decommissioning at the end of the mine life. The undiscounted cash flow of the obligation as at February 28, 2015 was US$3,815,032 (2014 - US$2,588,720). The discount rate used to determine the present value of the obligation was based on US Treasury Bond rate of 2.00% and rate of inflation of 2.90% (2014 - US Treasury Bond rate of 2.73% and rate of inflation of 2.40%) resulting in a net rate of 0.90% (2014 - 0.33%), discounted by 15 years. The Company assumes that reclamation and decommissioning will take place over a three year period, commencing after the 12 year Mine Life.

	$
Site reclamation and closure cost, February 28, 2013	3,072,248
Additions	-
Accretion expense	63,673
Change in discount rate	(462,940)
Foreign exchange	211,480
Reclamation and closure cost, February 28, 2014	2,884,461
Additions	1,749,216
Accretion expense	83,135
Change in discount rate	509,077
Foreign exchange	449,035
Reclamation and closure cost, February 28, 2015	**5,674,924**

10. Income taxes

Income tax expense differs from the amount that would result from applying Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

		February 28, 2015		February 28, 2014
Loss before income taxes	**$**	**(11,022,500)**	$	(18,857,244)
Canadian federal and provincial income tax rates		**26.00%**		26.00%
Income tax recovery based on the above rates	**$**	**(2,865,850)**	$	(4,902,883)
Increase (decrease) due to:				
Share based compensation and other non-deductible expenses		**(29,314)**		(119,857)
Use of unrecognized tax losses and temporary differences		**(1,704,549)**		-
Non-taxable portion of capital gains and other		**-**		(219,953)
Loss and temporary differences for which no deferred income tax assets has been recognized		**4,585,342**		2,362,491
Amounts under (over) provided in prior years		**(105,672)**		17,802
Effect of different tax rates in foreign jurisdictions		**(1,597,019)**		(2,180,814)
Deferred income tax recovery		**(1,717,062)**		(5,043,214)
Deferred		**(1,717,062)**		(5,043,214)
		(1,717,062)		(5,043,214)
Income tax recovery by country:				
United States		**-**		(4,862,531)
Canada		**(1,717,062)**		(180,683)
		(1,717,062)		(5,043,214)

The components of recognized deferred income tax liabilities (assets) are as follows:

		February 28 2015		February 28 2014
Non-capital losses	**$**	**(14,148,226)**	$	(14,765,939)
Asset retirement obligation		**(2,266,565)**		(1,152,054)
Property, Plant and Equipment		**(6,074,778)**		(3,580,795)
Mineral property and other		**(1,310,155)**		(411,413)
Property, Plant and Equipment		**132,395**		88,112
Unrealized foreign exchange gains		**2,064,722**		780,435
Mineral property		**21,630,971**		19,102,091
Deferred income tax liabilities, net		**28,364**		60,437

The components of unrecognized losses and temporary differences are as follows:

		February 28 2015		February 28 2014
Non-capital losses	**$**	**18,488,891**	$	17,563,214
Financing fees		**1,472,561**		2,972,365
Property, plant and equipment		**388,506**		375,102
Mineral property and other		**963,137**		1,456,706
Unrecognized deferred income tax assets, net		**21,313,095**		22,367,387

The Company has $3,191,955 of non-capital losses in Canada that expires between 2026 and 2035 for which no tax benefit has been recorded. The Company has $15,296,936 of net operating losses in the United States that will expire between 2020 and 2026 for which no tax benefit has been recorded.

10. Income taxes (continued)

The components of deferred income tax recovery are as follows:

		February 28, 2015	February 28, 2014
Non-capital losses	**$**	**(1,067,277)**	$ 710,316
Asset retirement obligation		**(1,114,511)**	75,002
Unrealized foreign exchange gains		**1,284,287**	780,435
Property, Plant and Equipment		**(2,449,699)**	(5,648,493)
Mineral property and other		**1,630,137**	(960,474)
		(1,717,062)	(5,043,214)

Continuity of changes in the Company's net deferred tax position is as follows:

		February 28, 2015	February 28, 2014
Opening balance, March 1	**$**	**60,437**	$ 4,852,347
Recovery on income statement		**(1,717,062)**	(5,043,214)
Amounts charged to equity		**1,684,989**	180,684
Foreign currency translation		**-**	70,620
Ending balance, Feburary 28		**28,364**	60,437

11. Share capital

(a) Authorized and issued

The Company has 50,000,000 preferred shares without par value authorized for issue and an unlimited number of common shares without par value authorized for issue.

At February 28, 2015, the Company had 90,887,205 (2014 - 90,887,205) common shares issued and outstanding.

(b) Stock options

The Company has a Stock Option Plan (“the Plan”) for directors, officers and employees. Under this Plan, the aggregate number of common shares which may be subject to issuance pursuant to options granted under the Plan shall in aggregate be a fixed maximum percentage such that the percentage of common shares in the capital of the Company may be reserved for issuance is a maximum 10% of the issued and outstanding shares of the Company. The number of shares reserved for issuance at any one time to any one person shall not exceed 5% of the outstanding shares issued within any one year period. Options granted must be exercised no later than 10 years after the date of the grant or such lesser periods as regulations require.

All options are subject to vesting restrictions as implemented by the directors. The exercise price is the fair value of the Company’s common shares at the grant date. The maximum number of common shares to be issued under the Plan reserved for issuance as at February 28, 2015 was 9,088,720 (2014 – 9,088,720). The maximum number of shares reserved for issuance to insiders may not exceed 10% of the outstanding shares issued. Under certain conditions, Option holders may elect to exercise their stock options on a cashless basis.

11. Share capital (continued)

(b) Stock options (continued)

(i) As at February 28, 2015, outstanding and exercisable stock options were as follows:

Options Outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
390,000	1.50	1.88 years	January 17, 2017
1,000,000	0.80	1.88 years	January 17, 2017
1,440,000	0.30	2.93 years	February 1, 2018
930,000	0.21	4.32 years	June 25, 2019
3,760,000	0.54		

As at February 28, 2014, outstanding and exercisable stock options were as follows:

Options Outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
125,000	0.80	0.77 years	December 5, 2014
1,530,000	1.50	1.30 years	June 17, 2015
200,000	0.76	2.77 years	December 5, 2016
4,050,000	0.80	2.77 years	December 5, 2016
1,655,000	0.30	3.93 years	February 1, 2018
7,560,000	0.83		

(ii) The changes in stock options during the current and previous year were as follows:

	February 28, 2015	**Weighted average exercise price**	February 28, 2014	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**7,560,000**	**0.83**	8,625,000	0.84
Activity during the year				
Options granted	**930,000**	**0.21**	-	-
Options cancelled	**(4,730,000)**	**0.94**	(1,065,000)	0.87
Options expired	**-**	**-**	-	-
Balance outstanding, end of year	**3,760,000**	**0.54**	7,560,000	0.83

11. Share capital (continued)

(b) Stock options (continued)

(iii) During the year ended February 28, 2015, 930,000 (2014 – nil) stock options were granted to directors and employees. Using the Black-Scholes option pricing model, the fair value stock options granted was $112,746 (2014 - $nil).

The fair value of each option granted is estimated at the time of grant with weighted average assumptions used to estimate the fair value as follows:

		February 28, 2015	February 28, 2014
Risk free interest		**1.56%**	n/a
Expected life (years)		**5**	n/a
Annualized volatility		**69%**	n/a
Expected dividend	**$**	**-**	n/a
Share price	**$**	**0.21**	n/a

Black-Scholes option pricing model requires the input of highly subjective assumptions regarding volatility. The Company has used historical volatility of the Company's share price to estimate the annualized volatility used in its Black Scholes option pricing model.

(c) Warrants

(i) No warrants were outstanding as at February 28, 2015

Warrants outstanding and exercisable at February 28, 2014 were as follows:

Number of warrants	Exercise price	Expiry date
	$	
26,666,667	2.00	March 10, 2014
26,666,667	2.00	

11. Share capital (continued)

(c) Warrants (continued)

(ii) The changes in warrants during the current and previous year were as follows:

	February 28, 2015	**Weighted average exercise price**	February 28, 2014	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**26,666,667**	**2.00**	29,866,667	1.95
Activity during the year				
Warrants expired	**(26,666,667)**	**2.00**	(3,200,000)	1.50
Balance outstanding, end of year	**-**	**-**	26,666,667	2.00

(d) Loss per share

		February 28, 2015		February 28 2014
Continued Operations:				
Net loss	**$**	**10,663,545**	$	19,197,917
Weighted average number of common shares outstanding		**90,887,205**		90,887,205
Weighted average number of diluted common shares		**90,887,205**		90,887,205
Loss per share- basic	**$**	**0.12**	$	0.21
Loss per share- diluted	**$**	**0.12**	$	0.21
Discontinued Operations:				
Net loss (gain)	**$**	**358,955**	$	(340,673)
Loss per share- basic	**$**	**-**	$	-
Loss per share- diluted	**$**	**-**	$	-

The following potential common shares, are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted earnings per share:

Stock options	**3,760,000**	7,560,000
Warrants	**-**	26,666,667

12. Related party transactions

(a) Subsidiaries

	Ownership interest	
	February 28, 2015	February 28, 2014
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

(b) Compensation of key management personnel

The compensation to directors and officers of the Company during the years ended February 28, 2015 and 2014 were as follows:

	Note	**February 28, 2015**	February 28, 2014
		$	$
Salaries and short-term employee benefits including bonuses		**462,350**	1,550,865
Share-based compensation	(i)	**87,892**	-
Retirement, severance and consulting pay	(ii)	**-**	2,247,575
Directors' fees	(iii)	**244,000**	421,333
		794,242	4,219,773

There were outstanding balances of $56,750 owed to directors at February 28, 2015 (2014 - $133,500), included in accrued liabilities.

(i) Share-based payments are based on fair value of options and common shares granted to directors and officers of the Company. During the year ended February 28, 2015, the Company granted 930,000 (2014 - nil) stock options to directors and officers with weighted average exercise price of $0.21 (2014 - $nil) per share, expiring five years from the issue date.

(ii) During the year ended February 28, 2015, the Company paid directors and officers $nil (2014 - $1,892,831) for retirement and severance obligation as a result of their resignations. The contractual retirement and severance obligation from their employment agreements totaled $2,653,700 and this amount was reduced, after negotiations on the final settlement. The Company also entered into six month consulting agreements with these directors and officers for a total commitment of $354,744, commenced on January 15, 2014 and expiring on July 15, 2014. These funds were held in escrow and were released monthly.

12. Related party transactions (continued)

(b) Compensation of key management personnel (continued)

(iii) The Company paid and accrued directors fees of $253,712 (2014 - $421,333) for the year ended February 28, 2015. The Company implemented directors' compensation during the year ended February 28, 2014 and amounts accrued and paid was retroactive to October 2011.

Some executive officers are entitled to termination and change of control benefits. These executive officers are entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of termination without sufficient advance notice. These executive officers are also entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of change of control. Pursuant to employment agreements, the Company may be obligated to pay up to $694,000 in the event that executive officers are terminated without cause or upon a change of control.

13. Segmented information

The Company operates in three operating segments, that being exploration of mineral properties, precious metals refining (discontinued operations) and corporate support. All revenues generated are located in the United States in the Refinery operating segment. The Company's operations and non-current assets by geographic location and operating segment are as follows:

	For the year ended February 28, 2015			
	Exploration and ICP development	Refinery	Corporate	Total
	$	$	$	$
Expenses				
Accretion and interest expense	(83,229)	-	(1,450)	(84,679)
Depreciation	(33,807)	-	(13,404)	(47,211)
Foreign exchange gain (loss)	-	-	535,476	535,476
General and administrative	(27,941)	-	(1,430,906)	(1,458,847)
Impairment of property	(9,627,346)	-	-	(9,627,346)
Loss from discontinued operations	-	(358,955)	-	(358,955)
Other gain	-	-	19,062	19,062
Loss before income taxes	(9,772,323)	(358,955)	(891,222)	(11,022,500)
Comprehensive income (loss) for year	(9,740,250)	(358,955)	884,903	(9,214,302)
Total Assets	113,395,346	-	4,613,536	118,008,882
Total Liabilities	5,970,911	-	177,425	6,148,336

13. Segmented information (continued)

	For the year ended February 28, 2014			
	Exploration and ICP development	Refinery	Corporate	Total
	$	$	$	$
Expenses				
Accretion and interest expense	(494,620)	-	(481,824)	(976,444)
Depreciation	(43,149)	-	(20,466)	(63,615)
Write-off of deferred financing cost	(2,681,116)	-	-	(2,681,116)
Foreign exchange gain (loss)	(29,012)	-	918,893	889,881
General and administrative	(116,123)	-	(2,823,044)	(2,939,167)
Retirement/severance pay	(657,396)	-	(1,794,267)	(2,451,663)
Impairment of property	(11,022,973)	-	-	(11,022,973)
Gain from discontinued operations	-	340,673	-	340,673
Other gain	5,491	-	41,689	47,180
Income (loss) before income taxes	(15,038,898)	340,673	(4,159,019)	(18,857,244)
Comprehensive income (loss) for year	(15,024,329)	340,673	1,357,102	(13,326,554)
Total Assets	120,586,784	-	5,547,123	126,133,907
Total Liabilities	3,153,323	-	333,493	3,486,816

	February 28, 2015			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (Note 8)	-	181,377	-	181,377
Non-current assets				
Mineral properties	1,345,143	69,416,681	-	70,761,824
Property, plant and equipment	31,275	39,816,429	-	39,847,704
Reclamation bonds and deposits	-	2,799,255	-	2,799,255
Total non current assets	1,376,418	112,032,365	-	113,408,783

	February 28, 2014			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (Note 8)	-	9,025,632	-	9,025,632
Non-current assets				
Mineral properties	1,414,075	70,074,816	89,701	71,578,592
Property, plant and equipment	44,679	44,449,966	-	44,494,645
Reclamation bonds and deposits	-	2,612,920	-	2,612,920
Total non current assets	1,458,754	117,137,702	89,701	118,686,157

14. Supplemental cash flow information

Change in working capital items for the years ended:

	February 28, 2015	February 28, 2014
	$	$
Trade and other receivables	**-**	-
Prepaid expenses and deposits	**8,234**	(12,897)
Long term deposits	**(12,503)**	(9,169)
Accounts payable and accrued liabilities, relating to operating items	**(100,405)**	(1,880,191)
Change in working capital from continuing operations	**(104,674)**	(1,902,257)
Inventory	**245,111**	2,951,688
Accounts receivables	**1,210,566**	(595,146)
Change in working capital from discontinued operations	**1,455,677**	2,356,542
Interest paid	**-**	260,634
Interest received	**19,833**	41,689

15. Capital risk management

The Company's objectives when managing capital are to ensure there are adequate capital resources to safeguard the Company's ability to continue as a going concern, continue the development and exploration of its mineral properties and to maximize growth of its business and provide returns to its shareholders. The Company's capital structure consists of debt facilities and certain components of shareholders' equity, which are: issued common shares, share purchase warrants, and share-based payments reserve less deficit.

The Company manages its capital structure and makes adjustments to it based on economic conditions and the risk characteristics of the underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate under specific circumstances.

Capital, as defined above, at February 28, 2015 and 2014 is summarized in the following table.

	February 28, 2015	February 28, 2014
	$	$
Common shares	**160,945,419**	150,016,217
Share purchase warrants	**7,343,318**	19,957,509
Share-based payments reserve	**8,697,121**	8,584,375
Deficit	**(65,849,005)**	(56,543,567)
	111,136,853	122,014,534

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Board of Directors.

16. Financial instruments

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value.

The Company's financial assets consist of fair value through profit and loss which includes cash and cash equivalents, loans and receivables which includes reclamation bond and trade and other receivables. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments except for the reclamation bond whereby its fair value will not be realized until the bond is released from the trustee (Note 5). The reclamation bond's fair value is calculated in accordance with level 1 of the fair value hierarchy.

The Company's financial liabilities include other liabilities which consist of accounts payable and accrued liabilities. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments.

At February 28, 2015 and 2014, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	February 28, 2015		February 28, 2014	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**4,522,450**	**4,522,450**	5,691,140	5,691,140
Trade and other receivables	**5,894**	**5,894**	1,395,194	1,395,194
Reclamation bond	**2,799,255**	**2,792,979**	2,479,321	2,473,762
Financial liabilities				
Accounts payable	**90,138**	**90,138**	117,507	117,507
Accrued liabilities	**354,910**	**354,910**	424,411	424,411

17. Fair values and financial risk management

The Company has exposure to risk of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, trade and other receivables, and reclamation bonds.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At February 28, 2015 and 2014, the Company had no material past due trade receivables.

17. Fair values and financial risk management (continued)

Credit risk (continued)

The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established guidelines relative to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions.

The Company's maximum exposure to credit risk is as follows:

	February 28, 2015	February 28, 2014
	$	$
Cash and cash equivalents	**4,522,450**	5,691,140
Trade and other receivables	**5,894**	1,395,194
Reclamation bond	**2,799,255**	2,479,321

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's operating requirements as well as its planned capital expenditures. The Company manages its financial resources to ensure that there is sufficient working capital to fund near term planned exploration work, capital and operating expenditures. The Company has considerable discretion to reduce or increase exploration plans and capital investment budgets depending on current or projected liquidity. The following summarizes the financial assets and their maturity that are held to manage liquidity risk:

	February 28, 2015				February 28, 2014
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	142,458	-	-	142,458	352,633
Short term savings	4,259,992	-	-	4,259,992	5,338,507
GIC	120,000	-	-	120,000	-
	4,522,450	-	-	4,522,450	5,691,140

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

As at February 28, 2015, US savings account of $3,407,176 (2014 - $4,820,758) earns an interest rate of up to 0.46%. The Company has interests in equity instruments of other corporations which are not material.

17. Fair values and financial risk management (continued)

Foreign exchange rate risk

The Company reports its consolidated financial statements in Canadian dollars; however, the Company has extensive operations in the US as well as limited operations in Mexico. As a consequence, the financial results of the Company's operations as reported in Canadian dollars are subject to changes in the value of the Canadian dollar relative to the US dollar and Mexican Peso.

Exploration activities in the US are held in the Company's US subsidiaries and are recorded in US dollars and translated into Canadian dollars on the consolidated financial statements date, as such, the Company can be exposed to significant fluctuations in the exchange rate between the US dollar and the Canadian dollar. The Company's discontinued refining operations in the US, sold October 10, 2013, generated revenue and incurred expenses principally in US dollars so foreign exchange gains or losses were recorded as a component of equity in foreign currency translation reserve. The Company does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors continually assesses the Company's strategy toward its foreign exchange rate risk, depending on market conditions.

Translation exposure

A number of the Company's subsidiaries are located in countries other than Canada. Therefore, exchange rate movements in the US dollar and Mexican peso can have a significant impact on the Company's consolidated operating results due to the translation of monetary assets and liabilities.

A 10% strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately $687,000 (2014 - $926,000).

18. Commitments

The following is a schedule of the Company's annual commitments as at February 28, 2015:

	Note	2016	2017	2018 and later
		$	$	$
Mineral property expenditure	(a)	2,500	-	-
General liability insurance	(b)	71,051	-	-
Office operating leases	(c)	109,635	69,864	286
		183,186	69,864	286

(a) As per the February 28, 1999 Virgin River joint venture exploration agreement whereby the Company has 2% interest, the Company's commitment to the 2015 exploration program budget is $2,500 (Note 6(b)(v)).

(b) The Company has a total liability of $71,051 for insurance premium, to be paid in equal monthly instalments until October 12, 2015.

(c) The Company has annual operating lease commitments of $179,785 for office leases for the next two fiscal years ending 2016 to 2017, and half year lease for 2018.

18. Commitments (continued)

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $830,000 in the event that certain senior management is terminated without cause or a change in control.

19. Subsequent events

(a) On March 18, 2015, Formation Capital Corporation, U.S. ("FCC"), a wholly owned subsidiary of the Company was served with a complaint (the "Complaint") from Noranda Mining, Inc. ("NMI") and Intalco Corporation ("Intalco"), filed in the State of Idaho for the amount of US$394,480 (the "Shared Remediation Cost") plus interest pursuant to a June 3, 2010 agreement (the "Agreement") between FCC, NMI, and Intalco. In the Agreement, FCC agreed to pay for its share of the costs of remediation to the Blackbird Creek Road. The Company's ICP is located adjacent to the Blackbird Mine site and FCC uses the Blackbird Creek road to access the ICP. Subsequent to the signing of the Agreement and at the request of NMI and Inalco, FCC agreed to build an alternative haul road. The costs associated with building the alternative haul road were to be offset against charges incurred by NMI and Intalco for remediating the Blackbird Creek Road. FCC completed building the alternative haul road in 2012 and its total cost exceeds the Shared Remediation Cost. FCC believes that it has completed its obligation.

The Company is continuing its negotiations with NMI and Intalco to resolve this Complaint.

(b) On April 27, 2015, the Company granted 3,103,000 stock options at a price of $0.20 and a term of five years to directors, officers, employees and consultants of the Company. This resulted in an outstanding stock option balance of 6,863,000.

Formation Metals Inc.

Management's Discussion and Analysis

For the Year Ended February 28, 2015

Date of Report: May 21, 2015

Suite 1810 – 999 West Hastings Street
Vancouver, BC, Canada
V6C 2W2

Symbol: Toronto Stock Exchange - FCO

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This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the annual audited consolidated financial statements and the notes thereto of Formation Metals Inc (the "Company") for the year ended February 28, 2015 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are available on SEDAR at www.sedar.com. All dollar amounts herein are expressed in Canadian Dollars unless stated otherwise.

This MD&A includes certain statements that may be deemed "forward-looking statements" which the Company believes it has a reasonable basis for disclosing. All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, investors are cautioned such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

The technical information contained in this MD&A has been reviewed and approved by Vice President of the Company, E.R. (Rick) Honsinger, P.Geo., the Qualified Person for the Company as defined by National Instrument 43-101.

1.1 Date

This MD&A is prepared as of May 21, 2015.

1.2 Overview

1.2.1 Summary

The Company is a mineral exploration and mine development company listed on the senior board of the Toronto Stock Exchange under the symbol FCO. The Company is engaged in the business of exploring mineral properties in Canada, the United States and Mexico, either directly or indirectly through its wholly owned subsidiaries, including:

(a) Formation Holdings Corp. ("Formation Holdings"), a British Columbia corporation;
(b) Formation Capital Corporation, U.S ("Formation Capital"), a Nevada corporation.
(c) Formation Holdings US, Inc.("Formation Holdings US"), an Idaho corporation;
(d) US Cobalt, Inc. ("US Cobalt"), an Idaho corporation;
(e) Coronation Mines Ltd. ("Coronation"), a Saskatchewan company;
(f) Minera Terranova S.A. de C.V. ("Minera Terranova"), a Mexican company; and
(g) Essential Metals Corporation® ("EMC"), an Idaho corporation.

The Company's primary project, located in the mining friendly state of Idaho, is the 100% owned and fully environmentally permitted, Idaho Cobalt Project (the "ICP"). The ICP is comprised of the mine and mill located in Lemhi County outside of the town of Salmon, Idaho, and a cobalt production refining facility ("CPF") to be located along a railhead in an industrial hub in southern Idaho. A feasibility level study was completed on the ICP in 2007 to produce a high purity cobalt metal suitable for critical applications in the aerospace sector. By November 2012, the Company had spent US$65.3M and completed two of three stages of construction on the ICP mine and mill site. The project was subsequently placed on care and maintenance in May 2013 due to unfavourable market conditions. In 2014, the Company began work on a new technical report on the ICP with the intention to produce cobalt chemicals in response to improved financial markets and the projected bullish long-term demand for cobalt driven mainly by cobalt used in rechargeable battery applications.

In January 2015, the Company commissioned Samuel Engineering, Inc. ("SE") of Denver, Colorado and Mine Development Associates ("MDA") of Reno, Nevada to produce a Preliminary Economic Assessment ("PEA") on the ICP. The goal of the PEA is to confirm the Company's internal assessment on producing cobalt chemicals used in rechargeable batteries and to address the British Columbia Securities Commission's Technical Disclosure review as discussed in the Company's October 1, 2014 news release.

Positive results of the PEA were announced on April 22, 2015 with an after tax NPV of US$113M discounted at 8.5%, an IRR of 24.07% and a 12.5 year life of mine after pre-production. The National Instrument 43-101 compliant technical report was filed on SEDAR on May 8, 2015. Current plans are for the production of a combined cobalt/copper/gold concentrate from the mine and mill to be shipped to the CPF for hydrometallurgical processing of cobalt and copper bearing sulfides to produce cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector. Other marketable by-products include copper concentrate, copper sulfate pentahydrate and magnesium sulfate used primarily in the agricultural industry, and gold.

SE and MDA concluded the ICP contains a viable cobalt and base metal resource that can be successfully mined by underground methods and recovered with conventional processing. SE and MDA reported that the ICP should proceed to pre-feasibility or feasibility stage based upon the assumptions contained in the PEA.

In addition to cobalt, the Company has interests in other properties through its various subsidiaries that include silver, gold, copper, lead, and zinc exploration targets and is exploring for uranium through joint venture partnerships in northern Saskatchewan.

1.2.2 Highlights for the year ended February 28, 2015 and subsequent events

Corporate:

(a) In March 2014, the Company added two additional board members being Mr. Scott Hean and Mr. David Christie;

(b) The Company held its Annual General Meeting on June 24, 2014 and all resolutions recommended by the Company were passed including the election of all directors, appointment of auditors and approval of all unallocated options, rights and other entitlements under the Company's Stock Option Plan;

(c) On October 1, 2014, the Company issued a news release to clarify certain disclosures following a British Columbia Securities Commission technical disclosure review. Due to several engineering modifications and updates that took place since the last technical report was filed on the ICP in 2008, the Company commissioned independent engineers to produce a new NI 43-101 compliant technical report that reflected these engineering modifications;

(d) During the year ended February 28, 2015, the Company reported a comprehensive loss of $9,214,302 (2014 - loss $13,326,554) and accumulated deficit of $65,849,005 (2014 - $56,543,567);

(e) As at February 28, 2015, the Company had working capital of $4,155,051 (2014 - $6,905,832);

(f) On April 22, 2015, the Company announced positive results reported in the PEA of the ICP with after tax NPV of US$113 million discounted at 8.50%, IRR of 24.07% and a 12.5 year life of mine after preproduction. SE and MDA who authored the PEA concluded the ICP contains a viable cobalt and base metal resource that can be successfully mined by underground methods and recovered with conventional processing. SE and MDA recommends that the ICP should proceed to pre-feasibility or feasibility stage using the assumptions contained in the PEA;

(g) On April 27, 2015, the Company granted 3,103,000 stock options at a price of $0.20 and a term of five years to directors, officers, employees and consultants of the Company. This resulted in an outstanding stock option balance of 6,863,000;

(h) On May 8, 2015, the Company filed on Sedar a National Instrument 43-101 compliant PEA technical report dated April 29, 2015 (the "Technical Report"); and

(i) On March 18, 2015, Formation Capital Corporation, U.S. ("FCC"), a wholly owned subsidiary of the Company was served with a complaint (the "Complaint") from Noranda Mining, Inc. ("NMI") and Intalco Corporation ("Intalco"), filed in the State of Idaho for the amount of US$394,480(the "Shared Remediation Cost") plus interest pursuant to a June 3, 2010 agreement (the "Agreement") between FCC, NMI, and Intalco. In the Agreement, FCC agreed to pay for its share of the costs of remediation to the Blackbird Creek Road. The Company's ICP is located adjacent to the Blackbird Mine site and FCC uses the Blackbird Creek road to access the ICP. Subsequent to the signing of the Agreement and at the request of NMI and Inalco, FCC agreed to build an alternative haul road. The costs associated with building the alternative haul road were to be offset against charges incurred by NMI and Intalco for remediating the Blackbird Creek Road. FCC completed building the alternative haul road in 2012 and its total cost exceeds the Shared Remediation Cost. FCC believes that it has completed its obligation.

The Company is continuing its negotiations with NMI to resolve this Complaint.

1.2.3 Risk Management

As an exploration and mine development company, the Company's activities are subject to a broad range of risks which are managed within a company-wide risk management framework. The Company's goal in managing risk is to strategically minimize risk taking and optimize management to increase shareholder value.

1.2.4 Basis of Analysis

The sections that follow provide information about the important aspects of the Company's operations and investments, on a consolidated basis, and include discussions of its results from operations, financial position, and sources and uses of cash, as well as significant future commitments. In addition, the Company has highlighted key trends and uncertainties to the extent practical.

The content and organization of the financial and non-financial data presented in these sections is consistent with information used by the Company for, among other purposes, evaluating performance and allocating resources. The following discussion should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended February 28, 2015 and related notes thereto.

While most economic indicators impact the Company's operations to some degree, the Company's operations are especially sensitive to capital spending in cobalt intensive industries such as the re-chargeable battery sector, aerospace, high-tech, medical prosthetics, industrial, high-temperature steels and environmental applications such as gas and coal to liquids processes, oil desulphurization, wind turbine generators and electric and hybrid-electric vehicles. Management also monitors cobalt–related consumption expenditures on such items as computers, cell phones, paints and cutting steels.

1.2.5 Property Activities

The Company holds mineral exploration properties in Canada, the United States and Mexico.

The Company conducts its exploration independently as well as through joint venture agreements with third parties. The following is a brief discussion of the Company's major mineral exploration and development projects:

(a) **Idaho Cobalt Project – Idaho, USA**

Background

The Company's principal property is the 100% owned ICP Mine Site, a primary high grade cobalt deposit located in Lemhi County, Idaho, acquired through staking in 1994 and 1995. The property is held by the Company's 100% owned subsidiary, Formation Capital and is comprised of 163 contiguous unpatented mining claims covering an area of approximately 2,520 acres. All required environmental permits have been received from the various permitting agencies and remain in good standing. A Reclamation Performance Bond in the amount of US$6.38 million was placed to cover the estimated reclamation cost of actual and planned surface disturbance and US$2.23 million was placed in trust to secure the bond. The ICP is not subject to any royalty payments.

The ICP was extensively explored and developed to a bankable feasibility stage in 2008 that demonstrated the viability of producing high purity cobalt metal ("HPC"). The Company continues to maintain an extensive database on the potential production of HPC from the ICP. In December 2009, the Company and the United States Department of Agriculture Forest Service signed the "Forest Service Evaluation" which approved and finalized the Company's Mine Plan of Operations (the "Mine Plan") for the ICP. The approval and finalization of the Company's Mine Plan allowed the Company to commence construction on the ICP Mine Site. By November 2012, the Company had completed two of three stages of construction at the mine and mill when the property was placed on care and maintenance in May 2013 due to weak financial markets and declining commodity prices. To date, the Company has spent US$65.3 million (US$50.3 million at the mine and mill and US$15.0 million at the CPF) completing these two phases of the ICP mine and mill construction that commenced in June 2011 and was completed in December 2012. This work was comprised of extensive earthworks including access and haul road, portal bench, mill and concentrator pads and tailing waste storage facility construction. In addition, pre-purchased mining equipment, including the ball mill, flotation circuits, grizzlies, hoppers, conveyors, etc., totaling approximately US$16.0 million has been delivered to a staging area outside the town of Salmon, Idaho, proximal to the mine and mill. The final Phase III of construction will involve underground development and the construction of the mill and concentrator and other ancillary facilities at the ICP Mine Site and at the CPF.

The PEA was commissioned in January 2015 to re-evaluate the ICP to produce cobalt chemicals in response to improving financial markets and the projected bullish long-term demand for cobalt. Cobalt use in rechargeable battery applications is expected to grow 9.2% annually to 2018 (Roskill Information Services, 2014), with overall demand growth in all end uses projected at 7% annually until 2020 (Skybeco Inc., 2015).

For a more detailed description of the results of the PEA and the ICP, the reader is referred to the Company's news release dated April 22, 2015, and Technical Report dated April 29, 2015 SEDAR filed on May 8, 2015.

Samuel Engineering ("SE") and Mine Development Associates ("MDA") concluded that the ICP contains a viable cobalt and base metal resource that can be successfully mined by underground methods and recovered with conventional processing. Using the assumptions contained in the PEA, SE and MDA reports that the project is economic and should proceed to the pre-feasibility or feasibility stage. To date the QPs are not aware of any fatal flaws for the ICP. The advancement of the ICP towards feasibility is contingent upon financing.

Preliminary Economic Assessment on the ICP

(i) Economic Results

The PEA's economic model uses a 35% corporate tax rate and an 8.5% discount rate, resulting in an after tax NPV of $113million and an IRR of 24.07%. A pro forma cash flow was developed using conventional methodology utilizing the base case 8.5% discount rate, before and after tax determination of project economics, annual cash flows discounted on an end of year basis with costs estimated in first quarter 2015 U.S. Dollars. A summary of the Life of Mine ("LOM") economic results are shown in the following table. Note that all monetary values used in the economics results of the PEA are in US$.

- Pre-Tax $NPV_{8.5\%}$: $148 million, IRR 27.7%

- Post-Tax $NPV_{8.5\%}$: $113 million, IRR 24.07%
- Initial Capital Costs: $147 million
- Life of Mine (LOM): 12.5 years post preproduction
- EBITDA: $515 million
- LOM Gross Revenue: $983 million
- LOM Total Net After Tax Cash Flow $258 million
- LOM Average Net Cash Cobalt Production Cost: $4.94 per pound
  (net of gold, copper and magnesium credits)
- Pre-Tax Initial Capital Payback: 3.7 years
- LOM Cobalt Production: 35,356,415 pounds
- LOM Copper Production: 57,384,700 pounds
- LOM Gold Production: 46,858 ounces
  (including ounces in copper con and doré)

(ii) Capital Costs

The total LOM capital cost is estimated at $201.41 million, including $146.76 million for initial capital, and $54.65 million in sustaining capital and mine development capital during production over the LOM. These estimates do not include sunk costs. The table below summarizes the total capital cost for the LOM.

Life of Mine Capital Cost Summary	
Description	**LOM Cost ($Million)**
Mine: (with 10%* Contingency)	30.01
Mill: (with 15%* Contingency)	43.52
CPF: (with 20%* Contingency)	69.42
Initial Net Working Capital	3.81
Total Initial Capital	**146.76**
Mine Development Cost During Production	26.90
Sustaining Capital	27.75
Total LOM Capital	**201.41**

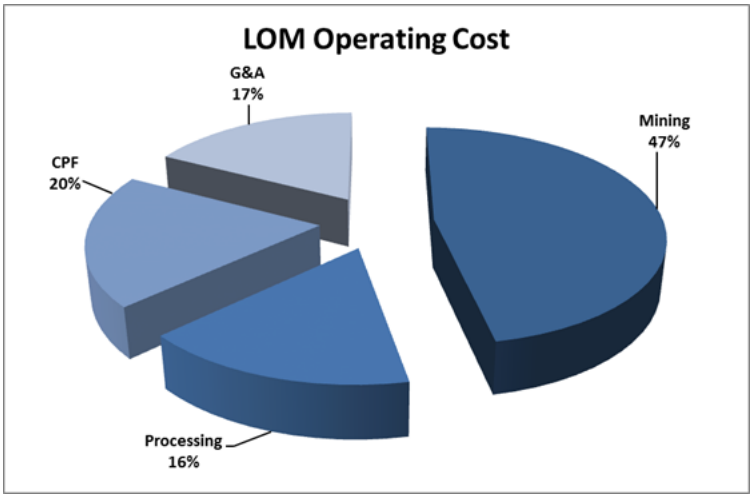
*****Note: LOM capital costs contingencies for the Mine, Mill and CPF are 10%, 15% and 20% respectively. This is due primarily to high level engineering completed on the mine and mill in a previous study to produce different products at the CPF that included high purity cobalt metal. The highest contingency is applied to the CPF where new flow sheets have been developed and ongoing metallurgical test work is in progress.

(iii) Operating Costs

The total LOM cash production cost is estimated at $468.73 million or $13.26/lb of processed cobalt contained in cobalt sulfate heptahydrate and $175.58 million or $4.94/lb of processed cobalt sulfate heptahydrate net of credits as summarized in the table below.

Life of Mine – Cash Production Cost Summary				
Description	**LOM Total Cash Production Cost/lb Processed Cobalt ($)**	**LOM Total Cash Production Cost/ton ($)**	**LOM Total Cash Production Cost ($Million)**	**Percentage of Total Cost (%)**
Mining	6.22	63.58	219.88	46.9
Mill	2.14	21.93	75.83	16.2
CPF	2.59	26.49	91.61	19.5
General & Administrative	2.30	23.54	81.40	17.4
LOM Cash Production Cost	**13.25**	**135.53**	**468.72**	**100.0**
Less By-Product Production Credits	(8.31)	(84.98)	(293.14)	
LOM Net Cash Production Cost	**4.94**	**50.55**	**175.58**	

The graph below illustrates the composition of total operating cost during the LOM with the highest cost in mining followed by the CPF, G&A and processing at the mill.



(iv) Technical Results

The PEA is based on an underground mine with a target production rate of 800 tons per day ("tpd") with a weighted average annual production of 2,771,000 lbs of cobalt, 4,533,000 lbs of copper and 3,600 oz of gold over a 12.5 year mine life with an estimated pre-production period of 21 months utilizing a 0.25% cobalt cut-off. The PEA utilizes an updated resource, mine model and mine schedule with intentions to produce cobalt and copper sulfate chemicals and gold at the CPF.

Current plans are for the production of a combined cobalt/copper/gold concentrate from the mine and mill to be shipped to the CPF for hydrometallurgical processing of cobalt- and copper-bearing sulfides and to ultimately produce cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector. Other marketable by-products include copper concentrate, copper sulfate pentahydrate and magnesium sulfate used primarily in the agricultural industry, and gold. The substitution of magnesium oxide for lime as a neutralizing agent at the CPF results in the production of agricultural grade magnesium sulfate. Copper in concentrate will initially be scalped from the bulk concentrate at the CPF utilizing a standard froth flotation circuit and free gold will be recovered through a carbon-in-leach cyanidation circuit producing gold-loaded carbon.

Changes implemented to improve the economics of the project from the 2007 feasibility study include the following:

- Inclusion of additional resources from a 2010 mine plan optimization drilling program;
- Updating of the mine plan and production schedule from a string mine model to a block mine model;
- Flowsheet changes at the CPF to reflect the shift from metal to sulfate production with saleable by-products:
  - addition of cobalt sulfate production circuits to produce battery grade cobalt chemicals
  - addition of copper sulfate production circuits for agricultural and other industrial uses;
  - addition of magnesium sulfate production circuits for agricultural and other industrial uses;
  - addition of a copper scalping flotation circuit to produce a clean saleable copper concentrate;
  - addition of cyanidation leach circuit to extract gold onto carbon to be sold prior to leach residue disposal;
  - removal of electrowinning circuits previously required for cobalt metal production;
  - removal of electrowinning circuits previously required for copper metal production; and
  - removal of several cobalt purification circuits required for the production of high purity cobalt metal.

- Relocation of the CPF to a major industrial hub on a rail head in southern Idaho;
- Review of capital cost of equipment, both mine and process;
- Review of operating cost estimates, both mine and process; and
- Review of construction cost estimates.

(v) Mineral Resource

MDA updated the ICP's Ram deposit estimate of cobalt, copper, and gold resources into a three-dimensional block model to be used for mine planning, design, and scheduling forms part of the PEA with an effective date of March 10, 2015. MDA had previously estimated the resources for the Ram deposit. Cobalt, copper, and gold reported resources are shown in the table below. The stated resource is diluted throughout the entire 6 feet by 2 feet by 5 feet blocks that are equal to or above the cutoff grade of 0.2% cobalt. There is approximately 15% dilution in the stope designs. The copper and gold resources are those resources carried within the blocks which attain the cobalt cutoff grade. No metal value is given to the copper or gold in determining the Co resource cutoff. No metal recoveries are applied, as this is an in-situ resource.

Ram Reported Resource								
Class	Cutoff (%Co)	tons	%Co	lbs Co	%Cu	lbs Cu	oz Au/ton	oz Au
Measured	0.2	2,266,000	0.54	24,587,000	0.71	32,123,000	0.016	35,600
Indicated	0.2	1,214,000	0.58	13,996,000	0.82	19,839,000	0.018	22,100
M + I	**0.2**	**3,480,000**	**0.55**	**38,583,000**	**0.75**	**51,962,000**	**0.017**	**57,700**
Inferred	0.2	1,675,000	0.47	15,648,000	0.71	23,753,000	0.013	21,900

Note: Inferred mineral resources are considered too speculative geologically to have technical and economic considerations applied to them outside the scope of a PEA. The current basis of project information is not sufficient to convert the mineral resources to mineral reserves, and mineral resources that are not mineral reserves do not have demonstrated economic viability.

(vi) Mining Methods

The zones of economic mineralization in the Ram deposit range from 1 foot to more than 20 feet in thickness, with an average dip of 55 degrees. Due to this geometry, underground selective mining by cut-and-fill mining methods have been considered the most suitable for the exploitation of the deposit, particularly in the horizons of greatest interest. Mine development and production are based on a mining rate of 800 tpd.

Areas with a horizontal width of 8 feet or greater will be mined by mechanized cut-and-fill using narrow vein jumbo drills and small Load-Haul-Dump ("LHDs") units. In zones where the horizontal width is less than 8 feet, slusher mining and jacklegs will be used for mining to a minimum width of 6 feet. If it is found that the use of mechanized jumbo drills and LHDs require greater than expected operating room, then the minimum horizontal mining width for mechanized equipment will become 10 feet and slusher mining will occur in everything with less than 10 feet of horizontal width. Approximately 94% of mining will be mechanized.

(vii) Recoveries

Overall recoveries to products (copper concentrate, sulfate crystals and gold loaded carbon) with respect to mill feed and internal recoveries at the CPF are 90.99% for cobalt, 92.76% for copper and 78.46% for gold. Overall recoveries for copper and gold includes metals contained in the copper concentrate as well as leached products. All magnesium that is input as MgO is recovered in the $MgSO_4$ product in the current model for this study.

(b) **Black Pine – Idaho, USA**

The Company has a 100% interest in certain mineral claims with prospects for copper, cobalt and gold located in Lemhi County, Idaho. The project is located proximal to the ICP and could potentially serve as an additional source of feed for the ICP mill and concentrator.

The Company also has a lease option agreement to purchase certain mineral claims located in Lemhi County, which required annual advance royalty payments of US$400 per claim until 2006. During the year ended February 28, 1999 an amendment to the agreement was negotiated which requires payments of $nil if the average price of copper trades below US$0.85 per pound, US$200 per claim per year if the average price of copper trades between US$0.85 to $0.89 per pound and US$400 per claim if the average price of copper trades above US$0.90 per pound. In addition, the Company will be required to pay the lessors a sliding scale net smelter return royalty ("NSR") of between 1% and 5% based on the realized price of copper to a maximum of US$2,000,000 (including the option payments). These payments are only required if the Company enters into a joint venture arrangement on the property. There have been no payments due since the amended agreement was concluded. During the year ended February 29, 2004, the Company again amended the option agreement to extend the term for two five-year terms, which eliminated the requirement to make additional payments based on the price of copper and to share on a 50/50 basis with the optioner any payments received from any prospective joint venture partner. The Company is currently negotiating to extend the option agreement by another five years.

During the year ended February 28, 2015, the Company impaired $3,339,332 (2014- $nil) on the Black Pine resulting in a carrying cost of $nil. The impairment was due to inactive exploration activities on the property during the past couple of years. All mineral claims related to the Black Pine are in good standing.

(c) **Morning Glory – Idaho, USA**

The Company also has a 100% lease option on certain additional mineral claims located in the same area as the ICP. During the year ended February 28, 2001, the terms of the lease option were amended to require annual payments based on the price of gold ranging from no payments to payments of US$3,000. The annual minimum advance royalty payment is applied against a 3% to 5% NSR. A total of US$45,900 (2014 - US$45,900) has been paid to date. To exercise the option, the Company must pay a total purchase price of US$1,000,000, which includes the advance annual minimum royalty payments.

During the year ended February 28, 2015, the Company impaired $544,726 (2014- $nil) on the Morning Glory resulting in a carrying cost of $nil. The impairment was due to inactive exploration activities on the property during the past couple of years. All mineral claims related to the Morning Glory are in good standing.

(d) **Queen of the Hills – Idaho, USA**

The Company holds a 100% lease option on certain mineral claims located in Lemhi County, Idaho. During the year ended February 28, 2001, the terms of the lease option agreement were amended from a required minimum annual advance royalty payment of US$1,400 to require annual payments based on the price of gold ranging from no payments to US$1,400. A total of US$25,200 (2014 - US$25,200) has been paid to date. To exercise the option, the Company must pay a total purchase price of US$1,000,000, including the advance annual minimum royalty payments. During the year ended February 28, 2015, the Company impaired $141,246 (2014- $nil) on the Queen of the Hills resulting in a carrying cost of $nil. The impairment was due to inactive exploration activities on the property during the past couple of years. All mineral claims related to the Queen of the Hills are in good standing.

(e) **Wallace Creek – Idaho, USA**

The Company has a 100% interest in certain mineral claims located in Lemhi County, Idaho.

The Company also has a 100% lease option on certain additional mineral claims located in the same area as the ICP. During the year ended February 28, 2001, the terms of the lease option were amended from a required minimum annual advance royalty payment of US$8,000 to annual payments based on the price of gold ranging from no payments to US$8,000. The annual minimum advance royalty payment is applied against a 3% to 5% NSR. To exercise the option, the Company must pay a total purchase price of US$1,000,000, of which US$25,600 has been paid to date.

(f) **El Milagro – Mexico**

The Company has owned a 100% interest in the prospective silver-rich base metal property since 2003. The primary target defined within the Milagro Concessions is the Santa Maria Vein, a one to four meter wide tabular subvertical NNE trending breccia vein that has been mapped over a strike length of 450 meters, with a lead-rich polymetallic assemblage and bonanza silver grades. This vein, localized along the footwall contact of a sericite altered dike, is cemented by a fine grained intergrowth of galena, sphalerite, pyrite, barite and manganese oxides.

The Company intends to pursue further exploration once additional financial and personnel resources become available, through joint venture or other such partnerships. During the fiscal year ended February 28, 2014, an application to drop certain non-core portions of the land package was filed with the Mexican Government resulting in significant savings in annual land holding costs. The remaining mineral claims are maintained in good standing. Non-exclusive Confidentiality Agreements have been signed with parties interested in a possible joint venture or other such partnerships.

During the year ended February 28, 2015, the Company impaired $93,310 (2014- $nil) on the El Milagro resulting in a carrying cost of $nil. The impairment was due to inactive exploration activities on the property during the past couple of years. All mineral claims related to the El Milagro are in good standing.

(g) **Kernaghan Lake / Bell – Saskatchewan, Canada**

The Company granted an option whereby the optionee earned an 80% interest in certain mineral claims by making certain payments (received), and completing exploration work totaling $1,000,000 (deemed completed). The project area is located near the northeast rim of the Athabasca Basin approximately 42 km north of Points North Landing. The Kernaghan / Bell project currently consists of 13 mineral claims totaling 4,342 hectares. The target unconformity depth ranges from 160m to 290m. To date 38 diamond drill holes within the property outline totaling 10,051.4m have been drilled targeting the unconformity. Anomalous uranium intersections were returned from two drill holes with a maximum partial uranium value returned in drill hole KB-11 of 160 ppm and a maximum partial uranium value returned in drill hole KB-07 of 34.2 ppm. None of the holes drilled in 2009 intersected significant uranium mineralization.

A Geochemical Compilation Report completed in 2012 was sent to joint venture partners and filed for assessment credit. Approval of the assessment filing will keep the project land in good standing until 2017. There is no proposed budget for field work at this time.

(h) **Virgin River – Saskatchewan, Canada**

The Company through its wholly owned subsidiary, Coronation Mines Ltd., owns 2% of the Virgin River project located in the Athabasca Basin of northern Saskatchewan. Cameco Corporation (“Cameco”) and AREVA Inc. each own 49% in the joint exploration agreement with Cameco acting as the operator of the project. The Company also has the first right of offer to acquire up to 10% of the project and has been carried through to $10,000,000 worth of exploration and development. This right could be exercised in the event that one of the joint venture partners wishes to sell all or a portion of their interest to a third

party, in which case they must first offer Coronation Mines an additional 8% of the project. As at February 28, 2015, over $32,874,828 has been spent on the project, exploring for a large unconformity-type deposit that has resulted in the discovery of the Centennial Deposit.

The Centennial Deposit has been traced over 650 metres of strike length and has a minimum across strike width ranging from 10.0 metres to 52.5 metres. Approximately $14,000,000 was reported by Cameco as having been spent on the 2009 - 2012 drill programs that were designed to follow up on the 2004 - 2008 drill results from the Centennial Zone.

The 2013 program concentrated on environmental studies focused on the indigenous Woodland Caribou population, an evaluation of a permanent overland road to the Centennial Deposit for year round exploration and development access and the compilation of existing data to prepare the project area for renewed exploration with a calendar 2013 expended budget of $303,942.

The approved budget for the calendar 2014 year was $650,000 of which the Company's commitment was $13,000. As at November 30, 2014, a slight cost overrun of $29,500 was realized, due primarily to demobilization difficulties of the drilling equipment, resulting in year spent to date totaling $679,500. The program was comprised of a geophysical survey utilizing a ZTEM Airborne geophysical system with the goal of providing regional data sets of the conductive architecture of the underlying geology that includes the flanking conductor corridors that are poorly defined and tested, continued independent scientific study of Woodland Caribou habitat in order to influence future decisions on the caribou protection plans for Saskatchewan, the demobilization of the historical drilling contractor, which was deferred from 2013 and continued data compilation and corridor scale analysis of the Virgin trend in order to drive future exploration programs. A budget of $120,000 has been approved for the 2015 calendar year for report compilation and continued studies on the Woodland Caribou. No drilling is planned for 2015.

All uranium assays were carried out by the Saskatchewan Research Council (SRC) of Saskatoon, Saskatchewan. Delayed neutron counting (DNC) and / or X-ray fluorescence spectroscopy (XRF) U_3O_8 check assays were completed on all split assay samples returning greater than 1.0% U3O8. The average of the check assays and the ICP-OES results were used in the calculations of grade thicknesses.

1.2.6 Outlook

Since the beginning of 2014, the cobalt industry has been benefiting from strengthening demand in the battery sector due to the growth in smart phones, tablets and particularly in the electric and hybrid electric vehicle ("EV") markets. These products use lithium-ion batteries, which are cobalt based. Last year, Tesla Motors, Inc. ("Tesla") confirmed its plans to build a US$5.0 billion EV "Gigafactory" in Reno, Nevada and has commenced construction of that facility. At its peak, the Gigafactory will have the capacity to produce 500,000 electric vehicles annually and this can potentially increase the annual global demand for cobalt by approximately 20% once the Gigafactory reaches full commercial production capacity planned for 2020. In addition, the demand for cobalt in the smart phone market remains strong with new models being released by several of the larger manufacturers.

Tesla has publicly stated that it intends to source the required raw materials as locally as possible to reduce the environmental impact with consideration for ethical sourcing. As the EV market continues to rise in popularity and importance, other EV manufacturers have announced plans for new vehicle production. Cobalt metal, powders and chemicals remain critical in the production of rechargeable batteries and the ICP remains the sole near term, fully permitted cobalt deposit in the United States and as such, is a logical contender as a potential supplier of domestically and ethically sourced cobalt.

The Company intends to capitalize on the rapidly growing rechargeable battery sector with plans for the ICP to produce cobalt chemicals required for these applications. There are significant opportunities recognized in the PEA that could improve the economics of the ICP. Excluding those opportunities typical to all mining projects, such as changes in metal prices, exchange rates, etc., there are additional opportunities that exist. For example, the mineral resource has not been fully delineated and there is an excellent opportunity to expand this resource. The addition of marginal mineralized zones that were excluded from the resource and mine plan could also add to resources. In addition, over a dozen potential targets have been identified in the immediate area within the claim block of the ICP. Four of these have been drill tested with several intercepts exceeding the current cut-off grade. There is also potential to add additional resources from the nearby Black Pine property optioned by the Company which potentially could provide additional feed for the mill.

There is an opportunity for the mine to produce more tons for short durations on the high tonnage levels of the mine through the optimization of the mine plan and sequence. There also exists the possibility of increasing overall recoveries at the CPF and obtain better shipping and handling terms through formal negotiations in the future and to incorporate offtake and/or streaming agreements on some or all of the products to be produced. In addition, the project has potential to recover both heavy and light rare earth elements previously identified in association with the cobalt mineralization. No metal value is given to the copper or gold in determining the cobalt resource cutoff. With modifications to the processing design incorporating copper and gold values back into the cut-off calculation, an increase in tonnage within the resource would be realized. Further information and assessments are needed before these opportunities should be included in the project economics.

There are risks associated with the PEA. The most significant potential internal risks associated with the ICP are uncontrolled dilution, lower metal recoveries than those projected, operating and capital cost escalation, unforeseen schedule delays, the potential reduction of mineable reserves after removing inferred material from the model and the ability to raise financing. The

reported mineral resources are not mineral reserves and do not have demonstrated economic viability. These risks are common to most mining projects, many of which can be mitigated with adequate engineering, planning and pro-active management.
The positive results of the PEA and recommendations from independent engineering consultants have given Formation's Management and Board of Directors a clear mandate to move the ICP towards feasibility. Current quotes are being assessed for project advancement. Results from an ongoing metallurgical test work suitable for a feasibility study are expected before the end of the second quarter of 2016.

Figure 1: Formation Metals' Share Price, March 1, 2014 – May 21, 2015 (Stockwatch.com, 2015)



The Cobalt Market

Cobalt is a strategic and critical metal used in many diverse industrial and military applications. Applications include:

(a) Rechargeable batteries / renewable energy / re-usable energy storage systems; super alloys; wear resistant alloys; magnets; binder material; thermal spray coatings; orthopedics; life science; gas to liquid technology ("GTL") catalyst in de-sulfurizing crude oil and as a catalyst in hydrogenation; oxidation; reduction; and synthesis of hydrocarbons.

(b) Other uses of cobalt include drying agents in paints; de-colorizers; dyes; pigments; and oxidizers.

(c) Cobalt promotes adherence of enamel to steel, and steel to rubber in steel belted radial tires.

Cobalt is a critical element for the economic production of non-polluting "green" energy and for fuel-efficient jet turbine engines. Its use in rechargeable batteries for storing power is essential for electric, fuel cell and hybrid/electric vehicles and other industries. Increasing demand for portable equipment powered by rechargeable batteries continues to significantly increase the demand for cobalt year over year. Cobalt's usage in batteries now accounts for 42% of global consumption. Some analysts have forecast that by 2020 cobalt's use in battery applications alone will be greater than the entire world market for refined cobalt in 2013.

The Democratic Republic of Congo ("DRC") produces the largest share of cobalt globally (~60%) with a host of other countries contributing the balance of production including Australia, Brazil, Canada, China, Cuba, Morocco, Russia, Zambia and New Caledonia. However, much of the raw ore extracted from the DRC is exported to China where it is refined, making China the largest producer of refined cobalt.

The United States is the world's largest consumer of cobalt and has no domestic supply. Currently the U.S. consumes approximately 20% of the world's cobalt production and approximately 60% of the high purity material used in chemical form for critical applications in the battery (powertrain for electric and hybrid vehicles and grid storage) sector and in metal form in the aerospace sectors (jet engines). Changes in geopolitical and environmental legislation of respective supply countries, specifically China and the DRC, can have a significant effect on cobalt supply and pricing.

After hitting a 29-month high of US$16.00 per lb in August 2014, cobalt metal on the LME is currently trading just below US $15.00 per lb. Market sentiment is that cobalt prices may have neared the bottom and there is an anticipated tightening of cobalt supplies in 2015. Cobalt sulphate, which is preferred by many battery manufacturers, receives a premium price to high grade cobalt metal and current prices of product containing 20% cobalt vary from approximately $8,000 to $10,000 per tonne ($3.62 to $4.54 per lb.) At 20% cobalt content, this equates to $17.28 - $21.60 per lb. contained cobalt, averaged at $19.44 per lb. Generally, the short term outlook for the cobalt market seems to be mixed but the medium and long term outlook remains positive. A recent report from Metal Bulletin states that the cobalt market remains surprisingly active and it looks set to enter 2015 in a more bullish fashion than it has over the past few years.

Cobalt use in rechargeable battery applications now accounts for 42% of world consumption and is expected to grow 9.2% annually to 2018 (Roskill Information Services, 2014). The compound annual growth rate for cobalt chemicals in batteries has been 7.6 % over the previous 5 years to 2013 (Darton Commodities Limited, 2014). With slowing supply growth (4% in 2015), the supply-demand balance is projected to turn negative in 2016. The market is expected to respond with steady price increases beginning late 2015 and strengthening markets and prices through to 2018. By 2018, cobalt metal prices are forecasted to reach close to $24.00/lb (Skybeco Inc., 2015).

The Company believes that the ICP could be well positioned to capitalize on the growing demand for cobalt, in particular battery grade cobalt chemicals and high purity cobalt metal suitable for the two fastest growing sectors, the rechargeable battery and aerospace sectors. The ICP, being located in the United States, offers a unique opportunity for North American consumers to secure a Dodd-Frank Act compliant, ethically sourced, environmentally sound supply of high purity cobalt chemicals, mined safely and responsibly in the United States.

1.3 Selected Annual Information

The Company's results from operations, financial position, and sources and uses of cash are focused on the following key areas:

(a) Capital Allocation – Capital spending was directed toward the creation of an integrated mining, producing, and refining of the ICP.

(b) Raising Capital – The financial statements reflect the emphasis of management on sourcing the cash resources to fund the Company's operating and investing activities and to eliminate debt.

Given the nature of the Company's business and stage of development, the most meaningful financial information concerning the Company relates to its current liquidity and capital resources. The following table is a summary of the results of the Company's operations and activities from its last three audited fiscal years.

Selected Annual Information:

	(IFRS) Year ended February 28, 2015		**(IFRS) Year ended February 28, 2014**		**(IFRS) Year ended February 29, 2013**
	$	%	$	%	$
Share-based payments	(112,746)	0%	-	-100%	(274,472)
Foreign exchange (loss) gain	535,476	-40%	889,881	-22%	1,145,097
Depreciation	(47,211)	-26%	(63,615)	-44%	(113,759)
Impairment of property, plant and equipment	(5,386,920)	-51%	(10,897,811)	0%	-
Impairment of mineral properties	(4,240,426)	3288%	(125,162)	45%	(86,312)
Retirement and severance pay	-	-100%	(2,451,663)	0%	-
Write-off deferred financing cost	-	-100%	(2,681,116)	138%	(1,126,926)
All other expenses	(1,411,718)	-64%	(3,868,431)	-12%	(4,401,109)
Net loss before taxes from continued operations	(10,663,545)	-44%	(19,197,917)	295%	(4,857,481)
Income tax (expense) recovery	1,717,062	-66%	5,043,214	-296%	(2,579,507)
Net loss after taxes from continued operations	(8,946,483)	-37%	(14,154,703)	90%	(7,436,988)
Gain (loss) from discontinued operations	(358,955)	-205%	340,673	0%	-
Other comprehensive income: currency translation adjustment	91,136	-81%	487,476	-16%	578,446
Total comprehensive loss for the year	(9,214,302)	-31%	(13,326,554)	94%	(6,858,542)
Basic and diluted loss per share	(0.10)	-38%	(0.16)	100%	(0.08)

	(IFRS) Year ended February 28, 2015	**(IFRS) Year ended February 28, 2014**	**(IFRS) Year ended February 29, 2013**
	$	$	$
Total assets	118,008,882	126,133,907	184,836,962
Total long term liabilities	5,703,288	2,904,898	41,075,906

1.4 Results of Operations

Financial Results of Operations for the Year Ended February 28, 2015 and 2014

The following are highlights from the Company's results from operations for the year ended February 28, 2015 and 2014:

(a) **Net loss** for the year ended February 28, 2015 was $9,305,438 or $0.010 per share (2014- $13,814,030 or $0.15 per share).

(b) **Revenue from discontinued operations** for the year ended February 28, 2015 was $181,377 (2014- $9,025,632). Revenue was related to discontinued operations from the Sunshine Precious Metals Refinery (the "Sunshine Refinery") owned by the Company's former subsidiary, Formation Metals, U.S. that was sold on October 10, 2013.

(c) **Cost of refinery revenues** for the year ended February 28, 2015 was $299,284 (2014- $11,575,533), resulting in a net loss of $117,907 (2014- $2,549,901) before other costs and inventory impairment. Cost of revenue was related to cost of inventory and operating cost from discontinued operations at the Sunshine Refinery. Revenue and cost of revenue during the current period was from outstanding precious metals concentrates that remained after the disposition of the Sunshine Refinery.

(d) **Accretion expense** for the year ended February 28, 2015 was $83,135 (2014- $452,647). Accretion expense is recorded to update the present value of the liability to its future value. During the current period was related to provision for site reclamation and closure cost (2014- $63,673). During the year ended February 28, 2014, Company also recorded accretion expense of $169,436 for Recovery Zone Facility Bonds that was retired on May 9, 2013, and $219,537 for Convertible Bond that was retired on October 10, 2013.

(e) **Bank, interest, and financing charges** for the year ended February 28, 2015 was $3,073 (2014- $523,797). Higher interest charges during the year ended February 28, 2014 were mainly due to interest accrued and paid on the Convertible Bond that was retired on May 9, 2013 and the Recovery Zone Facility Bonds that was retired on October 10, 2013.

(f) **Directors fees** for the year ended February 28, 2015 was $253,712 (2014- $421,333). The Company implemented directors' compensation during the year ended February 28, 2014. The amounts accrued and paid during the year ended February 28, 2014 were related to fees retroactive to October 2011. Subsequent to the year ended February 28, 2015, Directors have agreed to reducing their annual retainers and meeting fees by 50%.

(g) **Legal fees** for the year ended February 28, 2015 was $68,550 (2014- $504,031). Higher legal fees incurred during the year ended February 28, 2014 were due to the contentious nature of the Company's Annual General and Special Meeting on June 21, 2013.

(h) **Shareholder relations** for the year ended February 28, 2015 was $70,950 (2014- $662,195). Higher shareholder relations fees incurred during the year ended February 28, 2014 were due to the contentious nature of the Company's Annual General and Special Meeting on June 21, 2013.

(i) **Foreign exchange gain** for the year ended February 28, 2015 was $535,476 (2014- $889,881). The US dollar appreciated against the Canadian dollar from $1.1074 on February 28, 2014 to $1.2503 on February 28, 2015.

(j) **Office expense** for the year ended February 28, 2015 was $294,699 (2014- $426,892). The Company have made material reductions to overhead and office expenses during the current fiscal period. These reductions include travel expenses, postage, rent, and professional membership and dues. The Company continues to assess and reduce its overhead expenses to conserve working capital.

(k) **Salary and wages** for the year ended February 28, 2015 was $509,808 (2014- $775,365). The significant decrease in salary and wages was due to reduction of full time employees and resignations of executive officers on January 15, 2014.

(l) **Share-based compensation** was $112,746 (2014- $nil) for the year ended February 28, 2015. On June 24, 2014, the Company granted 930,000 options (2014- nil) exercisable at $0.21 per share and expiring on June 24, 2019. The options were granted to directors, officers and employees. The fair value of the options was determined using the Black-Scholes option pricing model. Assumptions used to estimate the fair value includes risk free interest of 1.56%, expected life of 5 years, annualized volatility of 69% and share price of $0.21.

(m) **Impairment of property, plant and equipment** was $5,386,920 (2014- $10,897,811) for the year ended February 28, 2015. As a result of the disposition of the partially built CPF included in the sale of the Sunshine Precious Metals Refinery on October 10, 2013, the Company impaired $10,897,811 of carrying costs on the ICP for the year ended February 28, 2014. For the year ended February 28, 2015, the Company impaired an additional $5,386,920 of carrying costs on the ICP. These were past capitalized business development costs related to the previous CPF that are no longer relevant due to the significant changes of the CPF design in the Technical Report to produce cobalt sulfate heptahydrate. The carrying costs on the ICP for the year ended February 28, 2015 is US$98,208,900 or $109,200,333 (2014- $108,149,639) and this includes $69,383,904 for mineral properties and $39,816,429 for property, plant and equipment.

(n) **Impairment of mineral properties** for the ended February 28, 2015 was $4,240,426 (2014- $125,162). The impairment of mineral resources was related: Black Pine $3,339,332 (2014- $nil); Morning Glory $544,726 (2014- $nil), Queen of the Hills $141,246 (2014- $nil), El Milagro $93,310 (2014- $nil), and other properties 116,044 (2014- $nil). The impairment of these properties was due to inactive exploration activities during the past couple of years. The carrying value of these properties as at February 28, 2015 is $nil.

Financial Results of Operations for the Three Months Ended February 28, 2015 and 2014

The following are highlights from the Company's results from operations for the three months ended February 28, 2015 and 2014:

(a) **Net loss** for the three months ended February 28, 2015 was $7,094,947 or $0.08 per share (2014- $12,632,375 or $0.14 per share).

(b) **Salary and wages** for the three months ended February 28, 2015 was $141,876 (2014- $193,565). The significant decrease in salary and wages were due to reduction of full time employees and resignations of executive officers on January 15, 2014.

1.5 Summary of Quarterly Results

Financial Information in thousands (000's) (except per share information)

	Three Months ended February 28, 2015 $	Three Months ended November 30, 2014 $	Three Months ended August 31, 2014 $	Three Months ended May 31, 2014 $	Three Months ended Feb 28, 2014 $	Three Months ended Nov 30, 2013 $	Three Months ended Aug 31, 2013 $	Three Months ended May 31, 2013 $
Net gain (loss) from continued operations	(14,166)	2,884	(71)	2,406	(10,868)	(1,273)	253	(2,267)
Net gain (loss) from discontinued operations	(183)	(35)	(261)	121	(1,766)	3,599	(441)	(1,050)
Basic and diluted income (loss) per share	(0.16)	0.03	(0.001)	0.03	(0.12)	(0.01)	(0.01)	(0.02)

1.6 Liquidity

February 28, 2015 and 2014

(a) **Cash and cash equivalents** as at February 28, 2015 were $4,522,450 (2014- $5,691,140).

(b) **Working capital** as at February 28, 2015 was $4,155,051 (2014- $6,905,832).

(c) **Mineral property expenditures** of $1,159,596 were capitalized during the year ended February 28, 2015 (2014- $2,387,154).

(d) **Net Purchase of Property, Plant and Equipment** expenditures for the year ended February 28, 2015 were $373,574 (2014- $1,826,404).

Excess cash is invested in highly rated investment securities at fixed interest rates of 0.46% with varying terms maturing in less than three months from the date of purchase.

The Company will require additional financing to pursue ongoing development of its respective properties and the construction of the ICP.

Contractual Commitments

The following is a schedule of the Company's commitments as at February 28, 2015:

	Note	2016	2017	2018 and later
		$	$	$
Mineral property expenditure	(a)	2,500	-	-
General liability insurance	(b)	71,051	-	-
Office operating leases	(c)	109,635	69,864	286
		183,186	69,864	286

(a) As per the February 28, 1999 Virgin River joint venture exploration agreement whereby the Company has 2% interest, the Company's commitment to the 2015 exploration program budget is $2,500.

(b) As at February 28, 2015, the Company has a total liability of $71,051 owing for insurance premium. This balance is payable in equal monthly instalments until October 12, 2015.

(c) The Company have operating leases including office rent and other miscellaneous leases until mid-2018. The total commitment of these leases is $179,785.

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $830,000 in the event that certain senior management are terminated without cause.

1.7 Capital Resources

The Company's working capital as at February 28, 2015 was $4,155,051 (2014- $6,905,832). The Company's capital resource requirements are dependent on the development stages of its respective properties.

1.8 Off-Balance Sheet Arrangements

None

1.9 Transactions with Related Parties

(a) Subsidiaries

	Ownership interest	
	February 28, 2015	**February 28, 2014**
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation.

(b) Compensation of key management personnel

The compensation to directors and officers of the Company during the nine months ended was as follows:

	Note	**February 28, 2015**	February 28, 2014
		$	$
Salaries and short-term employee benefits including bonuses		**462,350**	1,550,865
Share-based compensation	(i)	**87,892**	-
Retirement and severance pay	(ii)	**-**	2,247,575
Directors' fees	(iii)	**244,000**	421,333
		794,242	4,219,773

There were outstanding balances of $56,750 owed to directors at February 28, 2015 (2014 - $133,500), included in accrued liabilities.

(i) Share-based payments are based on fair value of options and common shares granted to directors and officers of the Company. During the year ended February 28, 2015, the Company granted 930,000 (2014 - nil) stock options to directors and officers with a weighted average exercise price of $0.21 (2014 - $nil) per share, expiring five years from the issue date.

(ii) During the year ended February 28, 2015, the Company paid directors and officers $nil (2014 - $1,892,831) for retirement and severance obligations as a result of their resignations. The contractual retirement and severance obligations from their employment agreements totaled $2,653,700 and this amount was reduced, after negotiations on the final settlement. The Company also entered into six month consulting agreements with these directors and officers for a total commitment of $354,744, commencing on January 15, 2014 and expiring on July 15, 2014. These funds were held in escrow and were released monthly.

(iii) The Company paid and accrued directors fees of $244,000 (2014 - $421,333) for the year ended February 28, 2015. The Company implemented directors' compensation during the current year and amounts accrued and paid were retroactive to October 2011.

Some executive officers are entitled to termination and change of control benefits. These executive officers are entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of termination without sufficient advance notice. These executive officers are also entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of change of control. Pursuant to employment agreements, the Company may be obligated to pay up to $694,000 in the event that executive officers are terminated without cause.

Salaries and short-term employee benefits including bonuses were paid to directors and officers as follows:

		For the year ended February 28, 2015				For the year ended February 28, 2014				
		Share based compensation	**Salary and benefits**	**Directors Fees**	**Total Compensation**	Share based compensation	Salary and benefits	Directors Fees	Retirement & Severance	Total Compensation
		$	**$**	**$**	**$**	$	$	$	$	$
Cecil Andurs	Director Emeritus	**3,031**	**-**	**-**	**3,031**	-	-	25,000	-	25,000
Scott Bending	Director/President	**-**	**-**	**-**	**-**	-	332,335	-	699,267	1,031,602
David Christie	Director	**6,062**	**-**	**35,000**	**41,062**	-	-	-	-	-
James Engdahl	Director	**6,062**	**-**	**35,000**	**41,062**	-	-	92,333	-	92,333
Paul Farquharson	President & CEO	**18,185**	**217,350**	**-**	**235,535**	-	248,698	-	-	248,698
Mari-Ann Green	Director/CEO		**-**	**-**	**-**	-	384,227	-	870,000	1,254,227
Gregory Hahn	Director	**6,062**	**-**	**35,000**	**41,062**	-	-	38,000	-	38,000
Scott Hean	Director	**6,062**	**-**	**35,000**	**41,062**	-	-	-	-	-
Rick Honsinger	Vice President	**12,123**	**125,000**	**-**	**137,123**	-	139,379	-	-	139,379
Robert Metka	Director	**6,062**	**-**	**36,000**	**42,062**	-	-	84,333	-	84,333
Robert Quinn	Director	**6,062**	**-**	**32,000**	**38,062**	-	-	92,333	-	92,333
William Scales	Director	**-**	**-**	**-**	**-**	-	173,250	-	453,309	626,559
David Stone	Director	**6,062**	**-**	**36,000**	**42,062**	-	-	89,333	-	89,333
Marc Tran	CFO	**12,123**	**120,000**	**-**	**132,123**	-	113,083	-	-	113,083
Alan Vichert	Vice President	**-**	**-**	**-**	**-**	-	159,893	-	225,000	384,893
		87,892	**462,350**	**244,000**	**794,242**	**-**	1,550,865	421,332	2,247,576	4,219,773

1.10 Proposed Transactions

None

1.11 Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Actual results could differ materially from those estimates and would impact future results of operations and cash flows. Significant judgments and estimates were used in the preparation of these consolidated financial statements; these include but are not limited to the following:

Judgments

(i) Annually, the Company assesses whether indicators of impairment exist. If indicators of impairment are identified, then the Company assesses whether its asset carrying values are greater than their recoverable values. The recoverable value is the higher of an asset's fair value, less costs to sell, and its value in use. The determination of the recoverable amount of mineral properties and property, plant and equipment includes critical judgments by management of items including: discount rates, future commodity prices, production levels, operating and capital expenditures, taxes, length of mine life, proven and probable mineral reserves and resources, and other assumptions used within the Company's

mine model for assessing possible impairment. Should those judgments prove to be inaccurate, the assessed recoverable amounts could differ materially from their actual amounts.

(ii) The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

(iii) Judgments by management with respect to the useful lives of property, plant and equipment, and related rates of depreciation, could result in carrying values of the underlying assets being over or understated, should those judgments be determined to be incorrect.

(iv) The functional and presentation currencies of the Company are the Canadian dollar. The functional currencies of the Company's subsidiaries are either the Canadian dollar or the U.S. dollar, depending on management's assessment of whether the specific subsidiary is a standalone operation or integrated with the operations of the parent company. Should management's judgment about the nature of a subsidiary differ from its actual nature, a material difference in the cumulative translation adjustment and or foreign exchange gain could result.

Estimates

(v) The carrying value of mineral properties, exploration expenditures incurred, and property, plant and equipment, and the likelihood of future economic recoverability of these carrying values is subject to significant management estimates. The application of the Company's accounting policy for and determination of recoverability of capitalized assets is based on assumptions about future events or circumstances. New information may change estimates and assumptions made. If information becomes available indicating that recovery of expenditures are unlikely, the amounts capitalized are impaired and recognized as a loss in the period that the new information becomes available. A change in estimate could result in the carrying amount of capitalized assets being materially different from their presented carrying costs.

(vi) The provision for site reclamation and closure costs, requires the Company to examine its site reclamation and closure cost obligations annually. Significant estimates and assumptions are made to determine provision for site reclamation and closure cost due to various factors that will affect the ultimate liability. These factors include estimates of extent and cost of reclamation activities, technological and regulatory changes, cost increases and changes in discount rates. Uncertainty of these factors may result in future actual reclamation expenditure being materially different from current estimates.

(vii) The provision for income and mining taxes including expected recovery and periods of reversals of timing differences and composition of deferred income taxes and liabilities requires significant estimates about the future profitability, ability to utilize deferred tax assets, future income tax rates, among others. Should the Company's performance differ from management's estimates, or should future tax rates change, the Company's estimate of income and mining taxes could differ materially from current estimates.

(viii) The fair value of stock options and warrants are subject to the calculation by the Black-Scholes option pricing model, which requires market data and estimates used by the Company in the determination of the fair value. These inputs are subjective assumptions and changes in these inputs could materially affect the fair value estimated.

1.12 Financial Instruments and Other Instruments

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value.

The Company's financial assets consist of fair value through profit and loss which includes cash and cash equivalents, loans and receivables which includes reclamation bond and trade and other receivables. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments except for the reclamation bond whereby its fair value will not be realized until the bond is released from the trustee. The reclamation bond's fair value is calculated in accordance with level 1 of the fair value hierarchy.

The Company's financial instruments include other liabilities which consist of accounts payable and accrued liabilities. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments.

At February 28, 2015 and 2014, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	February 28, 2015		February 28, 2014	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**4,522,450**	**4,522,450**	5,691,140	5,691,140
Trade and other receivables	**5,894**	**5,894**	1,395,194	1,395,194
Reclamation bond	**2,799,255**	2,792,979	2,479,321	2,473,762
Financial liabilities				
Accounts payable	**90,138**	**90,138**	117,507	117,507
Accrued liabilities	**354,910**	**354,910**	424,411	424,411

1.12 Fair Values and Financial Risk Management

The Company has exposure to risk of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, trade and other receivables, and reclamation bonds.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At February 28, 2015 and 2014, the Company had no material past due trade receivables.

The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established guidelines relative to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions.

The Company's maximum exposure to credit risk is as follows:

	February 28, 2015	February 28, 2014
	$	$
Cash and cash equivalents	**4,522,450**	5,691,140
Trade and other receivables	**5,894**	1,395,194
Reclamation bond	**2,799,255**	2,479,321

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's operating requirements as well as its planned capital expenditures. The Company manages its financial resources to ensure that there is sufficient working capital to fund near term planned exploration work, capital and operating expenditures. The Company has considerable discretion to reduce or increase exploration plans and capital investment budgets depending on current or projected liquidity. The following summarizes the financial assets and their maturity that are held to manage liquidity risk:

	February 28, 2015				February 28, 2014
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	142,458	-	-	142,458	352,633
Short term savings	4,259,992	-	-	4,259,992	5,338,507
GIC	120,000	-	-	120,000	-
	4,522,450	-	-	4,522,450	5,691,140

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the

investment interest rates due to the short term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

As at February 28, 2015, US savings account of $3,407,176 (2014 - $4,820,758) earns an interest rate of up to 0.46%. The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

The Company reports its consolidated financial statements in Canadian dollars; however, the Company has extensive operations in the US as well as limited operations in Mexico. As a consequence, the financial results of the Company's operations as reported in Canadian dollars are subject to changes in the value of the Canadian dollar relative to the US dollar and Mexican Peso.

Exploration activities in the US are held in the Company's US subsidiaries and are recorded in US dollars and translated into Canadian dollars on the consolidated financial statements date, as such, the Company can be exposed to significant fluctuations in the exchange rate between the US dollar and the Canadian dollar. The Company's discontinued refining operations in the US, sold October 10, 2013, generated revenue and incurred expenses principally in US dollars so foreign exchange gains or losses were recorded as a component of equity in foreign currency translation reserve. The Company does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors continually assesses the Company's strategy toward its foreign exchange rate risk, depending on market conditions.

Translation exposure

A number of the Company's subsidiaries are located in countries other than Canada. Therefore, exchange rate movements in the US dollar and Mexican peso can have a significant impact on the Company's consolidated operating results due to the translation of monetary assets and liabilities.

A 10% strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately $687,000 (2014 - $926,000).

1.14 Other MD&A Requirements

(a) **Disclosure of Outstanding Share Data**

As at May 21, 2015 there were 90,887,205 outstanding common shares, 6,863,000 outstanding stock options with a weighted average exercise price of $0.40 and weighted average life of 3.71 years. All common share purchase warrants have expired.

(b) **Internal Controls over Financial Reporting and Disclosure Controls**

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. The certifying officers reviewed and evaluated such disclosure controls and procedures and concluded that the disclosure controls and procedures were operating effectively as of February 28, 2015.

Internal Controls over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the period ended February 28, 2015.

The Company's controls include policies and procedures that:

(i) relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the design and operational effectiveness of the Company's internal control over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, 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 controls.

The design of any system 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) **Additional Information**

More information can be found on the Company's website at www.FormationMetals.com. Additional information is provided in the Company's audited annual consolidated financial statements for the years ended February 28, 2015 and 2014. Information Circulars and Annual Information Forms are also available at www.sedar.com.