Consolidated financial statements of

Formation Metals Inc.

February 29, 2016 and February 28, 2015

(Stated in Canadian dollars)

Formation Metals Inc.
February 29, 2016 and February 28, 2015

Table of contents

Smythe CPA

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 29, 2016 and February 28, 2015 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 29, 2016 and February 28, 2015, 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 LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 24, 2016

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

T: 604 687 1231
F: 604 688 4675

smythecpa.com

Formation Metals Inc.

Consolidated Statements of Financial Position

(Stated in Canadian dollars)

	Note	**February 29, 2016**	February 28, 2015
		$	$
Assets			
Current assets			
Cash and cash equivalents		**1,095,357**	4,522,450
Trade and other receivables		**4,944**	5,894
Prepaid expenses and deposits		**68,774**	71,755
Total current assets		**1,169,075**	4,600,099
Reclamation bond	4	**3,029,411**	2,799,255
Mineral properties	5	**20,648,858**	70,761,824
Property, plant and equipment	6	**40,388,191**	39,847,704
Total assets		**65,235,535**	118,008,882
Liabilities			
Current liabilities			
Accounts payable		**74,669**	90,138
Accrued liabilities		**139,902**	354,910
Total current liabilities		**214,571**	445,048
Provision for site reclamation and closure costs	8	**5,972,114**	5,674,924
Deferred tax liabilities	9	**26,375**	28,364
Total liabilities		**6,213,060**	6,148,336
Shareholders' Equity			
Common shares	10	**160,945,419**	160,945,419
Share purchase warrants		**7,343,318**	7,343,318
Share-based payments reserve		**9,031,102**	8,697,121
Foreign currency translation reserve		**552,769**	723,693
Deficit		**(118,850,133)**	(65,849,005)
Total shareholders' equity		**59,022,475**	111,860,546
Total liabilities and shareholders' equity		**65,235,535**	118,008,882

Nature of business and going concern (Note 1)
Commitments (Note 17)
Subsequent events (Note 18)

Approved by the Board and authorized for issue on May 24, 2016.

"Scott B. Hean"
Director

"James Engdahl"
Director

Formation Metals Inc.

Consolidated Statements of Operations and Comprehensive Loss

(Stated in Canadian dollars)

	Note	**Year ended February 29, 2016**	Year ended February 28, 2015
		$	$
Expenses			
Accounting and audit		**114,156**	77,604
Accretion expense on site reclamation and closure	8	**102,498**	83,135
Bank charges and interest expense		**3,087**	3,073
Depreciation	6	**51,248**	47,211
Directors' fees and expenses	11	**124,460**	253,712
Foreign exchange gain		**(222,005)**	(535,476)
Legal fees		**50,719**	68,550
Listing and filing fees		**53,912**	69,249
Office		**306,087**	241,838
Salary and wages		**538,055**	562,669
Shareholder relations		**125,138**	70,950
Share-based compensation	10(b)(iii)	**333,981**	112,746
Loss from operating activities		**(1,581,336)**	(1,055,261)
Impairment of mineral property	5(a)(i)(4)	**(51,434,713)**	(4,240,426)
Impairment of property, plant and equipment	6	**-**	(5,386,920)
Interest income		**12,932**	19,062
Loss before taxes from continuing operations		**(53,003,117)**	(10,663,545)
Income tax recovery	9	**1,989**	1,717,062
Loss after taxes from continuing operations		**(53,001,128)**	(8,946,483)
Loss from discontinued operations, net of taxes	7	**-**	(358,955)
Loss after taxes from continuing and discontinued operations		**(53,001,128)**	(9,305,438)
Items that will subsequently be reclassified to net loss:			
Currency translation adjustment		**(170,924)**	91,136
Total comprehensive loss for the year		**(53,172,052)**	(9,214,302)
Basic and diluted loss per share	10 (c)	**(0.58)**	(0.10)
Weighted average number of shares outstanding			
Basic and diluted		**90,887,205**	90,887,205

See accompanying notes to the consolidated financial statements.

Formation Metals Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars)

	Note	Common shares without par value		Share purchase warrants	Share-based payments reserve	Foreign currency translation reserve	Deficit	Total shareholders' equity
		Shares	Amount					
			$	$	$	$	$	$
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		-	10,929,202	(12,614,191)	-	-	-	(1,684,989)
Share-based compensation		-	-	-	112,746	-	-	112,746
Net loss and 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
Share-based compensation	10(b)(iii)	-	-	-	333,981	-	-	333,981
Net loss and comprehensive loss		-	-	-	-	(170,924)	(53,001,128)	(53,172,052)
Balance, February 29, 2016		**90,887,205**	**160,945,419**	**7,343,318**	**9,031,102**	**552,769**	**(118,850,133)**	**59,022,475**

See accompanying notes to the consolidated financial statements.

Formation Metals Inc.

Consolidated Statements of Cash Flow

(Stated in Canadian dollars)

	Note	**Year Ended February 29, 2016**	Year Ended February 28, 2015
		$	$
Operating activities			
Net loss for the year		**(53,001,128)**	(8,946,483)
Items not involving cash			
Accretion expense on site reclamation and closure	8	**102,498**	83,135
Depreciation		**51,248**	47,211
Deferred income tax recovery		**(1,989)**	(1,717,062)
Unrealized foreign exchange (gain) loss		**(305,904)**	171,212
Share-based compensation	10	**333,981**	112,746
Impairment of mineral property	5(a)(i)(4)	**51,434,713**	4,240,426
Impairment of property, plant and equipment	6	**-**	5,386,920
Change in working capital items	13	**(206,295)**	(104,674)
Net cash provided (used) by operating activities from continuing operations		**(1,592,876)**	(726,569)
Net cash provided (used) by operating activities from discontinued operations	7	**-**	1,280,178
		(1,592,876)	553,609
Investing activities			
Mineral property expenditures	5	**(1,548,254)**	(1,159,596)
Purchase of property, plant and equipment, net of deposits	6	**(591,735)**	(373,575)
Net cash provided (used) by investing activities from continuing operations		**(2,139,989)**	(1,533,171)
Net cash provided (used) by investing activities from discontinued operations		**-**	-
		(2,139,989)	(1,533,171)
Effects of exchange rate changes on the balance of cash held in foreign currencies		**305,772**	(189,128)
Net cash (outflow) inflows during the year		**(3,427,093)**	(1,168,690)
Cash and cash equivalents, beginning of year		**4,522,450**	5,691,140
Cash and cash equivalents, end of year		**1,095,357**	4,522,450

Financial position as at	**February 29, 2016**	February 28, 2015
Cash and cash equivalents are comprised of:		
Cash	**62,949**	142,458
Short-term investments	**1,032,408**	4,379,992
	1,095,357	4,522,450

See accompanying notes to the consolidated financial statements.

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. 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.

A National Instrument 43-101 compliant Technical Report on the Preliminary Economic Assessment on the ICP to produce cobalt sulfate crystals from the ICP suitable for the rechargeable batteries and electric vehicles market was filed on SEDAR on May 8, 2015. The Company announced successful metallurgical test work results on bench test production of cobalt sulfate crystals on March 3, 2016. Following these successful results, the Company intends to commission a Bankable Feasibility Study ("BFS") on the ICP following the closing of its private placement financing announced on May 9, 2016. All obligations, commitments, and permits related to the ICP remain in good standing.

Going concern

At February 29, 2016, the Company had working capital of $954,504 (February 28, 2015 - $4,155,051). For the year ended February 29, 2016, the Company reported a comprehensive loss of $53,172,052 (February 28, 2015 – $9,214,302) and at February 29, 2016 has an accumulated deficit of $118,850,133 (February 28, 2015 - $65,849,005). The ability of the Company to continue as a going concern over a longer term is dependent on the Company's ability raise the financing necessary to complete a BFS on the ICP. Subsequent to the year ended, the Company announced a private placement financing on May 9, 2016 for gross proceeds of up to $4,500,000 (see Note 18). The proceeds of the private placement will be used to finance the BFS and general working capital. In conjunction with commissioning the BFS, the Company also intends to continue marketing the ICP and pursue product off-take arrangements to facilitate Capex financing for project development. While the Company continues to look for opportunities to significantly reduce operating and overhead costs and defer capital expenditures, raising capital sufficient to complete planned development and establish profitable operations are material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern.

The Company's registered office is Suite 1200 – 750 West Pender Street, Vancouver, British Columbia V6C 2T8.

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 24, 2016.

(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. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(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 with respect to mineral properties, and property, plant and equipment. 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, 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.

2. Basis of preparation (continued)

(c) Significant judgments and estimates (continued)

(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 currency of the Company's subsidiaries are also the Canadian dollar, except for Essential Metals Corporation, a wholly owned subsidiary of the Company whose functional currency was US dollar and was changed to the Canadian dollar during the year ended February 29, 2016. Activities of the subsidiaries are 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

(i) 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 and judgments. 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.

(ii) The provision for site reclamation and closure costs (Note 8) 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.

(iii) The provision for income and mining taxes including expected recovery and periods of reversals of timing differences and composition of deferred income tax assets and liabilities (Note 9) requires significant estimates about the future profitability, ability to utilize deferred tax assets and 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.

(iv) 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. All subsidiaries of the Company also have their functional currency in Canadian dollars during the year ended February 29, 2016.

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.

(d) 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.

3. Significant accounting policies (continued)

(e) 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:

- Buildings 5%
- Equipment 30%
- Furniture and fixtures 30%

(f) 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.

3. Significant accounting policies (continued)

(f) Impairment of non-financial assets (continued)

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.

(g) 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 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.

3. Significant accounting policies (continued)

(h) 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.

(i) 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.

(j) 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 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.

(k) 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.

3. Significant accounting policies (continued)

(k) Financial instruments and fair value (continued)

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.

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.

(l) Derivatives

The Company 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 29, 2016 and February 28, 2015.

(m) Segment reporting

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

3. Significant accounting policies (continued)

(n) 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. No new or amended standards became effective for March 1, 2015.

The adoption of these 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 consolidated financial statements.

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

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.

3. Significant accounting policies (continued)

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

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 January 1, 2016.

***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 January 1, 2016.

IFRS 16 *Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases.

Applicable to annual periods beginning on or after January 1, 2019.

3. Significant accounting policies (continued)

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

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. Reclamation bond

In connection with the ICP, 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 ICP 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 ICP.

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.

Expressed in Canadian Dollars, unless otherwise noted

4. Reclamation bond (continued)

		February 29, 2016	February 28, 2015
		$	$
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$	3,029,411	2,799,255

5. Mineral properties

Mineral properties consist of:

	February 29, 2016	Impairment	Additions	February 28, 2015
	$	$	$	$
Idaho Cobalt Belt (a)				
Idaho Cobalt Project (i)	19,229,601	(51,434,713)	1,280,409	69,383,905
	19,229,601	(51,434,713)	1,280,409	69,383,905
Other Projects (b)				
Kernaghan Lake (iv)	482,091	-	6,941	475,150
Virgin River (v)	904,390	-	34,397	869,993
Other	32,776	-	-	32,776
	1,419,257	-	41,338	1,377,919
	20,648,858	(51,434,713)	1,321,747	70,761,824

	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 Lake (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

During the year ended February 29, 2016, the Company spent $1,548,254 (February 28, 2015 - $1,159,596) on mineral properties. A non cash adjustment of $226,506 (February 28, 2015 - $2,264,062) for site reclamation and closure cost was also made (note 8) resulting a net addition of $1,321,747 (February 28, 2015 - $3,423,658).

5. Mineral properties (continued)

(a) Idaho Cobalt Belt

(i) Idaho Cobalt Project

For the year ended February 29, 2016, the Company examined economic indicators to determine the likelihood of impairment on the ICP. These economic indicators include the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. These indicators compared to those from the 2015 fiscal year indicate the likelihood of impairment of the ICP. In order to assess for impairment of the non-current assets recorded for ICP at February 29, 2016, management had made the following assessment to determine the recoverable amount and compared these results to the carrying value of the ICP for the purpose of impairment:

1) Recoverable Amount:

At February 29, 2016, the Company conducted an impairment assessment of the ICP, which is the Company's sole primary asset, and estimated recoverable amount based on the fair value in use method. The economic model for future cash flows was derived from the Company's April 29, 2015 Preliminary Economic Assessment ("PEA") which was SEDAR filed on May 8, 2015.

2) Cash Flow Period:

Cash flows used for the impairment assessment of the ICP were based on the Company's PEA. The PEA was an independent National Instrument 43-101 compliant technical report based on estimated resources and three-dimensional block modeling used for mine planning, design, and scheduling ("Mine Development").

The Life of Mine was estimated to be 12.5 years after the preproduction period. The preproduction period is 21 months, in which the initial capital expenditure investment would be made to bring the ICP into commercial production.

IAS 36 suggests that cash flow projections be 5 years unless there is justifiable evidence to support a longer period. A 5 year cash flow would have only captured the preproduction period and 3.25 years (39 months) of commercial production; resulting in an incomplete assessment of the project's cash flows and a negative net present value ("NPV") as 100% of initial capital expenditure is required during the preproduction period.

As such, the Company believes that the use of a greater than five year cash flow was justified, because the modeling was developed on a "life of mine basis", was external in nature, supportable, reliable and represents management's best estimate of the remaining useful life of the asset.

5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

3) Discount Rate:

A pre-tax discount rate of 13.40% as at February 29, 2016 (February 28, 2015 - 11.00%) was used for impairment testing and derived based on the Company's weighted average cost of capital ("WACC") using the Capital Asset Pricing Model. A debt to equity ratio of 50:50 (February 28, 2015 - 20:80) was estimated based on strategic financing arrangements that the Company anticipates. Factors such as the positive long term outlook for cobalt driven by increased demand in the rechargeable batteries industry and a shortfall of cobalt supply, off-take agreements to de-risk revenue and future cash flows, internal assessments on financing alternatives' effect on return to shareholders, and comparing the Company's discount rate amongst its peers, were considered in the determination of the debt to equity ratio. Management is of the position that the discount rate used for the impairment assessment fairly reflects the pre-tax market assessment of time value of money for the ICP.

4) Impairment Assessment:

Prior to the impairment assessment, the carrying costs capitalized to the ICP were $109,214,133 (February 28, 2015 - $109,200,333), represented by mineral properties and property, plant and equipment.

The carrying value of the ICP at February 29, 2016 post impairment as discussed below was $57,779,420 (February 28, 2015 - $109,200,333), comprised of $19,229,600 (February 28, 2015 - $69,383,905) for mineral properties and $38,549,820 (February 28, 2015 - $39,816,429) for property, plant and equipment.

The recoverable amount of the ICP was derived using the pre-tax cash flow model of the PEA. Using a pre-tax discount rate of 13.40% as at February 29, 2016 (February 28, 2015 - 11.00%), the recoverable value of the ICP was $57,779,420 or US$43,184,965 (February 28, 2015 - $143,400,759 or US$128,966,923). The Company recorded an impairment of the ICP of $51,434,713 as at February 29, 2016 (February 28, 2015 - $5,386,920), which reduced the capitalized costs incurred on the ICP of $102,214,133 to the recoverable amount of $57,779,420. The changes in the forecast price of cobalt to $17.00 per lb. (February 28, 2015- $19.50 per lb.) and discount rate as a result of changes to the Company's capital expenditure financing assumptions lead to the reduction in the recoverable amount of the ICP.

5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

5) Inclusion of Measured and Indicated Resources:

The Company included 100% of measured and indicated resources in deriving the value in use of the ICP. In measuring value in use, the Company made assumptions about the range of economic conditions that will exist over the life of mine. Some of the factors considered in determining the probability of conversion include:

(i) The Company's history of converting resources into reserves;
(ii) Closeness of the scheduled start of the work to convert resources into reserves; and
(iii) Additional cost to access the resource.

Significant milestones have been achieved and the ICP is an advanced project with the following completed:

(i) Fully permitted;
(ii) Completed construction of earthworks at the mine and mill;
(iii) Have purchased substantially all long lead equipment for the mine and mill; and
(iv) Filing of the PEA in May 2015 to produce cobalt sulfate heptahydrate instead of high purity cobalt metal, in response to growth in the rechargeable batteries industry.

Positive initial results from in-house evaluations of the Company's ability to produce cobalt heptahydrate suitable for the rapidly growing rechargeable battery sector resulted in the decision to proceed with the commissioning and filing of the PEA. The Company continues to work to enhance the project life as outlined under cash flows in item 2 above, and intends to produce a BFS (Note 1) by the end of calendar year 2016. Construction of the CPF and mine could begin by March 1, 2017. As a result of the above activities, the Company is of the view that inclusion of 100% of measured and indicated resources in deriving the recoverable amount of the ICP is appropriate.

The Company expects the ICP to commence commercial production in 2 years post recommencement of construction, pending market conditions and the ability to finance initial capital expenditures. The additional initial capital expenditure is US$147 million as per the information disclosed in the current PEA.

5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

6) Sensitivity Analysis

Management anticipates that 70% of total revenues from the Life of Mine of the ICP will be from the sale of cobalt sulfate heptahydrate; therefore, changes in the price of cobalt would have the biggest impact on the recoverable amount of the ICP. This is followed by changes in operating cost, capital expenditure and discount rate. Below illustrates the sensitivity of changes in price of cobalt sulfate heptahydrate, operating cost, capital expenditure, and discount rate have on the recoverable value of the ICP.

Percentage Change of Inputs	**-40%**	**-30%**	**-20%**	**-10%**	**0%**	**10%**	**20%**	**30%**	**40%**
	Recoverable Amount Sensitivity- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ -	$ -	$ -	$ 19,463,042	$ 57,779,420	$ 96,095,798	$ 134,412,176	$ 172,728,555	$ 211,044,933
Operating Cost	$ 133,167,447	$ 114,636,118	$ 95,894,337	$ 76,942,105	$ 57,779,420	$ 38,406,283	$ 18,822,715	$ -	$ -
Capex	$ 123,836,855	$ 107,322,496	$ 90,808,137	$ 74,293,779	$ 57,779,420	$ 41,265,061	$ 24,750,703	$ 8,236,344	$ -
Discount Rate	$ 124,316,837	$ 104,919,142	$ 87,522,259	$ 71,879,591	$ 57,779,420	$ 45,039,436	$ 33,502,194	$ 23,031,341	$ 13,508,458
	Surplus (Short-fall) from Carrying Value- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ (57,779,420)	$ (57,779,420)	$ (57,779,420)	$ (38,316,378)	$ -	$ 38,316,378	$ 76,632,756	$ 114,949,135	$ 153,265,513
Operating Cost	$ 75,388,027	$ 56,856,698	$ 38,114,917	$ 19,162,685	$ -	$ (19,373,137)	$ (38,956,705)	$ (57,779,420)	$ (57,779,420)
Capex	$ 66,057,435	$ 49,543,076	$ 33,028,717	$ 16,514,359	$ -	$ (16,514,359)	$ (33,028,717)	$ (49,543,076)	$ (57,779,420)
Discount Rate	$ 66,537,417	$ 47,139,722	$ 29,742,839	$ 14,100,171	$ -	$ (12,739,984)	$ (24,277,226)	$ (34,748,079)	$ (44,270,962)

Included in the above are additional assumptions and estimates for production volumes, recoverable quantities, production profile, and contractual duration of mining rights, and financial, economic, political and technological risks external to the Company. As the Company continues evaluating the ICP for production of cobalt sulfate heptahydrate and refining processes, all parameters which could be incorporated into the impairment assessment as mentioned above, the resulting estimates, assumptions and outcomes are subject to changes which may impact future impairment evaluations.

5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(ii) Black Pine

The Company 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 fully impaired the Black Pine property by $3,339,332, resulting in a carrying cost of $nil. The February 28, 2015 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. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

(b) Other projects

(i) Morning Glory/Wallace Creek

(a) Morning Glory

The Company 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 (2015 - 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 fully impaired the Morning Glory property by $544,726, 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. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

5. Mineral properties (continued)

(b) Other projects (continued)

(i) Morning Glory/Wallace Creek (continued)

(b) Wallace Creek

The Company 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 fully impaired the El Milagro property by $93,310 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. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

(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 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 fully impaired the Queen of the Hills property by $141,247, 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. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

(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.

5. Mineral properties (continued)

(b) Other projects (continued)

(iv) Kernaghan Lake (continued)

The operator, Areva Resources Canada Inc. (Areva), of the project did not conduct any exploration work during the year ended February 29, 2016, it remains in good standing until 2017. The budget for 2016 expenditures is $10,000 and the Company's share at $2,000 representing 20%.

(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 29, 2016, approximately $33,000,000 has been spent on the project. The budget for fiscal 2017 expenditures has been approved at $900,000, with the Company's share at $18,000.

Expressed in Canadian Dollars, unless otherwise noted

6. Property, plant and equipment

	Land	Buildings	Equipment	Furniture and fixtures	Project Construction and maintenance	Total
	$	$	$	$	$	$
Cost						
As at February 28, 2014	178,323	525,905	489,646	381,802	43,887,472	45,463,148
Additions for the year	-	-	-	-	525,649	525,649
Impairment for the year	-	-	-	-	(5,386,920)	(5,386,920)
Disposal for the year	3,222	-	-	-	258,319	261,541
As at February 28, 2015	181,545	525,905	489,646	381,802	39,284,520	40,863,418
Additions for the year	-	-	4,843	19,502	567,390	591,735
As at February 29, 2016	**181,545**	**525,905**	**494,489**	**401,304**	**39,851,910**	**41,455,153**
Accumulated Depreciation						
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)
Additions for the year	-	(21,447)	(21,420)	(8,381)	-	(51,248)
As at February 29, 2016	**-**	**(224,050)**	**(471,206)**	**(371,706)**	**-**	**(1,066,962)**
Carrying Value						
As at February 28, 2015	181,545	323,302	39,860	18,477	39,284,520	39,847,704
As at February 29, 2016	**181,545**	**301,855**	**23,283**	**29,598**	**39,851,910**	**40,388,191**

The Company capitalizes costs associated with construction and maintenance of the mine and mill and will depreciate those assets when they are put into use. For the year ended February 28, 2015, the Company impaired $5,386,920 from property, plant and equipment. 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.

Expressed in Canadian Dollars, unless otherwise noted

7. 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 Sunshine Silver Mines 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 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").

Below summarizes the results of discontinued operations of Formation Metals, U.S., and the Refinery Assets for the years ended February 29, 2016 and February 28, 2015. Revenues and cost of revenues are from outstanding precious metal concentrates that were processed at third party facilities.

	February 29, 2016	February 28, 2015
	$	$
Revenue	-	181,377
Cost of revenues	-	(299,284)
Write down of inventory	-	(128,737)
Net loss from discontinued operations before loss on disposal	-	(246,644)
Loss on disposal of discontinued operations	-	(112,311)
Loss from discontinued operations	-	(358,955)

8. Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure relates to the ICP 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 flows of the obligation as at February 29, 2016 were $5,162,119 or US$3,815,032 (February 28, 2015 - $4,769,933 or US$3,815,032). 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% (February 28, 2015 - US Treasury Bond rate of 2.73% and rate of inflation of 2.40%) resulting in a net rate of 0.90% (February 28, 2015 - 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.

Expressed in Canadian Dollars, unless otherwise noted

8. Provision for site reclamation and closure costs (continued)

	$
Site 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
Site reclamation and closure cost, February 28, 2015	5,674,924
Additions	-
Accretion expense	102,498
Change in discount rate	(226,506)
Foreign exchange	421,198
Site reclamation and closure cost, February 29, 2016	**5,972,114**

9. Income taxes

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

	Year Ended February 29, 2016	Year Ended February 28, 2015
Loss before income taxes	**(53,003,117)**	(10,663,545)
Canadian federal and provincial income tax rates	**26.00%**	26.00%
Income tax recovery based on the above rates	**(13,780,810)**	(2,772,522)
Increase (decrease) due to:		
Stock based compensation and other non-deductible expenses	**86,835**	29,314
Use of unrecognized tax losses and temporary differences	**(262,507)**	(1,704,549)
Losses and temporary differences for which no future income tax asset has been recognized	**21,407,573**	4,383,347
Amounts under (over) provided for in prior years	**-**	(105,672)
Effect of different tax rates in foreign jurisdictions	**(7,453,080)**	(1,546,981)
Income tax expense	**(1,989)**	(1,717,062)
Deferred	**(1,989)**	(1,717,062)
	(1,989)	(1,717,062)
Income tax expense (recovery) by country		
United States	**-**	-
Canada	**(1,989)**	(1,717,062)
	(1,989)	(1,717,062)

Expressed in Canadian Dollars, unless otherwise noted

9. Income taxes (continued)

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

	Year Ended February 29, 2016	Year Ended February 28, 2015
Non-capital losses	**(5,274,615)**	(14,148,226)
Asset retirement obligation	**(2,385,262)**	(2,266,565)
Property, Plant and Equipment	**190,525**	(5,942,383)
Unrealized foreign exchange gains	**3,181,759**	2,064,722
Mineral property and other	**4,313,968**	20,320,816
Deferred income tax liabilities, net	**26,375**	28,364

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

	Year Ended February 29, 2016	Year Ended February 28, 2015
Non-capital losses	**52,270,608**	18,488,891
Financing fees	**7,616**	1,472,561
Property, Plant and Equipment	**378,538**	388,506
Mineral property and other	**312,200**	963,137
	52,968,962	21,313,095

The Company has $52,264,229 of net operating losses in the United States that will expire between 2021 and 2036 for which no tax benefit has been recorded.

Expressed in Canadian Dollars, unless otherwise noted

9. Income taxes (continued)

The components of deferred income tax expense (recovery) are as follows:

	Year Ended February 29, 2016	Year Ended February 28, 2015
Non-capital losses	**8,873,611**	(1,067,277)
Asset retirement obligation	**(118,697)**	(1,114,511)
Unrealized foreign echange gains	**1,117,038**	1,284,287
Property, Plant and Equipment	**6,132,908**	(2,449,699)
Mineral property and other	**(16,006,849)**	1,630,138
	(1,989)	(1,717,062)

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

	Year Ended February 29, 2016	Year Ended February 28, 2015
Balance, beginning of year	**28,364**	60,437
Recovery on the income statement	**(1,989)**	(1,717,062)
Amounts charged to equity	**-**	1,684,989
Foreign currency translation	**-**	-
Balance, end of year	**26,375**	28,364

10. 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 29, 2016, the Company had 90,887,205 (February 28, 2015 - 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.

Expressed in Canadian Dollars, unless otherwise noted

10. Share capital (continued)

(b) Stock options (continued)

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 29, 2016 was 9,088,720 (February 28, 2015 – 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.

(i) As at February 29, 2016, outstanding and exercisable stock options were as follows:

Options Outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
215,000	1.50	0.65 years	*October 25,2016
550,000	0.80	0.65 years	*October 25,2016
220,000	0.30	0.65 years	*October 25,2016
175,000	1.50	0.88 years	January 17, 2017
450,000	0.80	0.88 years	January 17, 2017
1,220,000	0.30	1.93 years	February 1, 2018
930,000	0.21	3.32 years	June 25, 2019
3,103,000	0.20	4.15 years	April 27, 2020
6,863,000	0.38		

*During the year ended February 29, 2016, a former officer of the Company had deceased. Pursuant to the terms of the option agreement, this resulted in the expiry dates of the options held by the deceased to be amended to October 25, 2016.

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		

Expressed in Canadian Dollars, unless otherwise noted

10. Share capital (continued)

(b) Stock options (continued)

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

	February 29, 2016	**Weighted average exercise price**	February 28, 2015	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**3,760,000**	**0.54**	7,560,000	0.83
Activity during the year				
Options granted	**3,103,000**	**0.20**	930,000	0.21
Options cancelled	**-**	**-**	(4,730,000)	0.94
Balance outstanding, end of year	**6,863,000**	**0.38**	3,760,000	0.54

(iii) During the year ended February 29, 2016, 3,103,000 (February 28, 2015 – 930,000) stock options were granted to directors, officers, employees and consultants of the Company. Using the Black-Scholes option pricing model, the fair value stock options granted was $333,981 (February 28, 2015 - $112,746).

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 29, 2016	February 28, 2015
Risk free interest	**0.94%**	1.56%
Expected life (years)	**5**	5
Annualized volatility	**73%**	69%
Expected dividend	**$ -**	$ -
Stock price	**$ 0.185**	$ 0.21
Exercise price	**$ 0.20**	$ 0.21

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.

Expressed in Canadian Dollars, unless otherwise noted

10. Share capital (continued)

(c) Loss per share

		February 29, 2016		February 28 2015
Continued Operations:				
Net loss	**$**	**53,001,128**	$	8,946,483
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	**$**	**0.58**	$	0.10
Loss per share- diluted	**$**	**0.58**	$	0.10
Discontinued Operations:				
Net loss	**$**	**-**	$	358,955
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		**6,863,000**		3,760,000
Warrants		**-**		-

11. Related party transactions

(a) Subsidiaries

	Ownership interest February 29, 2016	February 28, 2015
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 29, 2016 and February 28, 2015 were as follows:

Expressed in Canadian Dollars, unless otherwise noted

11. Related party transactions (continued)

(b) Compensation of key management personnel (continued)

	Note	**February 29, 2016**	February 28, 2015
		$	$
Salaries and short-term employee benefits including bonuses		**445,007**	462,350
Share-based compensation	(i)	**262,867**	87,892
Directors' fees	(ii)	**116,000**	244,000
		823,874	794,242

There were outstanding balances of $57,750 owed to directors at February 29, 2016 (February 28, 2015 - $56,750), 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 29, 2016, the Company granted 2,418,000 (February 28, 2015 – 725,000) stock options to directors and officers with weighted average exercise price of $0.20 (February 28, 2015 - $0.21) per share, expiring five years from the issue date.

(ii) The Company paid and accrued directors fees of $116,000 (2015 - $244,000) for the year ended February 29, 2016. The Company also reimbursed directors for business related expenses in the amount of $8,460 (February 28, 2015- $9,712).

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 $744,000 in the event that executive officers are terminated without cause or upon a change of control.

12. 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:

Expressed in Canadian Dollars, unless otherwise noted

12. Segmented information (continued)

	For the year ended February 29, 2016			
	Exploration and ICP development	Refinery	Corporate	Total
	$	$	$	$
Expenses				
Accretion and interest expense	(103,860)	-	(1,548)	(105,408)
Depreciation	(39,223)	-	(12,025)	(51,248)
Foreign exchange gain	-	-	222,005	222,005
General and administrative	(73,480)	-	(1,239,224)	(1,312,704)
Impairment of property	(51,434,713)	-	-	(51,434,713)
Share-based compensation	-	-	(333,981)	(333,981)
Other gain	-	-	12,932	12,932
Loss before income taxes	(51,651,276)	-	(1,351,841)	(53,003,117)
Comprehensive income (loss) for year	(51,649,287)	-	(1,522,765)	(53,172,052)
Total Assets	64,052,618	-	1,182,917	65,235,535
Total Liabilities	6,021,948	-	191,112	6,213,060

	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	-	-	535,476	535,476
General and administrative	(27,941)	-	(1,430,906)	(1,458,847)
Impairment of property	(9,627,346)	-	-	(9,627,346)
Other gain	-	-	19,062	19,062
Income (loss) before income taxes	(9,772,323)	-	(891,222)	(10,663,545)
Loss from discontinued operations	-	(358,955)	-	(358,955)
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

Expressed in Canadian Dollars, unless otherwise noted

12. Segmented information (continued)

	February 29, 2016			
	Canada	United States	Mexico	Total
	$	$	$	$
Non-current assets				
Mineral properties	1,386,481	19,262,377	-	20,648,858
Property, plant and equipment	30,994	40,357,197	-	40,388,191
Reclamation bonds and deposits	-	3,029,411	-	3,029,411
Total non current assets	1,417,475	62,648,985	-	64,066,460

	February 28, 2015			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (Note 7)	-	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

13. Supplemental cash flow information

Change in working capital items for the years ended:

	February 29, 2016	February 28, 2015
	$	$
Prepaid expenses,deposits and recievables	**3,931**	8,234
Long term deposits	**-**	(12,503)
Accounts payable and accrued liabilities, relating to operating items	**(210,226)**	(100,405)
Change in working capital from continuing operations	**(206,295)**	(104,674)
Inventory	**-**	245,111
Accounts receivables	**-**	1,210,566
Change in working capital from discontinued operations	**-**	1,455,677
Interest received	**12,932**	19,062

14. 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.

Expressed in Canadian Dollars, unless otherwise noted

14. Capital risk management (continued)

Capital, as defined above, at February 29, 2016 and February 28, 2015 is summarized in the following table.

	February 29, 2016	February 28, 2015
	$	$
Common shares	**160,945,419**	160,945,419
Share purchase warrants	**7,343,318**	7,343,318
Share-based payments reserve	**9,031,102**	8,697,121
Deficit	**(118,850,133)**	(65,849,005)
	58,469,706	111,136,853

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.

15. 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 are classified as fair value through profit and loss which includes cash and cash equivalents, and loans and receivables consisting of trade and other receivables and the reclamation bond. 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 4). The reclamation bond's fair value is calculated in accordance with level 1 of the fair value hierarchy.

The Company's financial liabilities are classified as other liabilities and 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 29, 2016 and February 28, 2015, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	February 29, 2016		February 28, 2015	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**1,095,357**	**1,095,357**	4,522,450	4,522,450
Reclamation bond	**3,029,411**	**3,022,619**	2,799,255	2,792,979
Financial liabilities				
Accounts payable	**74,669**	**74,669**	90,138	90,138
Accrued liabilities	**139,902**	**139,902**	354,910	354,910

Expressed in Canadian Dollars, unless otherwise noted

16. 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, cash equivalents and reclamation bonds.

The Company invests its excess cash, cash equivalents and reclamation bond principally in highly rated government and corporate debt securities, which may be liquidated at any time. 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 29, 2016	February 28, 2015
	$	$
Cash and cash equivalents	**1,095,357**	4,522,450
Reclamation bond	**3,029,411**	2,799,255

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 29, 2016				February 28, 2015
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	62,949	-	-	62,949	142,458
Short term savings	1,032,408	-	-	1,032,408	4,259,992
GIC	-	-	-	-	120,000
	1,095,357	-	-	1,095,357	4,522,450

16. Fair values and financial risk management (continued)

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 29, 2016, the Company's US savings account of US$762,994 (February 28, 2015 - $3,407,176) earns an interest rate of up to 0.46% (February 28, 2015 – 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 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.

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 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 can have a significant impact on the Company's consolidated operating results due to the translation of monetary assets and liabilities.

A 15% (February 28, 2015 – 10%) strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately $404,000 (February 28, 2015 - $687,000).

Expressed in Canadian Dollars, unless otherwise noted

17. Commitments

The following is a schedule of the Company's annual commitments as at February 29, 2016:

	Note	2017	2018 and later
		$	$
Mineral property expenditure	(a)	20,000	-
General liability insurance	(b)	44,381	-
Office operating leases	(c)	71,636	286
		136,017	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 calendar 2016 exploration program budget is $18,000. The Company is also committed to spend $2,000 for Kernaghan project representing 20% of its budget

(b) The Company has a total liability of $44,381 for insurance premium, to be paid in equal monthly instalments until October 12, 2016.

(c) The Company has annual operating lease commitments of $71,922 for office leases for year ending February 28, 2017, and half year lease for 2018.

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $744,000 in the event that certain senior management is terminated without cause or a change in control as defined in the agreements.

18. Subsequent events

(a) On March 3, 2016 the Company announced final metallurgical test work results on bench test production of cobalt sulfate heptahydrate crystals produced from ore samples from the ICP. Samuel Engineering Inc. has previously recommended that the project development activities be advanced to support and produce a BFS. Request for proposals to commission a BFS were sent to numerous qualified engineering firms in March. Commissioning of the feasibility will be announced after the completion of equity financing.

(b) On May 4, 2016, the Company announced that it had entered into an Agency Agreement (the "Agency Agreement") with Dundee Securities Ltd. ("Dundee Securities"), to act as the lead agent for a $3,000,000 (the "Offering") private placement at $0.30 per unit ("Unit"). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to acquire one common share of the Company at $0.40 for a period of 24 months from closing date.

On May 9, 2016, the Company announced the amended terms of the Agency Agreement whereby the Company granted Dundee Securities an option to sell up to 50% of additional Units on the same terms as the Offering.

Net proceeds from the private placement will be used to fund the BFS and general working capital.

Formation Metals Inc.

Management's Discussion and Analysis

For the Year Ended February 29, 2016

Date of Report: May 27, 2016

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

Symbol: Toronto Stock Exchange – FCO

Table of Contents

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 29, 2016 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 27, 2016.

1.2 Overview

1.2.1 Summary

The Company is a mineral exploration and mine development company listed on 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.

The Company's primary project, located in the mining friendly state of Idaho, is the 100% owned Idaho Cobalt Project (the "ICP"). All critical environmental permits are in place with an approved mine Plan of Operations. The ICP is comprised of the primary high grade cobalt deposit and the partially completed mine and mill located in Lemhi County outside of the town of Salmon, Idaho, and a to be constructed cobalt production refining facility ("CPF"). Should the project proceed, the CPF will likely be located along a railhead in an industrial hub in southern Idaho.

The Company SEDAR filed a National Instrument 43-101 compliant Preliminary Economic Assessment ("PEA") on the ICP on May 8, 2015. The PEA demonstrated positive economics for the ICP including 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 PEA included 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.

On March 3, 2016 the Company announced final metallurgical test work results on bench test production of cobalt sulfate heptahydrate crystals produced from ore samples from the ICP. Samuel Engineering Inc. ("SE") of Denver, CO, was the Company's lead engineer coordinating the metallurgical test work. SE previously reported that based on the extensive metallurgical test work results to date, successful modifications to the Mill and CPF flowsheets, the recent successful results and commitments from Cytec Industries Inc. ("Cytec") and General Electric's Water and Process Technologies Group ("GE"), final end product is expected to meet the quality standards for high purity cobalt sulfate chemicals.

The development of the modified flow sheets outlines a critical path forward for the Company. SE has previously recommended that the project development activities be advanced to support and produce a Bankable Feasibility Study ("BFS"). The finalization of the modified flow sheets allows for such advancement. Requests for Proposals ("RFP") to commission a BFS were sent to numerous qualified engineering firms in March 2016.

Subsequent to the year ended, the Company announced a private placement financing on May 9, 2016 for gross proceeds of up to $4,500,000. The proceeds of the private placement will be used to finance the BFS and general working capital. Engineering work is critical to defining a clear path forward for the development, engineering, procurement and construction of the ICP. In conjunction with commissioning the BFS, the Company also intends to continue marketing the ICP and pursue product off-take arrangements to help facilitate Capex financing for project development.

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. Very little work was expended on these properties during the year ended February 29, 2016. This portfolio of mineral properties is being evaluated for possible monetization.

1.2.2 Highlights for the year ended February 29, 2016 and subsequent events

Corporate:

(a) The Company held its Annual General Meeting on June 25, 2015 and all resolutions recommended by the Company were passed, including the election of all directors and appointment of auditors;

(b) During the year ended February 29, 2016, the Company reported a comprehensive loss of $53,172,052 (February 28, 2015 - $9,214,302) and accumulated deficit of $118,850,133 (February 28, 2015 - $65,849,005);

(c) As at February 29, 2016, the Company had working capital of $954,504 (February 28, 2015 - $4,155,051);

(d) On May 8, 2015, the Company filed a PEA on the ICP with NPV of US$113,000,000 discounted at 8.5%, IRR of 24.07% and a 12.5 year mine life after pre-production;

(e) On December 8, 2015, the Company announced the completion of initial bench test production of cobalt sulfate heptahydrate crystals suitable for the rechargeable battery sector from ICP ore samples. This bench test work was developed and successfully tested the process of producing cobalt salts used in the rechargeable battery sector;

(f) On March 3, 2016 the Company announced final metallurgical test work results on bench test production of cobalt sulfate heptahydrate crystals produced from ore samples from the ICP. SE has previously recommended that the project development activities be advanced to support and produce a BFS. RFP's to commission a BFS were sent to numerous qualified engineering firms in March 2016. Commissioning of the BFS is conditional on the completion of equity financing which is currently underway, and Board approval; and

(g) On May 4, 2016, the Company announced that it had entered into an Agency Agreement (the "Agency Agreement") with Dundee Securities Ltd. ("Dundee Securities"), to act as the lead agent for a $3,000,000 (the "Offering") private placement at $0.30 per unit ("Unit"). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to acquire one common share of the Company at $0.40 for a period of 24 months from closing date.

    On May 9, 2016, the Company announced the amended terms of the Agency Agreement whereby the Company granted Dundee Securities an option to sell up to 50% of additional Units on the same terms as the Offering.

    Net proceeds from the private placement will be used to fund the BFS and general working capital. The Company expects closing of the private placement to take place before the end of Q1.

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 annual audited consolidated financial statements for the year ended February 29, 2016 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 discussion of the Company's primary mineral exploration and development project, the Idaho Cobalt Project, in addition to other projects that the Company has interests in.

(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 site 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 on 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 and milling 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.

2015 Preliminary Economic Assessment on the ICP

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. The April 29, 2015 PEA's economic model uses a 35% corporate tax rate and an 8.5% discount rate, resulting in an after tax NPV of $113 million and an IRR of 24.07%. A pro forma cash flow was developed using conventional methodology utilizing the base case 8.5% discount rate, before and after tax determination of project economics, annual cash flows discounted on an end of year basis with costs estimated in first quarter 2015 U.S. Dollars. A summary of the Life of Mine ("LOM") economic results are shown in the following table. Note that all monetary values used in the economics results of the PEA are in US$.

• Pre-Tax NPV8.5%:	$148 million, IRR 27.7%
• Post-Tax NPV8.5%:	$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: (net of gold, copper and magnesium credits)	$4.94 per pound
• 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: (including ounces in copper con and doré)	46,858 ounces

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 past costs totalling $65.31 million.

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 by-product credits.

The PEA is based on an underground mine with a target production rate of 800 tons per day 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, based on the feasibility level metallurgical test work completed over the past fiscal year, call for the initial scalping of copper from concentrate produced at the mine and mill to produce a copper rich concentrate and a cobalt rich concentrate utilizing standard froth flotation circuits for further hydrometallurgical processing at the CPF. Additional cobalt is expected to be recovered from the copper rich concentrate at the CPF to produce a clean copper concentrate suitable for direct sale to a copper smelter. Hydrometallurgical processing of the cobalt rich, copper bearing sulfide concentrate will be conducted at the CPF to produce cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector. Marketable by-products include copper concentrate (from the copper rich 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. Free gold is planned to be recovered through a carbon-in-leach cyanidation circuit producing gold-loaded carbon.

The PEA reported 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.

Earlier in 2015, 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 cut-off 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 cut-off grade. No metal value is given to the copper or gold in determining the Co resource cut-off. 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.

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 which was filed on SEDAR on May 8, 2015.

Conclusions from SE and MDA are 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 bankable feasibility stage. To date the Qualified Persons under NI 43-101 are not aware of any fatal flaws for the ICP.

Feasibility Level Metallurgical Test Work

On December 8, 2015, the Company announced that initial bench test production of cobalt sulfate heptahydrate crystals suitable for the rechargeable battery sector has been successfully completed from ICP ore samples. Subsequently, on March 3, 2016, the Company announced that it had developed an initial specification sheet for its cobalt sulfate heptahydrate demonstrating the process developed resulted in a high purity cobalt sulfate product. This bench test work, outlined through a MOU and Non-Disclosure Agreements with GE, was developed and tested the process of producing cobalt salts used in the rechargeable battery sector. This metallurgical advancement represents the culmination of a year-long testing program designed to demonstrate that high purity, battery grade cobalt sulfate could be produced from ICP ore and was verified by GE. Under the terms of a MOU, GE is to supply the equipment for the crystallizer sections of the CPF, while the Company will utilize Cytec reagents in the solvent extraction of cobalt used to purify solutions for GE equipment to produce high purity cobalt sulfate heptahydrate crystals.

The successful completion of this pilot study utilized one of Cytec's reagents to produce a cobalt rich solution suitable for the production of battery grade cobalt salts. This work involved the substitution of sodium hydroxide for magnesium oxide as the neutralizing base compound. The switch from sodium hydroxide to magnesium oxide resulted in a reduction of waste products and the potential to realize additional revenues through sales of by-product magnesium sulfate. This environmentally responsive approach to plant design exemplifies the Company's commitment to its Corporate Social Responsibilities' core values. Through this testing, two of the key process steps, cobalt solvent extraction from Cytec, and crystallization from GE, performed as required in support of the PEA. These successful metallurgical test results prompted recommendations from SE, the independent engineering firm overseeing the test work, to advance the project to a Bankable Feasibility Level.

All required metallurgical test work to confirm the viability of producing battery grade cobalt chemicals from the ICP ore samples have been successfully performed. The following milestones outline the metallurgical test work completed to date:

- Process flow sheet developed to produce cobalt chemicals, November 2014 - March 2015;
- PEA performed on proposed flowsheet, SEDAR filed May 2015;
- Flotation tests finalized, final flow sheet determined, July - August 2015;
- NSC (Nitrogen Species Catalyzed) leaching made Pregnant Leach Solution from concentrate as per the existing PEA flow sheet, July - August, 2015;
- Copper reduction from cobalt concentrate achieved, July - August 2015;
- Iron, and trace copper removal steps were finalized as part of testing, July - August 2015;
- Cobalt SX (Solvent Extraction) was piloted and successfully produced the required cobalt to magnesium ratio strip solution, October 2015;
- High Purity Cobalt Sulfate Heptahydrate Crystals successfully produced at desired size from Co SX strip solution, November 2015; and
- Product Data Specification Sheet for high purity cobalt sulfate heptahydrate crystals developed- February 2016.

On March 3, 2016 the Company announced final metallurgical test work results on bench test production of cobalt sulfate heptahydrate crystals produced from ore samples from the ICP. SE was the Company's lead engineer coordinating the metallurgical test work. SE previously reported that based on the extensive metallurgical test work results to date, successful modifications to the Mill and CPF flowsheets and, the recent successful results and commitments from Cytec and GE, it is expected that the final end product will meet the quality standards for high purity cobalt sulfate chemicals.

The development of the modified flow sheets outlines a critical path forward for the Company. SE has previously recommended that the project development activities be advanced to support and produce a BFS. The finalization of the modified flow sheets allows for such advancement. RFP's to commission a BFS were sent to numerous qualified engineering firms in March. Commissioning of the BFS will is expected to be announced after the completion of an equity financing first announced on May 9, 2016. Engineering work is critical to defining a clear path forward for the development, engineering, procurement and construction of the ICP.

Impairment Assessment

For the year ended February 29, 2016, the Company examined economic indicators to determine the likelihood of impairment on the ICP. These economic indicators include the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. These indicators compared to those from the 2015 fiscal year indicate the likelihood of impairment of the ICP. In order to assess for impairment of the non-current assets recorded for ICP at February 29, 2016, management had made the following assessment to determine the recoverable amount and compared these results to the carrying value of the ICP for the purpose of impairment:

(i) Recoverable Amount:

At February 29, 2016, the Company conducted an impairment assessment of the ICP, which is the Company's sole primary asset, and estimated recoverable amount based on the fair value in use method. The economic model for future cash flows was derived from the Company's April 29, 2015 Preliminary Economic Assessment ("PEA") which was SEDAR filed on May 8, 2015.

(ii) Cash Flow Period:

Cash flows used for the impairment assessment of the ICP were based on the Company's PEA. The PEA was an independent National Instrument 43-101 compliant technical report based on estimated resources and three-dimensional block modeling used for mine planning, design, and scheduling ("Mine Development").

The Life of Mine was estimated to be 12.5 years after the preproduction period. The preproduction period is 21 months, in which the initial capital expenditure investment would be made to bring the ICP into commercial production.

IAS 36 suggests that cash flow projections be 5 years unless there is justifiable evidence to support a longer period. A 5 year cash flow would have only captured the preproduction period and 3.25 years (39 months) of commercial production; resulting in an incomplete assessment of the project's cash flows and a negative net present value ("NPV") as 100% of initial capital expenditure is required during the preproduction period.

As such, the Company believes that the use of a greater than five year cash flow was justified, because the modeling was developed on a "life of mine basis", was external in nature, supportable, reliable and represents management's best estimate of the remaining useful life of the asset.

(iii) Discount Rate:

A pre-tax discount rate of 13.40% as at February 29, 2016 (February 28, 2015 - 11.00%) was used for impairment testing and derived based on the Company's weighted average cost of capital ("WACC") using the Capital Asset Pricing Model. A debt to equity ratio of 50:50 (February 28, 2015 - 20:80) was estimated based on strategic financing arrangements that the Company anticipates. Factors such as the positive long term outlook for cobalt driven by increased demand in the rechargeable batteries industry and a shortfall of cobalt supply, off-take agreements to de-risk revenue and future cash flows, internal assessments on financing alternatives' effect on return to shareholders, and comparing the Company's discount rate amongst its peers, were considered in the determination of the debt to equity ratio. Management is of the position that the discount rate used for the impairment assessment fairly reflects the pre-tax market assessment of time value of money for the ICP.

(iv) Impairment Assessment:

Prior to the impairment assessment, the carrying costs capitalized to the ICP were $109,214,133 (February 28, 2015 - $109,200,333).

The carrying value of the ICP at February 29, 2016 post impairment as discussed below was $57,779,420 (February 28, 2015 - $109,200,333), comprised of $19,229,600 (February 28, 2015 - $69,383,905) for mineral properties and $38,549,820 (February 28, 2015 - $39,816,429) for property, plant and equipment.

The recoverable amount of the ICP was derived using the pre-tax cash flow model of the PEA. Using a pre-tax discount rate of 13.40% as at February 29, 2016 (February 28, 2015 - 11.00%), the recoverable value of the ICP was $57,779,420 or US$43,184,965 (February 28, 2015 - $143,400,759 or US$128,966,923). The Company recorded an impairment of the ICP of $51,434,713 as at February 29, 2016 (February 28, 2015 - $5,386,920), which reduced the capitalized costs incurred on the ICP of $102,214,133 to the recoverable amount of $57,779,420. The changes in the forecast price of cobalt to $17.00 per lb. (February 28, 2015- $19.50 per lb.) and discount rate as a result of changes to the Company's capital expenditure financing assumptions lead to the reduction in the recoverable amount of the ICP.

(v) Inclusion of Measured and Indicated Resources:

The Company included 100% of measured and indicated resources in deriving the value in use of the ICP. In measuring value in use, the Company made assumptions about the range of economic conditions that will exist over the life of mine. Some of the factors considered in determining the probability of conversion include:

(i) The Company's history of converting resources into reserves;
(ii) Closeness of the scheduled start of the work to convert resources into reserves; and
(iii) Additional cost to access the resource.

Significant milestones have been achieved and the ICP is an advanced project with the following completed:

(i) Fully permitted;
(ii) Completed construction of earthworks at the mine and mill;
(iii) Have purchased all long lead equipment for the mine and mill; and
(iv) Filing of the PEA in May 2015 to produce cobalt sulfate heptahydrate instead of high purity cobalt metal, in response to growth in the rechargeable batteries industry.

Positive initial results from in-house evaluations of the Company's ability to produce cobalt heptahydrate suitable for the rapidly growing rechargeable battery sector resulted in the decision to proceed with the commissioning and filing of the PEA. The Company continues to work to enhance the project life as outlined under cash flows in item 2 above, and intends to produce a BFS (Note 1) by the end of calendar year 2016. Construction of the CPF and mine could begin by March 1, 2017. As a result of the above activities, the Company is of the view that inclusion of 100% of measured and indicated resources in deriving the recoverable amount of the ICP is appropriate.

The Company expects the ICP to commence commercial production in 2 years, pending market conditions and the ability to finance initial capital expenditure. The additional initial capital expenditure is US$147 million as per the information disclosed in the current PEA.

(vi) Additional Expenditures Required

Based on estimates included in the PEA, the additional initial capital expenditure required to put the ICP into commercial production, ready in use, is US$147 million. See item iii above for management's assumptions on financing of additional capital expenditure.

(vii) Sensitivity Analysis

Management anticipates that 70% of total revenues from the Life of Mine of the ICP will be from the sale of cobalt sulfate heptahydrate; therefore, changes in the price of cobalt have the biggest impact on the recoverable amount of the ICP. This is followed by changes in operating cost, capital expenditure and discount rate. Below illustrates the sensitivity of changes in price of cobalt sulfate heptahydrate, operating cost, capital expenditure, and discount rate have on the recoverable value of the ICP.

Percentage Change of Inputs	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%
	Recoverable Amount Sensitivity- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ -	$ -	$ -	$ 19,463,042	$ 57,779,420	$ 96,095,798	$ 134,412,176	$ 172,728,555	$ 211,044,933
Operating Cost	$ 133,167,447	$ 114,636,118	$ 95,894,337	$ 76,942,105	$ 57,779,420	$ 38,406,283	$ 18,822,715	$ -	$ -
Capex	$ 123,836,855	$ 107,322,496	$ 90,808,137	$ 74,293,779	$ 57,779,420	$ 41,265,061	$ 24,750,703	$ 8,236,344	$ -
Discount Rate	$ 124,316,837	$ 104,919,142	$ 87,522,259	$ 71,879,591	$ 57,779,420	$ 45,039,436	$ 33,502,194	$ 23,031,341	$ 13,508,458
	Surplus (Short-fall) from Carrying Value- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ (57,779,420)	$ (57,779,420)	$ (57,779,420)	$ (38,316,378)	$ -	$ 38,316,378	$ 76,632,756	$ 114,949,135	$ 153,265,513
Operating Cost	$ 75,388,027	$ 56,856,698	$ 38,114,917	$ 19,162,685	$ -	$ (19,373,137)	$ (38,956,705)	$ (57,779,420)	$ (57,779,420)
Capex	$ 66,057,435	$ 49,543,076	$ 33,028,717	$ 16,514,359	$ -	$ (16,514,359)	$ (33,028,717)	$ (49,543,076)	$ (57,779,420)
Discount Rate	$ 66,537,417	$ 47,139,722	$ 29,742,839	$ 14,100,171	$ -	$ (12,739,984)	$ (24,277,226)	$ (34,748,079)	$ (44,270,962)

Included in the above are additional assumptions and estimates for production volumes, recoverable quantities, production profile, and contractual duration of mining rights, and financial, economic, political and technological risks external to the Company. As the Company continues evaluating the ICP for production of cobalt sulfate heptahydrate and refining processes, all parameters which could be incorporated into the impairment assessment as mentioned above, the resulting estimates, assumptions and outcomes are subject to changes which may impact future impairment evaluations.

(b) Black Pine – Idaho, USA

The Company 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 fully impaired the Black Pine property by $3,339,332, resulting in a carrying cost of $nil. The February 28, 2015 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. 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 fully impaired the Morning Glory property by $544,726, 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. 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 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 fully impaired the Queen of the Hills property by $141,247, 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. All mineral claims related to the Queen of the Hills are in good standing.

(e) Wallace Creek – Idaho, USA

The Company 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 a 100% interest in the El Milagro property in Tamaulipas, Mexico. During the year ended February 28, 2015, the Company fully impaired the El Milagro property by $93,310 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. All mineral claims related to the El Milagro are in good standing.

(g) Kernaghan Lake – 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 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. The operator, Areva Resources Canada Inc. (Areva), of the project did not conduct any exploration work during the year ended February 29, 2016, it remains in good standing until 2017. Proposed budget for 2016 is $10,000, of which the Company's share is $2,000.

(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 2014 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, continued data compilation, and corridor scale analysis of the Virgin trend in order to drive future exploration programs.

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.

A budget of $900,000 was approved for 2016 calendar year, of which the Company's portion is $18,000.

1.2.6 Market Outlook

Cobalt Market Overview

Demand

Refined cobalt consumption has been steadily increasing over the past couple of years with 83,000[1] tonnes in 2013, 89,000[2] tonnes in 2014, and 90,150[3] tonnes in 2015. Demand from rechargeable battery sector grew by 11.7% in 2015 taking up 49% of total cobalt demand followed by supperalloys at 18% and hard metals at 8%[4]. The remaining 25% were used in other applications such as ceramics/pigments, catalysts, hard facing, paint driers, magnets and others[5]. Compounded annual growth rate for cobalt consumption is expected to reach 5.1% within the medium term to 124,000 tonnes by 2020 and 153,000 tonnes by 2025[6]. Most of this growth is due to consumption of cobalt used in rechargeable battery applications with the strongest forecast demand growth coming from Electric Vehicles ("EVs") market at 16% per annum, portable electronics such as tablets, laptops and household devices at 10% per annum, and portable phones at 6% per annum[7].

Energy requirement in MWh for EVs are expected to grow at 16% per annum until 2025[8]. To produce this energy requirement, the battery sector is forecasted to consume 75% to 78% of total cobalt production[9]. In 2014, Tesla Motors, Inc. confirmed its plans to build its US$5.0 billion EV "Gigafactory" in Reno, Nevada of which construction is well underway and ahead of schedule. At its peak, the Gigafactory is expected to 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. Recently, the following companies have also announced investments in EVs including:

(i) Ford Motor Company announced commitment to invest US$4.5 billion to bring 13 new EVs to its portfolio by 2020;
(ii) Porsche AG announced €700 million investment to their main assembly plant for EV production;
(iii) Faraday Future plans to invest US$1.0 billion to develop intelligent EVs;
(iv) General Motors Company has also shown their commitment towards EV technology including fast-tracking their Chevy Bolt production; and
(v) Audi, BMW, Mercedes, BYD, Volkswagen, Mitsubishi, Renault, and Nissan have EVs in their current and/or medium term portfolio.

The EV market continues to rise in popularity and importance and there are several other EV manufacturers which have announced plans for new vehicle production. Stationary storage cells utilized to store energy from sources such as wind and solar powered generators and off peak grid charging are also contributing to this significant growth in the markets.

Supply

Cobalt is produced primarily a by-product of nickel and copper mining, with 60% of cobalt coming from copper mining, 38% from nickel production, and 2% from primary cobalt mines in Morocco and Uganda. Weak nickel and copper prices have negatively impacted cobalt supply due to the suspension and closure of a number of large nickel and copper projects including Glencore/Katanga Mining (representing 10% of global cobalt metal supply), Votorantim, ERG/Chambishi, Norilsk Nickel, and Queensland Nickel.

Approximately 65% of the world cobalt supply is mined from the Democratic Republic of Congo ("DRC") with 69,200 tonnes produced in 2015[10]. Despite the reduction in cobalt production related to nickel and copper projects, total cobalt output from the DRC increased by 9% in 2015 and this was due to increase in cobalt production from artisanal mining[11]. Artisanal mining accounts for approximately 22% of total cobalt production from the DRC. Supply from artisanal production is expected to taper off as easily accessible high grade reserves get depleted. Current low cobalt prices make artisanal mining less profitable and this may also impact artisanal mining output. In addition, Amnesty International published a report in January 2016 titled "This Is What We Die For" which exposes abuses of the human rights, safety and environmental issues related to artisanal mining. The article also made allegations against global technology companies for using cobalt sourced from artisanal mining supply, highlighting the importance of supply chain management and traceability of the sourcing raw materials. This may also result in regulation changes relating to artisanal mining activities in the DRC.

China is the largest importer of cobalt raw materials estimated at 65% or 59,223 tonnes[12] of world supply in 2015. Approximately 94%[13] of Chinese import comes from cobalt contained in intermediates such as crude hydroxide produced in

[1] CRU Cobalt Market Outlook 2015
[2] CRU Cobalt Market Outlook 2015
[3] CRU Cobalt Market Outlook 2015
[4] Darton Commodities Limited Cobalt Market Review 2015-16
[5] Darton Commodities Limited Cobalt Market Review 2015-16
[6] CRU Cobalt Market Outlook 2015
[7] CRU Cobalt Market Outlook 2015
[8] CRU Cobalt Market Outlook 2015
[9] CRU Cobalt Market Outlook 2015
[10] Darton Commodities Limited Cobalt Market Review 2015-16
[11] Darton Commodities Limited Cobalt Market Review 2015-16
[12] Darton Commodities Limited Cobalt Market Review 2015-16
[13] Darton Commodities Limited Cobalt Market Review 2015-16

the DRC. In turn, China is also the largest producer of refined cobalt with a 9% growth in production in 2015 representing 52% or 48,500 tonnes of world production[14]. This growth is predominately driven by demand from downstream markets. This growth forces Chinese biggest refiners and producers to expand and aggressively acquire cobalt assets. This was demonstrated by China Molybdenum's acquisition of Freeport McMoRan Inc.'s Tenke Fungurume flagship copper-cobalt asset in the DRC for US$2.65 billion in April 2016. In addition to this acquisition, China Molybdenum also has the option to acquire Freeport's Kisanfu project in the DRC and its interest in the Kokkola Cobalt Refinery in Finland for US$100 million.

Supply Demand Balance

Forecasted compounded annual growth rate for cobalt supply is 2.4%. As a result of increase in demand and reduction in supply of cobalt, overall supply demand balance is forecasted to progressively tighten over the medium and long term with minimal prospects of new cobalt projects coming into production within the next decade[15]. Demand for metallurgical cobalt will continues to grow against supply even though there is a small surplus in metallurgical cobalt supply. Significant increase in demand of non-metallurgical or cobalt chemicals used in rechargeable batteries will cause deep deficit. The combined effect is expected to result in a projected deficit of 10,000 tonnes annually by 2020[16].

Historically, metallurgical supply demand balance has the most impact in setting market cobalt price and this tends to also influence the price of non-metallurgical or cobalt chemicals. The serious deficit expected in the non-metallurgical or cobalt chemicals may change these market dynamics. Cobalt supply deficit, especially metal, drives prices higher and it is forecasted that price of cobalt metal at 99.3% and 99.8% grades will reach $20.00 and $21.00 per lb. respectively by 2020[17]. For the impairment assessment of the ICP for the year ended February 29, 2016, management used a price of $17.00 per lb. for the price of cobalt sulfate to arrive at a recoverable value (see disclosure in Idaho Cobalt Project- Impairment section).

Cobalt and the ICP

Cobalt metal, powders and chemicals remain critical in the production of rechargeable batteries and the ICP is the only primary cobalt deposit located in the United States that is near term and environmentally permitted. These are key positive attributes of the ICP that can address some of the risks and issues faced by the world cobalt market today. As the ICP is a primary cobalt deposit (less than 2% of current world production of cobalt comes from primary deposits), it is not influenced by copper and nickel markets. Being located in the United States eliminates the geopolitical and human rights issues that are attached to cobalt that comes from the DRC. The ICP offers a unique opportunity for North American consumers to secure an ethically sourced, environmentally sound supply of high purity cobalt chemicals, mined safely and responsibly. The Company believes that the ICP could be well positioned to capitalize on the growing demand for cobalt, in particular battery grade cobalt chemicals. In addition, previous engineering studies, now considered out of date, demonstrated the ability of the project to produce high purity cobalt metal suitable for critical applications in the aerospace sector. These are the two fastest growing sectors in the cobalt market.

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 cut-off. 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 engineering and geological 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.

---

[14] Darton Commodities Limited Cobalt Market Review 2015-16
[15] CRU Cobalt Market Outlook 2015
[16] CRU Cobalt Market Outlook 2015
[17] CRU Cobalt Market Outlook 2015

Share Price Performance

The Company's share price remained relatively stable throughout the fiscal year ranging in price between roughly $0.10 and $0.20. In the beginning of March 2016 the share price reacted positively in response to increased media, analyst and newsletter coverage of the rapidly expanding EV sector, the ethical issues associated with artisanal mining in the DRC and the expected supply deficits.

Figure 1: Formation Metals' Share Price, March 1, 2015 – May 27, 2016 (Stockwatch.com, 2016)

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.

	Year ended February 29, 2016		Year ended February 28, 2015		Year ended February 29, 2014
	$	%	$	%	$
Share-based payments	(333,981)	196%	(112,746)	0%	-
Foreign exchange (loss) gain	222,005	-59%	535,476	-40%	889,881
Depreciation	(51,248)	9%	(47,211)	-26%	(63,615)
Impairment of property, plant and equipment	-	-100%	(5,386,920)	-51%	(10,897,811)
Impairment of mineral properties	(51,434,713)	1113%	(4,240,426)	3288%	(125,162)
Retirement and severance pay	-	0%	-	-100%	(2,451,663)
Write-off deferred financing cost	-	0%	-	-100%	(2,681,116)
All other expenses	(1,405,180)	0%	(1,411,718)	-64%	(3,868,431)
Net loss before taxes from continued operations	(53,003,117)	397%	(10,663,545)	-44%	(19,197,917)
Income tax (expense) recovery	1,989	-100%	1,717,062	-66%	5,043,214
Net loss after taxes from continued operations	(53,001,128)	492%	(8,946,483)	-37%	(14,154,703)
Gain (loss) from discontinued operations	-	-100%	(358,955)	-205%	340,673
Other comprehensive income: currency translation adjustment	(170,924)	0 -288%	91,136	-81%	487,476
Total comprehensive loss for the year	(53,172,052)	477%	(9,214,302)	-31%	(13,326,554)
Basic and diluted loss per share	(0.58)	480%	(0.10)	-38%	(0.16)

	(IFRS) Year ended February 29, 2016	(IFRS) Year ended February 28, 2015	(IFRS) Year ended February 29, 2014
	$	$	$
Total assets	65,235,535	118,008,882	126,133,907
Total long term liabilities	5,998,489	5,703,288	2,904,898

1.4 Results of Operations

Financial Results of Operations for the Year Ended February 29, 2016 and February 28, 2015

The following are highlights from the Company's results from operations for the year ended February 29, 2016 and February 28, 2015:

(a) **Comprehensive loss** for the year ended February 29, 2016 was $53,172,052 or $0.58 per share (February 28, 2015 - $9,214,302 or $0.10 per share). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the items discussed below.

(b) **Impairment of mineral properties and property, plant and equipment** for the year ended February 29, 2016 was $51,434,713 (February 28, 2015 - $9,627,346). Impairment on mineral properties was recognized on the ICP as a result of changes in discount rate from 11.00% in 2015 to 13.40% in 2016 (see disclosure in Idaho Cobalt Project- Impairment section). Changes in assumption of Capex financing structure for the ICP were made from 20/80 debt to equity in 2015 to 50/50 debt to equity in 2016. These assumptions were made to reflect current market conditions and structure of the Company's past financing activities. Base case assumption on price of cobalt sulfate heptahydrate was also changed from $19.50 in 2015 to $17.00 in 2016, this more accurately reflects current spot cobalt price and projected premiums.

For the year ended February 28, 2015, the Company impaired $5,386,920 from property plant and equipment. 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. 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 Company impaired $4,240,426 in mineral properties for the year ended February 28, 2015. The impairment of mineral resources was related to the following properties: Black Pine $3,339,332; Morning Glory $544,726, Queen of the Hills $141,246, El Milagro $93,310 and other properties $116,044. The impairment of these properties was due to the Company not having any plan or budget to explore the properties further, and the Company having no basis with which to value the properties.. The carrying value of these properties as at February 28, 2015 was $nil.

(c) **Directors fees** for the year ended February 29, 2016 was $124,460 (February 28, 2015 - $253,712). The Company reduced directors fees including annual retainers and meeting fees by 50% during the year ended February 29, 2016.

(d) **Shareholder relations** for the year ended February 29, 2016 was $125,138 (February 28, 2015 - $70,950). Higher shareholder relations fees incurred during the current period was a result of increased investor relation activities to enhance shareholder awareness of the ICP. These activities include hiring an investor relations consultant, attending conferences and distribution of investor communication materials.

(e) **Foreign exchange gain** for the year ended February 29, 2016 was $222,005 (February 28, 2015 - $535,476). The US dollar appreciated against the Canadian dollar from $1.2503 to $1.3531 during the fiscal year ended February 29, 2016 (February 28, 2015- from $1.1074 to $1.2503). Foreign exchange gains and losses results 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 Company's subsidiaries' functional currency. In addition to significant reduction in the value of Canadian dollar against the US dollar during the current period, the change in accounting policy also contributed to the large difference in foreign exchange gain compared to the same period last year.

(f) **Office expense** for the year ended February 29, 2016 was $306,087 (February 28, 2015 - $241,838). Higher office expense reported in the current period was due to the cost of disposing refinery slag materials that remained from the sale of the Sunshine Refinery. The disposition costs were high due to the environmentally sensitive nature of the materials; otherwise the Company has made material reductions to overhead and office expenses. 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.

(g) **Share-based compensation, a non-cash expense,** was $333,981 (February 28, 2015 - $112,746) for the year ended February 29, 2016. On April 27, 2015 the Company granted 3,103,000 options to directors, officers and employees exercisable at $0.20 per share and expiring on April 27, 2020. The fair value of the options was determined using the Black-Scholes option pricing model utilizing the following assumptions: risk free interest of 0.94%, expected life of 5 years, annualized volatility of 73% and share price of $0.185.

(h) **Salary and wages** for the year ended February 29, 2016 was $538,055 (February 28, 2015 - $562,669). The Company implemented reductions to salaries and wages during the beginning of the second quarter.

Financial Results of Operations for the Three Months Ended February 29, 2016

The following are highlights from the Company's results from operations for the three months ended February 29, 2016 and 2015:

(a) **Net loss** for the three months ended February 29, 2016 was $51,830,386 or $0.57 per share (February 28, 2015 - $10,046,757 or $0.16 per share). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the items discussed below.

(b) **Impairment of mineral properties and property, plant and equipment** of $51,434,713 (February 28, 2015 - $9,627,346) was recognized during the three months ended February 29, 2016 (see part (b) of Financial Results of Operations for the Year Ended February 29, 2016 and February 28, 2015 for additional disclosures).

(c) **Directors fees** for the three months ended February 29, 2016 was $29,875 (February 28, 2015 - $57,109). Lower directors' fees during the period were a result of directors agreeing to reduce their annual retainers and meeting fees by 50%.

(d) **Office expense** for the three months ended February 29, 2016 was $58,200 (February 28, 2015 - $86,983). Lower office expense during the three months ended February 29, 2016 was the result of reduction in general overhead expenses.

(e) **Salary and wages** for the three months ended February 29, 2016 was $135,902 (February 28, 2015 - $141,319). The Company implemented reductions to salaries and wages during the beginning of the second quarter.

Summary of Quarterly Results

Financial Information in thousands (except per share information)

	Three Months ended February 29, 2016 $	Three Months ended November 30, 2015 $	Three Months ended August 31, 2015 $	Three Months ended May 31, 2015 $	Three Months ended February 28, 2015 $	Three Months ended November 30, 2014 $	Three Months ended August 31, 2014 $	Three Months ended May 31, 2014 $
Net gain (loss) from continued operations	(51,764)	(299)	(151)	(789)	(14,166)	2,884	(71)	2,406
Net gain (loss) from discontinued operations	nil	nil	nil	nil	(183)	(35)	(261)	121
Basic and diluted income (loss) per share	(0.57)	(0.003)	(0.002)	(0.01)	(0.16)	0.03	(0.001)	0.03

Net loss from operations for Q4 ended February 29, 2016 was $51,763,516 compared to $299,227, $151,389 and $788,996 reported for Q3, Q2 and Q1 respectively. Excluding the impairment in mineral properties of $51,434,713 recorded in Q4, net loss for Q4 was $328,803. Net loss was significantly higher in Q1 and this was due to a non-cash expense of $331,889 for shared based compensation from the issuance stock based options on April 27, 2015 (see section 1.4 part (g)). The Company also disposed of refinery slag materials in Q1. The disposition costs were high due to the environmentally sensitive nature of the materials; otherwise the Company has made material reductions to overhead and office expenses. Foreign exchange gains were the highest in Q2 at $173,874, compared to $42,453 in Q4, $30,442 in Q3, and $24,764 in Q1, this resulted in lower net operating loss in Q2 compared to other quarters.

The Company reported net loss of $14,455,306 for Q4 ended February 28, 2015 compared to a net gain of $2,848,749 in Q3, net loss of $71,072 in Q2 and gain of $2,406,115 in Q1. Excluding the impairment in mineral properties and property, plant and equipment of $9,627,346 recorded in Q4, net loss in Q4 was $4,828,014. A foreign exchange loss of $4,408,175 was recognized in Q4, gain of $3,217,441 was reported in Q3, gain of $620,899 was reported in Q2 and gain of $1,105,311 was reported in Q1. Gain and loss as a result of foreign exchange valuation caused the most fluctuation in reported gains and loss between the quarters.

1.5 Liquidity

February 29, 2016 and 2015

(a) **Cash and cash equivalents** as at February 29, 2016 were $1,095,357 (February 28, 2015 - $4,522,450).

(b) **Working capital** as at February 29, 2016 was $954,504 (February 28, 2015 - $4,155,051).

(c) **Mineral property expenditures** of $1,548,254 (February 28, 2015 - $1,159,596) were capitalized during the year ended February 29, 2016.

(d) **Net Purchase of Property, Plant and Equipment expenditures** for the year ended February 29, 2016 was $591,735 (February 28, 2015 - $373,575).

The Company's cash and cash equivalent are held in US dollars and are invested in highly rated securities at fixed interest rates of 0.46% with varying terms maturing in less than three months from the date of purchase. All cash and cash equivalents are maintained by the parent company with cash distribution to fund the Company's subsidiaries' operations on an as needed basis. Since the ICP is on care and maintenance, the Company does not have significant commitments (see Contractual Commitments). There are no uncertainties in liquidity but cash flow is cyclical as more cash outflows happen during the summer months due to maintenance of the ICP.

Subsequent to the year ended, the Company announced a private placement financing on May 9, 2016 for gross proceeds of up $4,500,000. The proceeds of the private placement will be used to finance the BFS on the ICP and general working capital. In conjunction with commissioning the BFS, the Company also intends to continue marketing the ICP and pursue product off-take arrangements to facilitate Capex financing for project development. While the Company continues to look for opportunities 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 has sufficient working capital to sustain overhead, administrative, and property maintenance expenses over the next twelve months after the completion of the private placement.

Contractual Commitments

The following is a schedule of the Company's commitments as at February 29, 2016:

	Note	2017	2018	2019 and later
		$	$	$
Mineral property expenditure	(a)	20,000	-	-
General liability insurance	(b)	44,381	-	-
Office operating leases	(c)	71,636	286	-
		136,017	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 calendar 2016 exploration program budget is $18,000. The Company is also committed to spend $2,000 for Kernaghan project representing 20% of its budget.

(b) The Company has a total liability of $44,381 for insurance premium, to be paid in equal monthly instalments until October 12, 2016.

(c) The Company has annual operating lease commitments of $71,922 for office leases for year ending February 28, 2017, and half year lease for 2018.

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $744,000 in the event that certain senior management is terminated without cause or a change in control as defined in the agreements.

1.6 Capital Resources

The Company's working capital as at February 29, 2016 was $954,504 (February 28, 2015 - $4,155,051). Subsequent to the year ended, the Company announced a private placement financing on May 9, 2016 for gross proceeds of up $4,500,000. The proceeds of the private placement will be used to finance the BFS on the ICP and general working capital.

1.7 Off-Balance Sheet Arrangements

None.

1.8 Transactions with Related Parties

(a) Subsidiaries

	Ownership interest	
	February 29, 2016	February 28, 2015
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 29, 2016 and February 28, 2015 were as follows:

	Note	**February 29, 2016**	February 28, 2015
		$	$
Salaries and short-term employee benefits including bonuses		**445,007**	462,350
Share-based compensation	(i)	**262,867**	87,892
Directors' fees	(ii)	**116,000**	244,000
		823,874	794,242

There were outstanding balances of $57,750 owed to directors at February 29, 2016 (February 28, 2015 - $56,750), 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 29, 2016, the Company granted 2,418,000 (February 28, 2015 – 725,000) stock options to directors and officers with weighted average exercise price of $0.20 (February 28, 2015 - $0.21) per share, expiring five years from the issue date.

(ii) The Company paid and accrued directors fees of $116,000 (February 28, 2015 - $244,000) for the year ended February 29, 2016. The Company also reimbursed directors for business related expenses in the amount of $8,460 (February 28, 2015 - $9,712).

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 $744,000 in the event that executive officers are terminated without cause or upon a change of control.

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

		For the year ended February 29, 2016				For the year ended February 28, 2015			
		Non cash share based compensation	**Salary and benefits**	**Directors Fees**	**Total Compensation**	Non cash share based compensation	Salary and benefits	Directors Fees	Total Compensation
		$	**$**	**$**	**$**	$	$	$	$
Cecil Andurs	Director Emeritus	**2,690**	**-**	**-**	**2,690**	3,031	-	-	3,031
David Christie	Director	**25,178**	**-**	**17,000**	**42,178**	6,062	-	35,000	41,062
James Engdahl	Director	**25,178**	**-**	**17,500**	**42,678**	6,062	-	35,000	41,062
Paul Farquharson	President & CEO	**32,280**	**205,111**	**-**	**237,391**	18,185	217,350	-	235,535
Gregory Hahn	Director	**25,178**	**-**	**17,000**	**42,178**	6,062	-	33,000	39,062
Scott Hean	Director	**25,178**	**-**	**17,500**	**42,678**	6,062	-	37,000	43,062
Rick Honsinger	Vice President	**25,824**	**122,396**	**-**	**148,220**	12,123	125,000	-	137,123
Robert Metka	Director	**25,178**	**-**	**16,000**	**41,178**	6,062	-	36,000	42,062
Robert Quinn	Director	**25,178**	**-**	**15,000**	**40,178**	6,062	-	32,000	38,062
David Stone	Director	**25,178**	**-**	**16,000**	**41,178**	6,062	-	36,000	42,062
Marc Tran	CFO	**25,824**	**117,500**	**-**	**143,324**	12,123	120,000	-	132,123
		262,867	**445,007**	**116,000**	**823,874**	87,892	462,350	244,000	794,242

1.9 Proposed Transactions

None.

1.10 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 with respect to the mineral properties, and property, plant and equipment. 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

(i) 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.

(ii) The provision for site reclamation and closure costs (Note 8) 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.

(iii) 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 9) requires significant estimates about the future profitability, ability to utilize deferred tax assets and 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.

(iv) 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.

1.11 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 are classified as fair value through profit and loss which includes cash and cash equivalents, and loans and receivables consisting of the reclamation bond. 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 4). The reclamation bond's fair value is calculated in accordance with level 1 of the fair value hierarchy.

The Company's financial liabilities are classified as other liabilities and 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 29, 2016 and February 28, 2015, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

		February 29, 2016		February 28, 2015
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**1,095,357**	**1,095,357**	4,522,450	4,522,450
Reclamation bond	**3,029,411**	**3,022,619**	2,799,255	2,792,979
Financial liabilities				
Accounts payable	**74,669**	**74,669**	90,138	90,138
Accrued liabilities	**139,902**	**139,902**	354,910	354,910

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, cash equivalents and reclamation bonds.

The Company invests its excess cash, cash equivalents and reclamation bond principally in highly rated government and corporate debt securities, which may be liquidated at any time. 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 29, 2016	February 28, 2015
	$	$
Cash and cash equivalents	**1,095,357**	4,522,450
Reclamation bond	**3,029,411**	2,799,255

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 29, 2016				February 28, 2015
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	62,949	-	-	62,949	142,458
Short term savings	1,032,408	-	-	1,032,408	4,259,992
GIC	-	-	-	-	120,000
	1,095,357	-	-	1,095,357	4,522,450

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 29, 2016, the Company's US savings account of $762,994 (February 28, 2015 - $3,407,176) earns an interest rate of up to 0.46% (February 28, 2015 – 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. 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.

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 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 can have a significant impact on the Company's consolidated operating results due to the translation of monetary assets and liabilities.

A 15% (February 28, 2015 – 10%) strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately $404,000 (February 28, 2015 - $687,000).

1.13 Other MD&A Requirements

(a) Disclosure of Outstanding Share Data

As at May 27, 2016, there were 90,947,205 outstanding common shares, 6,663,000 outstanding stock options with a weighted average exercise price of $0.40 and weighted average life of 2.65 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 29, 2016.

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 year ended February 29, 2016.

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* (the "Framework"), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2002. The Company confirms that the design and operation effectiveness of the Company's internal control over financial reporting is effective.

The Company is currently reviewing and updating its internal controls to meet the standards of the 2013 COSO Framework.

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 29, 2016 and 2015. Information Circulars and Annual Information Forms are also available at www.sedar.com.