Formation Metals Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the nine months ended

November 30, 2014

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

Formation Metals Inc.
November 30, 2014

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Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statement have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company for the nine month period ended November 30, 2014 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Formation Metals Inc.

Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian dollars) (unaudited)

	Note	**November 30, 2014**	February 28, 2014
		$	$
Assets			
Current assets			
Cash and cash equivalents		**4,910,814**	5,691,140
Precious metals inventory	4	**101,519**	281,427
Trade and other receivables		**21,964**	1,395,194
Prepaid expenses and deposits		**66,875**	79,989
Total current assets		**5,101,172**	7,447,750
Reclamation bond	5	**2,561,264**	2,479,321
Mineral properties	6	**73,172,244**	71,578,592
Long term deposits	7	**138,014**	133,599
Property, plant and equipment	7	**45,017,973**	44,494,645
Total assets		**125,990,667**	126,133,907
Liabilities			
Current liabilities			
Accounts payable		**54,017**	117,507
Accrued liabilities		**247,297**	424,411
Total current liabilities		**301,314**	541,918
Provision for site reclamation and closure costs	8	**3,536,540**	2,884,461
Deferred tax liabilities		**59,373**	60,437
Total liabilities		**3,897,227**	3,486,816
Equity			
Common shares	10	**160,945,421**	150,016,217
Share purchase warrants		**7,343,318**	19,957,509
Share-based payments reserve		**8,697,121**	8,584,375
Foreign currency translation reserve		**(3,653,899)**	632,557
Deficit		**(51,238,521)**	(56,543,567)
Total equity		**122,093,440**	122,647,091
Total liabilities and equity		**125,990,667**	126,133,907

Nature of operations and going concern (Note 1)

Commitments (Note 17)

"Scott Hean"	***"James Engdahl"***
Director	Director

Formation Metals Inc.

Condensed Interim Consolidated Statement of Operations and Comprehensive Loss

(Stated in Canadian dollars) (unaudited)

	Note	Three months ending		Nine months ending	
		November 30, 2014	November 30, 2013	**November 30, 2014**	November 30, 2013
		$	$	**$**	$
Expenses					
Accounting and audit		**14,250**	26,872	**29,106**	75,682
Accretion expense	8	**18,580**	62,960	**56,299**	432,278
Bank charges and interest expense		**447**	251,422	**2,189**	561,161
Depreciation		**11,740**	44,481	**34,819**	113,598
Director's fees		**57,072**	(39,418)	**196,603**	401,075
Foreign exchange gain		**(3,217,441)**	(895,276)	**(4,943,651)**	(2,299,768)
Legal fees		**19,650**	72,570	**56,731**	380,606
Listing and filing fees		**10,770**	6,352	**48,869**	32,182
Office		**67,581**	201,912	**208,273**	392,194
Salary and wages		**126,968**	277,081	**367,932**	581,800
Shareholder information		**14,748**	41,448	**52,106**	657,333
Share-based compensation		**-**	-	**112,746**	-
		(2,875,635)	50,404	**(3,777,978)**	1,328,141
Gain (loss) from operating activities		**2,875,635**	(50,404)	**3,777,978**	(1,328,141)
Write-off of deferred financing cost		**-**	-	**-**	(2,681,116)
Writedown of property		**-**	154,391	**-**	(125,161)
Gain (loss) from discontinued operations	9	**(32,575)**	3,599,169	**(172,820)**	2,107,110
Interest income		**5,263**	19,195	**13,837**	173,021
Net income (loss) before taxes		**2,848,323**	3,722,351	**3,618,995**	(1,854,287)
Income tax recovery		**426**	(1,396,677)	**1,686,051**	672,632
Net income (loss) for the period		**2,848,749**	2,325,674	**5,305,046**	(1,181,655)
Other comprehensive income (loss):					
Currency translation adjustment		**(2,161,836)**	(433,172)	**(4,286,456)**	(1,643,936)
Total comprehensive income (loss) for the period		**686,913**	1,892,502	**1,018,590**	(2,825,591)
Basic and diluted loss per share		0.03	0.03	**0.06**	(0.01)
Weighted average number of shares outstanding					
Basic and diluted		**90,887,205**	90,887,205	**90,887,205**	90,887,205

Formation Metals Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars) (unaudited)

	Note	Common shares without par value: Shares	Common shares without par value: Amount	Share Purchase Warrants	Equity portion of convertible debenture	Share-based payments reserve	Foreign currency translation reserve	Deficit	Total shareholders' equity
			$	$	$	$	$	$	$
Balance, February 28, 2013		90,887,205	148,807,023	21,347,387	199,293	8,385,082	145,081	(42,729,537)	136,154,329
Expiration of warrants	10(c)(iii)	-	1,537,624	(1,537,624)	-	-	-	-	-
Transfer of equity portion of convertible debenture upon repayment		-	-	-	(199,293)	199,293	-	-	-
Net loss and comprehensive loss		-	-	-	-	-	(1,643,936)	(1,181,655)	(2,825,591)
Balance, November 30, 2013		90,887,205	150,344,647	19,809,763	-	8,584,375	(1,498,855)	(43,911,192)	133,328,738
Expiration of warrants	10(c)(iii)	-	(328,430)	147,746	-	-	-	-	(180,684)
Net loss and comprehensive loss		-	-	-	-	-	2,131,412	(12,632,375)	(10,500,963)
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(c)(iii)	-	10,929,204	(12,614,191)	-	-	-	-	(1,684,987)
Share-based compensation	10(b)(iii)	-	-	-	-	112,746	-	-	112,746
Net loss and comprehensive gain		-	-	-	-	-	(4,286,456)	5,305,046	1,018,590
Balance, November 30, 2014		**90,887,205**	**160,945,421**	**7,343,318**	**-**	**8,697,121**	**(3,653,899)**	**(51,238,521)**	**122,093,440**

Formation Metals Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian dollars) (unaudited)

	Note	Three months ending November 30, 2014	Three months ending November 30, 2013	Nine months ending November 30, 2014	Nine months ending November 30, 2013
		$	$	**$**	$
Operating activities					
Net loss for the period		**2,881,324**	(1,273,495)	**5,477,866**	(3,288,765)
Items not involving cash					
Accretion expense on bonds, convertible debenture, and asset retirement obligation	8	**18,580**	62,960	**56,299**	432,278
Depreciation		**11,740**	44,481	**34,819**	113,598
Deferred income tax expense		**(426)**	1,396,677	**(1,686,051)**	(672,632)
Unrealized foreign exchange (gain) loss		**(2,070,401)**	(608,704)	**(4,087,253)**	(1,781,287)
Provision for reclamation and site closure costs	8	**48,723**	(292,110)	**475,359**	(362,570)
Write-off of deferred financing cost		**-**	-	**-**	2,681,116
Wrtie down of mineral property		**-**	125,161	**-**	125,161
Change in working capital items	13	**147,993**	(1,765,423)	**(224,141)**	(1,804,180)
Other adjustments					
Interest paid		**-**	12,384	**-**	260,634
Net cash provided (used) by operating activities from continuing operations		**1,037,534**	(2,298,069)	**46,897**	(4,296,647)
Net cash provided (used) by operating activities from discontinued operations		**(105,764)**	(2,847,997)	**1,329,011**	(3,220,669)
		931,770	(5,146,066)	**1,375,908**	(7,517,316)
Investing activities					
Reclamation Bond		**-**	-	**-**	(1,831)
Mineral property expenditures	6	**(891,590)**	(548,615)	**(1,625,684)**	(1,635,950)
Purchase of property, plant and equipment, net of deposits	7	**(365,450)**	37,686	**(568,665)**	(816,366)
Restricted cash		**-**	-	**-**	44,733,408
Net cash provided (used) by investing activities from continuing operations		**(1,257,040)**	(510,929)	**(2,194,349)**	42,279,261
Net cash provided (used) by investing activities from discontinued operations		**-**	9,920,413	**-**	9,406,647
		(1,257,040)	9,409,484	**(2,194,349)**	51,685,908
Financing activities					
Repayment of convertible debt		**-**	(5,618,747)	**-**	(5,618,747)
Interest paid		**-**	(12,384)	**-**	(260,634)
Federal stimulus recovery zone bonds, net of costs		**-**	-	**-**	(35,138,132)
Net cash provided (used) by financing activities from continuing operations		-	(5,631,131)	-	(41,017,513)
Net cash provided (used) by financing activities from discontinued operations		**-**	1,493,505	**-**	-
		-	(4,137,626)	**-**	(41,017,513)
Effects of exchange rate changes on the balance of cash held in foreign currencies		**44,089**	(143,378)	**38,115**	693,516
Net cash (outflow) inflows during the period		**(281,182)**	(17,586)	**(780,326)**	3,844,595
Cash and cash equivalents, beginning of period		**5,191,996**	7,868,767	**5,691,140**	4,006,586
Cash and cash equivalents, end of period		**4,910,814**	7,851,181	**4,910,814**	7,851,181

Financial position as at	November 30, 2014	November 30, 2013	November 30, 2014	November 30, 2013
Cash and cash equivalents are comprised of:				
Cash	**308,366**	4,018,179	**308,366**	4,018,179
Short-term investments	**4,602,448**	3,833,002	**4,602,448**	3,833,002
	4,910,814	7,851,181	**4,910,814**	7,851,181

Supplemental non-cash investing and financing information (Note 13)

1. Nature of business

Formation Metals Inc. (“the Company”) was incorporated in British Columbia and commenced operations on June 13, 1988. The Company’s main focus is currently centered on its 100% owned Idaho Cobalt Project (the “ICP”) located in Lemhi County, Idaho, near the town of Salmon. To date, the Company has spent US$65.3 million and completed two phases of the ICP construction program that commenced in June 2011 and completed in December 2012. On May 2, 2013, the Company announced its decision to defer construction and underground development of the ICP due to weak cobalt prices and volatile market conditions. All obligations, commitments, and permits related to the ICP are in good standing.

Going concern

At November 30, 2014, the Company had working capital of $4,609,500 (February 28, 2014- $6,905,832). For the nine month period ended November 30, 2014, the Company reported a comprehensive gain of $1,018,590 (2013 – loss of $2,825,591) and accumulated deficit of $51,238,521 (February 28, 2014 - $56,543,567). The ability of the Company to continue as a going concern over a longer term is dependent on the Company’s ability to complete financing for the construction of the ICP. These material uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. The Company recently took efforts to significantly reduce operating and overhead costs and defer capital expenditures. The Company has sufficient cash and working capital to fund planned operations over the next 12 months based on current budgets.

The Company’s registered office is Suite 1710 – 1177 West Hastings Street, Vancouver, B.C. V6E 2L3.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and following the same accounting policies and methods of application as the Company’s most recent annual financial statements, except as outlined in note 3. These condensed interim consolidated financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the Company’s February 28, 2014 annual consolidated financial statements that were prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

In management’s opinion, all adjustments, including normal and recurring accruals, considered necessary for fair presentation have been included. The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

These condensed interim consolidated financial statements (unaudited) were approved by the Board of Directors and authorized for issue on January 14, 2015.

(b) Measurement uncertainties and estimates

The preparation of financial statements in conformity with IAS 1 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Policies and methods for measurement uncertainties and estimates are disclosed in note 2(c) of the Company's February 28, 2014 annual consolidated financial statements for the year ended. Changes have not been made to the Company's policies and methods of measurement uncertainties and estimates during the nine month period ended November 30, 2014.

3. Adoption of new and amended IFRS pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2014. The adoption of the following new IFRS pronouncement will result in enhanced financial statement disclosures in the Company's annual consolidated financial statements. This pronouncement does not affect the Company's financial results nor does it result in adjustments to previously-reported figures.

(a) Offsetting Financial Assets and Liabilities (Amendments to IAS 32)

The standard amends the presentation to provide clarifications on the application of the offsetting rules which focused on four main areas including:

(i) the meaning of "currently has a legally enforceable right of set-off";
(ii) the application of simultaneous realization and settlement;
(iii) the offsetting of collateral amounts; and
(iv) the unit of account for applying the offsetting requirements.

Per the Company's analysis, the following new or amended IFRS pronouncements did not affect the Company's financial results or disclosures. These pronouncements are not currently applicable to the Company, thus no changes were required to its existing accounting treatment.

(a) Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
(b) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS36);
(c) Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39); and
(d) IFRIC 21 Levies.

Expressed in Canadian Dollars unless otherwise noted

4. Precious metals inventory

Inventories consist of:

	November 30, 2014	February 28, 2014
	$	$
Silver inventory*	**77,334**	247,442
Gold inventory*	**24,184**	33,985
	101,519	281,427

* Silver and gold inventory for the period ended November 30, 2014 are related to discontinued operations (see Note 9) and are comprised of precious metals concentrates that are being processed and are outstanding at third party refineries as at November 30, 2014.

During the nine month period ended November 30, 2014, the Company wrote down $28,093 (2013- $712,882) of inventory to net realizable value.

5. Reclamation bonds

In connection with the ICP, the U.S. Forest Service required the Company to place a Reclamation Performance Bond in the amount of US$6,379,617 (February 28, 2014 - US$6,379,617). There has not been any change in the Reclamation Performance Bond since February 29, 2012. Earthwork and Tailing Waste Storage construction on the Idaho Cobalt Project was partially completed and disturbances during the years ended February 28, 2013, 2014, and the current period were minimal. The Reclamation Performance Bond will be released upon meeting the reclamation requirement of the U.S. Forest Service.

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 is 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 U.S. Treasury Bills and U.S. Treasury Notes. The trustee can only release the trust proceeds under the following conditions:

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

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

	Note	**$**	**November 30 2014**	February 28, 2014
			$	$
Reclamation Peformance				
Bond Requirement		US$	**6,379,617**	6,379,617
Insured		US$	**6,379,617**	6,379,617
In Trust:				
US Treasury Securities	(i)	US$	**2,239,196**	2,239,196
			2,239,196	2,239,196
Reclamation bond		CDN$	**2,561,264**	2,479,321

Expressed in Canadian Dollars unless otherwise noted

6. Mineral properties

Mineral properties at November 30, 2014 consist of:

	November 30, 2014	Foreign exchange adjustment	Additions	February 28, 2014
	$	$	$	$
Idaho Cobalt Belt				
Idaho Cobalt Project	**67,554,318**	187,853	1,308,453	66,058,012
Black Pine	**3,343,416**	955	12,450	3,330,011
	70,897,734	188,808	1,320,903	69,388,023
Other Projects				
Morning Glory / Wallace Creek	**547,234**	1,679	19,862	525,693
Queen of the Hills	**143,050**	1,351	12,766	128,933
Kernaghan	**475,280**	-	7,201	468,079
Virgin River	**862,762**	-	32,810	829,952
El Milagro	**95,701**	-	6,000	89,701
Other	**150,483**	227	2,045	148,211
	2,274,510	3,257	80,684	2,190,569
	73,172,244	192,065	1,401,587	**71,578,592**

Expressed in Canadian Dollars unless otherwise noted

7. Property, plant and equipment

	Land	Buildings	Equipment	Furniture and fixtures	Plants undergoing refurbishment	Construction in progress	Total
	$	$	$	$	$	$	$
Cost							
As at February 29, 2013	279,730	764,922	2,766,080	384,305	19,083,156	37,272,232	60,550,425
Additions for the year	-	-	3,568	-	715,516	184,549	903,633
Impairment for the period	-	-	-	-	(11,413,775)	-	(11,413,775)
Disposals for the period	(103,930)	(240,896)	(2,268,460)	(2,503)	(3,055,517)	-	(5,671,306)
Foreign exchange adjustment	2,523	1,879	(11,542)	-	1,101,311	-	1,094,171
As at February 28, 2014	178,323	525,905	489,646	381,802	6,430,691	37,456,781	45,463,148
Additions for the period	-	-	-	-	-	326,506	326,506
Foreign exchange adjustment	825	-	76	-	230,815	-	231,716
As at November 30, 2014	**179,148**	**525,905**	**489,722**	**381,802**	**6,661,506**	**37,783,287**	**46,021,370**
Accumulated Depreciation							
As at February 28, 2013	-	(353,046)	(2,009,162)	(344,116)	-	-	(2,706,324)
Charges for the year	-	(21,302)	(98,988)	(10,864)	-	-	(131,154)
Disposals for the period	-	197,023	1,688,054	-	-	-	1,885,077
Foreign exchange adjustment	-	(6,793)	(9,309)	-	-	-	(16,102)
As at February 28, 2014	-	(184,118)	(429,405)	(354,980)	-	-	(968,503)
Charges for the period	-	(13,541)	(13,339)	(6,221)	-	-	(33,101)
Foreign exchange adjustment	-	-	(1,793)	-	-	-	(1,793)
As at November 30, 2014	**-**	**(197,659)**	**(444,537)**	**(361,201)**	**-**	**-**	**(1,003,397)**
Carrying value							
As at February 28, 2014	178,323	341,787	60,241	26,822	6,430,691	37,456,781	44,494,645
As at November 30, 2014	**179,148**	**328,246**	**45,185**	**20,601**	**6,661,506**	**37,783,287**	**45,017,973**

The Company capitalizes the cost associated with construction of its mill and cobalt hydrometallurgical plant and will depreciate those assets when they are put into use. Non-refundable equipment deposits of $138,014 (February 28, 2014 - $133,599) have been disclosed as long-term deposits and will be reclassified to property, plant and equipment when title is transferred.

Expressed in Canadian Dollars unless otherwise noted

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 flow of the obligation as at November 30, 2014 was US$2,588,720 (February 28, 2014- US$2,588,720). The discount rate used to determine the present value of the obligation was based on US Treasury Bond rate of 2.250% and rate of inflation of 3.30% (February 28, 2014- US Treasury Bond rate of 2.75% and rate of inflation of 2.70%) resulting in a net rate of -1.016% (February 28, 2014 of -0.322%), discounted by 12 years. The Company assumes that reclamation and decommissioning will take place one year after the 10 year Mine Life.

	$
Reclamation and closure cost- February 28, 2013	3,072,248
Additions	-
Accretion expense	63,673
Change in discount rate	(462,939)
Foreign exchange	211,479
Reclamation and closure cost- February 28, 2014	2,884,461
Additions	-
Accretion expense	56,299
Change in discount rate	475,359
Foreign exchange	120,421
Reclamation and closure cost- November , 2014	**3,536,540**

9. 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 nine months ended November 30, 2014 and 2013. Revenues and cost of revenues are from outstanding precious metal concentrates that were processed at third party facilities (see Note 4).

	November 30 2014	November 30, 2013
	$	$
Revenue	**187,404**	6,304,656
Cost of revenues	**(332,131)**	(7,743,869)
Gain from Sale of Refinery assets	**-**	4,259,205
Write down of inventory	**(28,093)**	(712,882)
Net loss from discontinued operations	(172,820)	2,107,110

Expressed in Canadian Dollars unless otherwise noted

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 November 30, 2014, the Company had 90,887,205 (February 28, 2014 - 90,887,205) common shares outstanding.

b) Stock Options

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

All options are subject to vesting restrictions as implemented by the directors. The exercise price is the fair value of the Company's common shares at the grant date. The maximum number of common shares to be issued under the Plan reserved for issuance as at November 30, 2014 was 9,088,720 (February 28, 2014 – 9,088,720). The maximum number of shares reserved for issuance to insiders may not exceed 10% of the outstanding shares issued. Under certain conditions, Option holders may elect to exercise their stock options on a cashless basis.

(i) As at November 30, 2014 the outstanding and exercisable stock options were as follows:

Options outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
125,000	0.80	0.27 years	December 5, 2014
85,000	1.50	0.80 years	June 17, 2015
250,000	0.80	2.27 years	December 5, 2016
390,000	1.50	2.38 years	January 15, 2017
1,000,000	0.80	2.38 years	January 15, 2017
1,590,000	0.30	3.42 years	February 1, 2018
930,000	0.21	4.81 years	June 24, 2019
4,370,000	0.57		

Expressed in Canadian Dollars unless otherwise noted

10. Share capital (continued)

b) Stock Options (continued)

As at November 30, 2013 the outstanding and exercisable stock options were as follows:

Options outstanding	Options exercisable	Exercise price	Weighted ave. remaining contractual life	Expiry date
		$		
125,000	125,000	0.80	1.02 years	December 5, 2014
1,595,000	1,595,000	1.50	1.55 years	June 17, 2015
200,000	125,000	0.76	3.02 years	December 5, 2016
4,225,000	4,225,000	0.80	3.02 years	December 5, 2016
1,765,000	1,765,000	0.30	4.17 years	February 1, 2018
7,910,000	7,835,000	0.83		

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

	November 30, 2014	**Weighted average exercise price**	February 28, 2014	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**7,560,000**	**0.84**	8,625,000	0.84
Activity during the year				
Options granted	**930,000**	**0.21**	-	-
Options cancelled	**(4,120,000)**	**0.97**	(1,065,000)	0.87
Options expired	**-**	**-**	-	-
Balance outstanding and exercisable, end of period	**4,370,000**	**0.57**	7,560,000	0.84

(iii) During the quarter ended November 30, 2014, 930,000 (2013 – nil) stock options were granted to directors and employees. Using the Black-Scholes option pricing model, the fair value of stock options granted was $112,746 (2013 - $nil).

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

		November 30, 2014	November 30, 2013
Risk free interest		**1.56%**	n/a
Expected life (years)		**5**	n/a
Annualized volatility		**69%**	n/a
Expected dividend	**$**	**-**	n/a
Share price	**$**	**0.21**	n/a

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

Expressed in Canadian Dollars unless otherwise noted

10. Share capital (continued)

c) Warrants

(i) No warrants were outstanding as at November 30, 2014.

(ii) Warrants outstanding at November 30, 2013 were as follows:

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

(iii) The changes in warrants during the current and previous periods were as follows:

	November 30, 2014	**Weighted average exercise price**	February 28 2014	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**26,666,667**	**2.00**	29,866,667	1.95
Activity during the year				
Warrants granted	**-**	**-**	-	-
Warrants expired	**(26,666,667)**	**2.00**	(3,200,000)	1.50
Balance outstanding, end of period	**-**	**-**	26,666,667	2.00

(d) Loss per share

		November 30, 2014		November 30 2013
Net gain (loss)	**$**	**5,305,046**	$	(1,181,655)
Net gain (loss) - diluted	**$**	**5,305,046**	$	(1,181,655)
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
Gain (loss) per share- basic	**$**	**0.06**	$	(0.01)
Gain (loss) per share- diluted	**$**	**0.06**	$	(0.01)

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:

	November 30, 2014	November 30 2013
Stock options	**4,370,000**	7,910,000
Warrants	**-**	26,666,667

Expressed in Canadian Dollars unless otherwise noted

11. Related party transactions

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.

a) Subsidiaries

	Ownership interest November 30, 2014	Ownership interest February 28, 2014
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

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

b) Compensation of key management personnel

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

	November 30, 2014	November 30, 2013
	$	$
Salaries and short-term employee benefits including bonuses	**333,750**	682,588
Share-based compensation	**87,892**	-
Directors' fees	**187,250**	382,082
	608,892	1,064,670

Outstanding balances owed to directors and officers at November 30, 2014 was $120,500 (2013 - $133,500). Directors fees accrued during the nine months ended November 30, 2013 were retroactive to October 2011.

Some executive officers are entitled to termination and change of control benefits. These executive officers are entitled to lump sum compensation ranging from 3 to 48 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 3 to 48 months of base compensation in the event of change of control. Pursuant to employment agreements, the Company may be obligated to pay up to $830,000 in the event that executive officers are terminated without cause.

Expressed in Canadian Dollars unless otherwise noted

12. Segmented information

Prior to the disposition of the Sunshine Refinery on October 10, 2013 (see note 9), the Company operated in three operating segments, that being exploration of mineral properties, precious metals refining and corporate support. All revenues generated are located in the United States in the Refinery operating segment. The Company's revenue and non-current assets by geographic location and operating segment are as follows:

	November 30, 2014			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (from discontinued operations)	-	187,404	-	187,404
Non-current Assets				
Mineral properties	1,454,086	71,622,457	95,701	73,172,244
Property, plant & equipment	34,626	44,983,347	-	45,017,973
Reclamation bonds & deposits	-	2,699,278	-	2,699,278
Total non-current assets	1,488,712	119,305,082	95,701	120,889,495

	November 30, 2013			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (from disccontinued operations)	-	6,304,656	-	6,304,656
Non-current Assets				
Mineral properties	1,384,536	69,855,224	79,395	71,319,155
Property, plant & equipment	54,789	54,855,712	-	54,910,501
Reclamation bonds & deposits	-	2,476,594	-	2,476,594
Total non-current assets	1,439,325	127,187,530	79,395	128,706,250

Expressed in Canadian Dollars unless otherwise noted

12. Segmented information (continued)

	For the nine month period ended November 30, 2014			
	Exploration and development	Discontinued operations	Corporate	Total
	$	$	$	$
Expenses				
Accretion & interest expense	(57,398)		(1,090)	(58,488)
Depreciation	(24,766)	-	(10,053)	(34,819)
Foreign exchange gain	-	-	4,943,651	4,943,651
General and administrative	(27,517)	-	(1,044,849)	(1,072,366)
Gain from discontinued operations	-	(172,820)	-	(172,820)
Other gain	-	-	13,837	13,837
Income (loss) before income taxes	(109,681)	(172,820)	3,901,496	3,618,995
Net income (loss) the period	(108,617)	(172,820)	5,586,483	5,305,046
Total Assets	120,991,762	-	4,998,905	125,990,667
Total Liabilities	3,723,059	-	174,168	3,897,227

	For the nine month period ended November 30, 2013			
	Exploration and Exploration	Disontinued operations	Corporate	Total
	$	$	$	$
Expenses				
Accretion and interest expense	(512,022)	-	(481,417)	(993,439)
Depreciation	(97,902)	-	(15,696)	(113,598)
Financing costs	(2,681,116)	-	-	(2,681,116)
Foreign exchange gain	(16,826)	-	2,316,594	2,299,768
General and administrative	(178,892)	-	(2,341,980)	(2,520,872)
Writedown of property	(279,552)		-	(279,552)
Loss from discontinued operations	-	(1,997,704)	-	(1,997,704)
Other gain	120,209	4,259,205	52,812	4,432,226
Loss before income taxes	(3,646,101)	2,261,501	(469,687)	(1,854,287)
Net loss for the period	(2,426,069)	1,714,101	(469,687)	(1,181,655)
Total Assets	112,053,173	22,009,147	7,892,584	141,954,904
Total Liabilities	5,316,401	2,463,467	846,298	8,626,166

13. Supplementary cash flow information

(a) Change in working capital items for the nine month periods ended:

	November 30, 2014	November 30, 2013
	$	$
Prepaid expenses and deposits	**13,480**	8,803
Long term deposits	**-**	24,672
Accounts payable and accrued liabilities, relating to operating items	**(237,621)**	(1,837,655)
	(224,141)	(1,804,180)

Expressed in Canadian Dollars unless otherwise noted

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.

Capital, as defined above, at November 30, 2014 and 2013 is summarized in the following table.

	November 30, 2014	November 30, 2013
	$	$
Common shares	**160,945,421**	150,344,647
Share purchase warrants	**7,343,318**	19,809,763
Share-based payments reserve	**8,697,121**	8,584,375
Deficit	**(51,238,521)**	(43,912,161)
	125,747,339	134,826,624

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 consist of fair value through profit and loss which includes cash and cash equivalents and restricted cash, loans and receivables which includes reclamation bond and trade and other receivables. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments except for the reclamation bond whereby its fair value will not be realized until the bond is released from the trustee (Note 5).

The Company's financial instruments include other liabilities which consist of accounts payable, accrued liabilities, convertible debenture and federal stimulus recovery zone facility bonds. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments.

15. Financial instruments (continued)

At November 30, 2014 and 2013, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	November 30, 2014		November 30, 2013	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**4,910,814**	**4,910,814**	7,851,181	7,851,181
Trade and other receivables	**21,964**	**21,964**	985,955	985,955
Reclamation bond	**2,561,264**	**2,514,704**	2,377,677	2,334,454
Financial liabilities				-
Accounts payable	**54,017**	**54,017**	990,973	990,973
Accrued liabilities	**247,297**	**247,297**	495,744	495,744

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, foreign exchange rate risk, and metal price risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Credit risk

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

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At November 30, 2014 and 2013, the Company had no material past due trade receivables.

The Company currently invests its excess cash, which are held in US dollars, in a high interest savings account. 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:

	November 30, 2014	November 30, 2013
	$	$
Cash and cash equivalents	**4,910,814**	7,851,181
Trade and other receivables	**21,964**	985,955
Reclamation bond	**2,561,264**	2,377,677

16. Fair values and financial risk management (continued)

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:

	November 30, 2014				November 30, 2013
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	308,366	-	-	308,366	4,018,179
Short term savings	4,602,448	-	-	4,602,448	3,833,002
	4,910,814	-	-	4,910,814	7,851,181

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 November 30, 2014, US short term savings account of $4,602,448 (2013 - $3,833,002) earns an interest rate of up to 0.45%. The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

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

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

Expressed in Canadian Dollars unless otherwise noted

16. Fair values and financial risk management (continued)

Translation exposure

The Company's functional and reporting currency is Canadian dollars. The Company's foreign operations with a Canadian functional currency translate their operating results from the currency in which their books and records are maintained into Canadian dollars resulting in foreign exchange gains or loss which are expensed in the reporting period. Therefore, exchange rate movements in the US dollar and Mexican peso can have a significant impact on the Company's consolidated operating results.

A 10% strengthening (weakening) of the Canadian dollar against the US$ dollar would have increased (decreased) the Company's net income (loss) before taxes of $706,446 (2013 - $946,254).

Metal price risk

Metal price risk is the risk that changes in metal prices will affect the Company's reported loss or the value of its related financial instruments. The Company derives some of its refining revenue from the purchase and sale of silver and gold material as well as charging refining fees in the form of "retainage", (the retention of some of the refined product). The Company mitigates the price risk associated with the purchase and sale of silver and gold materials by entering into forward contracts to secure the margin associated with refining the materials. The Board of Directors continually assesses the Company's strategy towards its base metal exposure, depending on market conditions.

Based on the quantities and market price of silver and gold at November 30, 2014, a 10% increase or decrease in the price of gold and silver would result in a $nil (2013 - $435,307) increase or decrease in the Company's net loss before taxes.

17. Commitments

The following is a schedule of the Company's commitments as at November 30, 2014:

	Note	2015	2016	2017 and later
		$	$	$
Mineral property expenditure	(a)	2,500	-	-
General liability insurance	(b)	32,505	65,010	-
Office operating leases	(c)	17,719	66,777	41,579
		52,724	131,787	41,579

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

(b) The Company has a total liability insurance premium of $97,515 payable monthly until October 12, 2015.

(c) The Company has annual operating leases commitments of $17,719 for the remaining 2015 fiscal year, $66,777 for fiscal year 2016, and $41,579 for half year lease of 2017.

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

Formation Metals Inc.

Management's Discussion and Analysis

For the Nine Months Ended November 30, 2014

Date of Report: January 14, 2015

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

Symbol: Toronto Stock Exchange - FCO

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This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the Company's interim unaudited financial statements for the nine months ended November 30, 2014 and the related notes thereto, as well as the audited consolidated financial statements of Formation Metals Inc. (the "Company") and the notes thereto, for the year ended February 28, 2014, 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 January 14, 2015.

1.2 Overview

<u>1.2.1 Summary</u>

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

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

The Company's primary project, located in the mining friendly state of Idaho, is the 100% owned and fully environmentally permitted, Idaho Cobalt Project (the "ICP"). The ICP consists of the Mine and Mill Site (the "ICP Mine Site") near Salmon, Idaho and the proposed Cobalt Production Facility (the "CPF"), a proposed stand-alone hydrometallurgical facility that will process the ICP mine concentrates. Metallurgical test work had determined that the ICP will be capable of producing high purity cobalt ("HPC") metal suitable for critical applications in the superalloy sector. Current engineering efforts are underway to determine the viability of producing cobalt chemicals for the rechargeable battery sector. To date, the Company has spent US$65.3 million and completed two phases of the ICP construction program that commenced in June 2011 and was suspended in December 2012.

In light of improving financial markets and positive developments in the cobalt sector, the Company announced in July 2014 that it was pursuing several opportunities resulting from the significant increase in the long term demand for cobalt used in rechargeable batteries required for electric and hybrid electric vehicles where cobalt is one of the key components. The Company has conducted internal studies to determine the viability of producing battery grade cobalt chemicals at its proposed CPF, developed a new mine plan, and produced new economics for the ICP with the expertise of the Company's engineers, geologists and consultants. Samuel Engineering, Inc. ("Samuel"), of Denver, Colorado, was awarded the engineering contract to conduct an independent review of the ICP updates and complete a new National Instrument 43-101 ("NI 43-101") compliant technical report. Samuel has worked on projects worldwide and provides expert services at all stages of project development from feasibility studies to detail design, construction and commissioning. The scope of work is to be conducted in stages, with each subsequent stage dependent on the outcome and recommendations of the previous stage.

Subsequent to the period ended November 30, 2014, Samuel completed an independent review of the ICP updates to produce battery grade cobalt chemicals for the re-chargeable battery sector as proposed by the Company. The proposed capital and operating costs for the updated facilities which fall within a +/-30% pre-feasibility level of accuracy were determined feasible. Due to the positive results of the independent review, the Company has commissioned Samuel to proceed with developing a NI 43-101 compliant Preliminary Economic Assessment (PEA) report and undertake a feasibility level metallurgical test work on the ICP.

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

1.2.2 Highlights for the nine months ended November 30, 2014 and subsequent events

Corporate:

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

(b) During the nine months ended November 30, 2014, the Company reported a comprehensive gain of $1,018,590 (2013- loss $2,825,591) and accumulated deficit of $51,238,521 (February 28, 2014- $56,543,567);

(c) As at November 30, 2014, the Company had working capital of $4,799,858 (February 28, 2014- $6,905,832);

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

(e) On October 1, 2014, the Company issued a news release to clarify certain disclosures following a British Columbia Securities Commission technical disclosure review. Due to several changes that took place since the last technical report was filed on the ICP in 2008, the Company intends to file a new NI 43-101 compliant technical report before the end of February 2015.

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 interim unaudited annual consolidated financial statements for the nine months ended November 30, 2014 and related notes thereto.

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

1.2.5 Property Activities

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

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

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

Background

The Company's principal property is the 100% owned ICP Mine Site, a primary high grade cobalt deposit located in Lemhi County, Idaho, acquired through staking in 1994 and 1995. The property is held by the Company's 100% owned subsidiary, Formation Capital, and was extensively explored and developed to a bankable feasibility stage in 2008. All required environmental permits have been received from the various permitting agencies and remain in good standing. The project covers an area of approximately 4,080 acres and includes 171 mining claims. This project is not subject to any royalty payments.

Technical Results

A technical report prepared in compliance with NI 43-101 (the “Technical Report”), was completed September 14, 2007, revised May 19, 2008, amended and restated June 23, 2008 and SEDAR filed on July 15, 2008. The Technical Report is designed to assess the mineral resources of the ICP and evaluate, among other things, the economic parameters of the deposit for potential financiers for the purpose of securing funds for mine development.

Per the Company’s October 1, 2014 news release, since the filing of the Technical Report, the Company has undertaken substantial work and optimization studies on the ICP. This optimization data was derived from regular feedback and progress reports received from its Engineering, Procurement and Construction Manager during Phases I and II of construction.

In light of improving financial markets and positive developments in the cobalt sector, the Company announced in July 2014 that it was pursuing several opportunities resulting from the significant increase in the long term demand for cobalt used in rechargeable batteries required for electric and hybrid electric vehicles where cobalt is one of the key components. The Company intends to file a new NI 43-101 compliant technical report on SEDAR and the Company’s website before the end of February 2015.

However, until such time as the new technical report is released, when relying on the Technical Report, readers are cautioned regarding the following changes that have occurred since the filing of said report:

- The completion of the 2010 mine plan optimization drilling program;
- Work in progress to update the resources, mine plan and production schedule;
- Flow sheet changes to reflect several shifts in focus in metals recoveries and producing final products, including:
    - The addition of a flotation circuit to produce a saleable copper concentrate;
    - At the CPF, addition of cobalt sulfate production (battery grade cobalt);
    - At the CPF, addition of copper sulfate by-product production to be sold, and;
    - At the CPF, addition of gold recovery circuit.
- Relocation of the CPF; its new location to been determined;
- Cobalt prices have varied dramatically since 2008; ranging from a high of US$50.00/lb. to a low of US$12.00/lb. The Technical Report utilized a base price of US$22.52/lb. During the quarter ended November 30, 2014, cobalt pricing ranged between US$14.00-$16.00/lb.;
- Capital cost of equipment, both mine and process;
- Operating cost estimates, both mine and process;
- Construction cost estimates; and
- The new regulatory requirement to provide post-tax economic analysis.

As discussed in the section 1.2.1 Summary, Samuel has been commissioned to develop a NI 43-101 compliant PEA suitable for SEDAR filing and metallurgical test work on a feasibility level.

A number of risks including metals price, metals recovery, plant performance, additional resources, and permitting were identified in the Technical Report. As discussed above, the changes since the filing of the Technical Report have also changed and increased these risks. The readers are cautioned to not solely rely on the Technical Report without consideration of the impact these changes have on the risks of the project. These risks remain uncertain until a new NI 43-101 compliant technical report is completed incorporating these changes.

Construction of ICP Mine Site and CPF

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. To date, the Company has spent US$65.3 million and completed two phases of the ICP construction program that commenced in June 2011. In May 2013, the Company announced it was deferring the construction of the ICP due to turbulent market conditions and unattractive financing costs. A Reclamation Performance Bond in the amount of US$6,379,617 was placed to cover the estimated reclamation cost of actual and planned surface disturbance and US$2,232,000 was placed in trust to secure the bond.

(b) **Black Pine – Idaho, USA**

The Company has a 100% interest in certain mineral claims with prospects for copper, cobalt and gold located in Lemhi County, Idaho. The project is located proximal to the ICP and could potentially serve as an additional source of feed for the ICP mill and concentrator. Currently in effect is an agreement to share 50% of the option and any payments received from any potential future joint venture partner.

(c) **Morning Glory – Idaho, USA**

The Company has a 100% interest in certain mineral claims with prospects for gold and silver located in Lemhi County, Idaho. The Company also has a 100% lease option on certain additional mineral claims located in the same area. A total of 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 including the advance annual minimum royalty payments. The option and mineral claims are maintained and in good standing. Non-exclusive Confidentiality Agreements have been signed with parties interested in a possible joint venture.

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

The Company holds a lease option to purchase 100% of certain mineral claims with prospects for gold and silver located in Lemhi County, Idaho. A total of US$25,200 has been paid to date. Total purchase price of US$1,000,000 including advance payments must be made to exercise the option. The option and mineral claims are maintained and in good standing. Non-exclusive Confidentiality Agreements have been signed with parties interested in a possible joint venture.

(e) **Wallace Creek – Idaho, USA**

The Company has a 100% interest in certain mineral claims with prospects for gold and silver located in Lemhi County, Idaho. The Company also has a 100% lease option on certain additional mineral claims located in the same area. 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. Non-exclusive Confidentiality Agreements have been signed with parties interested in a possible joint venture.

Note that site visits for the Morning Glory, Queen of the Hills and Wallace Creek properties by potentially interested parties cannot be conducted until the spring when snow cover has abated.

(f) **El Milagro – Mexico**

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

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

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

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

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

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

The Company through its wholly owned subsidiary, Coronation Mines Ltd., owns 2% of the Virgin River project located in the Athabasca Basin of northern Saskatchewan. Cameco Corporation ("Cameco") and AREVA Inc. each own 49% in the joint exploration agreement with Cameco acting as the operator of the project. The Company also has the first right of offer to acquire up to 10% of the project and has been carried through to $10,000,000 worth of exploration and development. This right could be exercised in the event that one of the joint venture partners wishes to sell all or a portion of their interest to a third party, in which case they must first offer Coronation Mines an additional 8% of the project. As at November 30, 2014, over $32,750,000 has been spent on the project, exploring for a large unconformity-type deposit that has resulted in the discovery of the Centennial Deposit.

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

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

The approved budget for the calendar 2014 year was $650,000 of which the Company's commitment is $13,000. As at November 30, 2014, a slight cost overrun of $29,500 was realized, due primarily to demobilization difficulties of the drilling equipment, resulting in year spent to date totaling $679,500,. The program was comprised of a geophysical survey utilizing a ZTEM Airborne geophysical system with the goal of providing regional data sets of the conductive architecture of the underlying geology that includes the flanking conductor corridors that are poorly defined and tested, continued independent scientific study of Woodland Caribou habitat in order to influence future decisions on the caribou protection plans for Saskatchewan, the demobilization of the historical drilling contractor, which was deferred from 2013 and continued data compilation and corridor scale analysis of the Virgin trend in order to drive future exploration programs.

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

1.2.6 Outlook

Since the beginning of 2014, the cobalt industry has been benefiting from strengthening demand in the battery sector due to the growth in smart phones, tablets and particularly in the electric and hybrid electric vehicle ("EV") markets. These products use lithium-ion batteries, which are cobalt based. This year, Tesla Motors, Inc. ("Tesla") confirmed its plans to build a US$5.0 billion EV "Gigafactory" in Reno, Nevada and has commenced construction of that facility. At its peak, the Gigafactory will have the capacity to produce 500,000 electric vehicles annually and this can potentially increase the annual global demand for cobalt by approximately 20% once the Gigafactory reaches full commercial production capacity planned for 2020. In addition, the demand for cobalt in the smart phone market remains strong due to the recent release of the iPhone 6 and competing android and BlackBerry models.

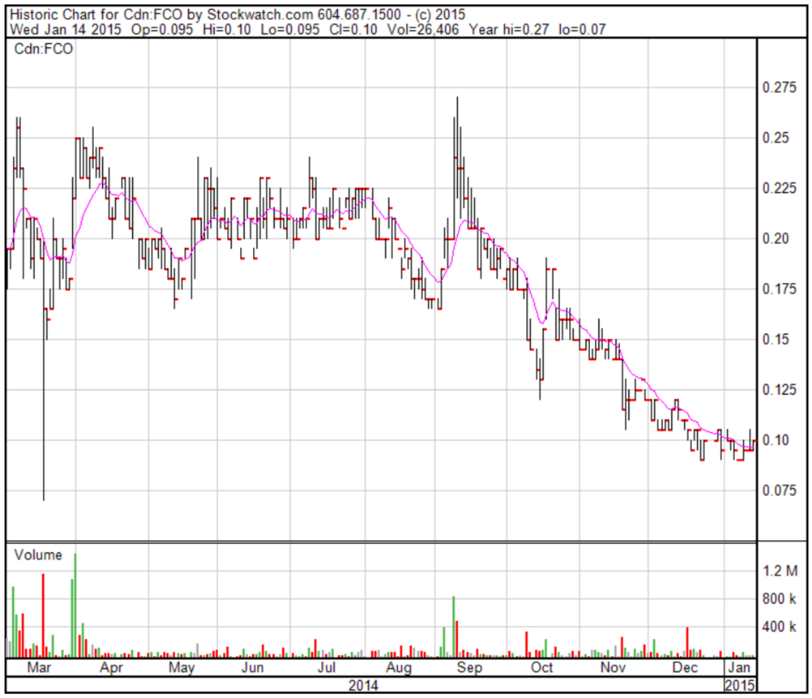
Tesla has publicly stated that it intends to source the required raw materials as locally as possible to reduce the environmental impact with consideration for ethical sourcing. As the EV market continues to rise in popularity and importance, other EV manufacturers have announced plans for new vehicle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

The CPF was initially designed to produce high purity cobalt metal suitable for critical applications in the superalloy sector with extensive metallurgical test work confirming the viability of this production scenario. As the Company's historical, initial plan was to enter the cobalt chemical market, prior to recent changes in the cobalt business, it has an extensive database on the cobalt chemical market which includes metallurgical, technical and marketing information which it intends to expand and update.

Over the past several months, the Company has conducted internal studies to determine the viability of producing battery grade cobalt chemicals at its proposed CPF (new location to be determined), developed a new mine plan, and produced new economics for the ICP. These internal studies indicated the CPF design can be modified to produce cobalt chemicals for the battery sector, such as cobalt sulphate. Samuel was awarded the contract to conduct an independent review of the Company's internal studies.

Subsequent to the period ended November 30, 2014, Samuel completed an independent review of the ICP updates to produce battery grade cobalt chemicals for the re-chargeable battery sector as proposed by the Company. The proposed capital and operating costs for the updated facilities which fall within a +/-30% pre-feasibility level of accuracy were determined feasible. Due to the positive results of the independent review, the Company has commissioned Samuel to proceed with developing a NI 43-101 compliant Preliminary Economic Assessment (PEA) report and undertake a feasibility level metallurgical test work on the ICP.

Figure 1: Formation Metals' Share Price, March 1, 2014 – January 14, 2015 (Stockwatch.com, 2015)



The Cobalt Market

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

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

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

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

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

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

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

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

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

1.4 Results of Operations

Financial Results of Operations for the Nine Months Ended November 30, 2014 and 2013

The following are highlights from the Company's results from operations for the nine months ended November 30, 2014:

(a) **Net gain** for the nine months ended November 30, 2014 was $5,305,046 or $0.06 per share (2013- net loss 1,181,655 or $0.01 per share).

(b) **Revenue** for the nine months ended November 30, 2014 was $187,404 (2013- $6,304,656). Revenue was related to discontinued operations from the Sunshine Precious Metals Refinery (the "Sunshine Refinery") owned by the Company's former subsidiary, Formation Metals, U.S. that was sold on October 10, 2013. Gross revenue and cost of sales reflect an average foreign exchange rate of $1.1004 Canadian to US dollars in for the period ended November 30, 2014 (2013- $1.0329).

The Sunshine Refinery operations generated revenue from either providing tolling services on customer owned material ("tolling revenue") or under certain conditions, from the purchase of material from customers, undertaking the tolling process and the reselling of the material at an applicable mark-up ("purchase revenue"). The Company's principal objective was to generate revenue from toll material; however, given the value of the precious metals being refined, credit conditions sometimes required the Company to purchase the material from customers. Tolling fees vary by customer and can consist of straight fees and/or "retainage" (the retention of some of the refined product).

Purchased material generally has a similar value attributed to the refining process as toll, but requires the recognition of the sale at the gross value of the purchase and sold material in accordance with generally accepted accounting principles. The Company entered into forward sale contracts in those situations where it did purchase material to eliminate exposure to silver and gold price fluctuations.

(c) **Cost of refinery revenues** for the nine months ended November 30, 2014 was $332,131 (2013- $7,743,869), resulting in a net loss of $144,727 (2013- net loss $1,439,213). Cost of revenue was related to cost of inventory and operating cost from discontinued operations at the Sunshine Refinery. Higher profit margin during the current period was due to elimination of operating cost as a result of the disposition of the Sunshine Refinery. Revenue and cost of revenue during the current period was from outstanding precious metals concentrates that remained after the disposition of the Sunshine Refinery.

(d) **Accretion expense** for the nine months ended November 30, 2014 was $5299 (2013- $432,278). Accretion expense recorded during the current period was related to provision for site reclamation and closure cost (2013- $45,107). During the nine months ended November 30, 2013, Company also recorded accretion expense of $74,925 for Recovery Zone Facility Bonds that was retired on May 9, 2013, and $219,537 for Convertible Bond that was retired on October 10, 2013.

(e) **Bank, interest, and financing charges** for the nine months ended November 30, 2014 was $2,189 (2013- $561,161). Higher interest charges during the nine months ended November 30, 2013 were mainly due to $260,483 of interest accrued and paid on the Convertible Bond and $33,770 on the Recovery Zone Facility Bonds.

(f) **Directors fees** for the nine months ended November 30, 2014 was $196,603 (2013- $401,075). The Company implemented directors' compensation during the year ended February 28, 2014. The amounts accrued at November 30, 2013 were related to fees retroactive to October 2011.

(g) **Legal fees** for the nine months ended November 30, 2014 was $56,731 (2013- $380,606). Higher legal fees incurred during the nine months ended November 30, 2013 were due to the contentious nature of the Company's Annual General and Special Meeting on June 21, 2013.

(h) **Shareholder information** for the nine months ended November 30, 2014 was $52,106 (2013- $657,333). Higher shareholder information fees incurred during the nine months ended November 30, 2013 were due to the contentious nature of the Company's Annual General and Special Meeting on June 21, 2013.

(i) **Foreign exchange gain** for the nine months ended November 30, 2014 was $4,943,651 (2013- $2,299,768). The US dollar appreciated against the Canadian dollar from $1.1074 on February 28, 2014 to $1.144 on November 30, 2014. Intercompany loans are recorded in US dollars, resulting in significant unrealized foreign exchange gain when converted to Canadian dollars at November 30, 2014.

(j) **Office expense** for the nine months ended November 30, 2014 was $208,273 (2013- $392,194). The Company made material reductions to overhead and office expenses during the current fiscal period.

(k) **Salary and wages** for the nine months ended November 30, 2014 was $367,932 (2013- $581,800). The significant decrease in salary and wages was due to reduction of full time employees and resignations of executive officers on January 15, 2014.

(l) **Share-based compensation** was $112,746 (2013- $nil) for the nine months ended November 30, 2014. On June 24, 2014, the Company granted 930,000 options (2013- nil) exercisable at $0.21 per share and expiring on June 24, 2019. The options were granted to directors, officers and employees. The fair value of the options was determined using the Black-Scholes option pricing model. Assumptions used to estimate the fair value includes risk free interest of 1.56%, expected life of 5 years, annualized volatility of 69% and share price of $0.21.

Financial Results of Operations for the Three Months Ended November 30, 2014 and 2013

The following are highlights from the Company's results from operations for the three months ended November 30, 2014:

(a) **Net gain** for the three months ended November 30, 2014 was $2,848,749 or $0.03 per share (2013- $2,325,674 or $0.03 per share).

(b) **Bank, interest, and financing charges** for the three months ended November 30, 2014 was $447 (2013- $251,422). Higher interest charges during the three months ended November 30, 2013 were mainly due to interest accrued and paid on the Convertible Bond that was retired on October 10, 2013 and on the Recovery Zone Facility Bonds that was retired on May 9, 2013.

(c) **Office expense** for the three months ended November 30, 2014 was $67,581 (2013- $201,912). The Company made material reductions to overhead and office expenses during the current fiscal period.

(d) **Salary and wages** for the three months ended November 30, 2014 was $126,968 (2013- $277,081). The significant decrease in salary and wages were due to reduction of full time employees and resignations of executive officers on January 15, 2014.

1.5 Summary of Quarterly Results

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

	Three Months ended November, 2014 $	Three Months ended August 31, 2014 $	Three Months ended May 31, 2014 $	Three Months ended Feb 28, 2014 $	Three Months ended Nov 30, 2013 $	Three Months ended Aug 31, 2013 $	Three Months ended May 31, 2013 $	Three Months ended Feb 28, 2013 $
Total revenues	12	(17)	192	2,721	4,005	1,953	347	3,839
Net Income (Loss)	2,848	(71)	2,527	(12,633)	2,326	(189)	(3,318)	(3,697)
Basic and diluted income (loss) per share	0.03	(0.001)	0.03	(0.12)	0.02	(0.01)	(0.04)	(0.04)

1.6 Liquidity

November 30, 2014 and 2013

(a) **Cash and cash equivalents** as at November 30, 2014 were $4,910,814 (February 28, 2014- $5,691,140).

(b) **Working capital** as at November 30, 2014 was $4,799,858 (February 28, 2014- $6,905,832).

(c) **Mineral property expenditures** of $1,625,684 was capitalized during nine months ended November 30, 2014 (2013- $1,635,950).

(d) **Net Purchase of Property, Plant and Equipment** expenditures for the nine months ended November 30, 2014 was $568,665 (2013- $816,366).

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

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

Contractual Commitments

The following is a schedule of the Company's commitments as at November 30, 2014:

	Note	2015	2016	2017 and later
		$	$	$
Mineral property expenditure	(a)	2,500	-	-
General liability insurance	(b)	32,505	65,010	-
Office operating leases	(c)	17,719	66,777	41,579
		52,724	131,787	41,579

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

(b) The Company has a total liability insurance premium of $97,515 payable monthly until October 12, 2015.

(c) The Company has annual operating leases commitments of $17,719 for the remaining 2015 fiscal year, $66,777 for fiscal year 2016, and $41,579 for half year lease of 2017.

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

1.7 Capital Resources

The Company's working capital as at November 30, 2014 was $4,799,858 (February 28, 2014- $6,905,832). The Company's capital resource requirements are dependent on the development stages of its respective properties.

1.8 Off-Balance Sheet Arrangements

None

1.9 Transactions with Related Parties

(a) Subsidiaries

	Ownership interest	
	November 30, 2014	**February 28, 2014**
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

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

(b) Compensation of key management personnel

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

	November 30, 2014	November 30, 2013
	$	$
Salaries and short-term employee benefits including bonuses	**333,750**	682,588
Share-based compensation	**87,892**	-
Directors' fees	**187,250**	382,082
	608,892	1,064,670

Outstanding balances owed to directors and officers at November 30, 2014 was $120,500 (2013 - $133,500). Directors fees accrued during the nine months ended November 30, 2013 were retroactive to October 2011.

Some executive officers are entitled to termination and change of control benefits. These executive officers are entitled to lump sum compensation ranging from 3 to 48 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 3 to 48 months of base compensation in the event of change of control.

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

			For the 9 Months ended November 30, 2014		For the 9 Months ended November 30, 2013	
		Note	**Salary and benefits**	**Directors Fees**	Salary and benefits	Directors Fees
			$	**$**	$	$
Cecil Andurs	Director Emeritus		**3,031**	**-**	-	25,000
Scott Bending	Director/President	(a)	**-**	**-**	185,100	-
David Christie	Director		**6,062**	**26,750**	-	-
James Engdahl	Director		**6,062**	**26,750**	-	84,083
Paul Farquharson	President & CEO		**168,185**	**-**	137,925	-
Mari-Ann Green	Director/CEO	(a)	**-**	**-**	217,500	-
Gregory Hahn	Director		**6,062**	**24,750**	-	30,750
Scott Hean	Director		**6,062**	**28,750**	-	-
Rick Honsinger	Vice President		**105,873**	**-**	-	-
Robert Metka	Director		**6,062**	**27,750**	-	77,083
Robert Quinn	Director		**6,062**	**24,750**	-	84,083
William Scales	Director	(a)	**-**	**-**	142,063	-
David Stone	Director		**6,062**	**27,750**	-	81,083
Marc Tran	CFO		**102,123**	**-**	-	-
			421,642	**187,250**	682,588	382,082

(a) Directors fees accrued for executive directors during the nine months ended November 30, 2013 were later cancelled and were not paid.

1.10 Proposed Transactions

None

1.11 Critical Accounting Estimates

The Company's significant accounting policies are contained in Note 3 to the audited consolidated financial statements for the year ended February 28, 2014. The following is a discussion of the accounting estimates that are critical in determining the Company's financial results. Notes referenced in the discussion refers to the audited consolidated financial statements for the year ended February 28, 2014.

(a) Measurements and uncertainties and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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 from those estimates and would impact future results of operations and cash flows. Significant estimates were used in the preparation of the consolidated financial statements; these include but are not limited to the following:

(i) Carrying value of mineral properties and exploration expenditures incurred and the likelihood of future economic recoverability of these carrying values. The application of the Company's accounting policy for and determination on recoverability of capitalized exploration and evaluation expenditure requires judgement to determine if future economic benefits are likely, which are 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.

(ii) 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 estimates and assumptions used within the Company's mine model for assessing possible impairment.

(iii) Assumptions and estimates on short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning used for the assessment on going concern.

(iv) Provision for site reclamation and closure cost (Note 12). The Company examines 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 to differ from current estimates.

(v) Assumptions used in share-based payments (Note 14). The fair value of stock options and warrants are subject to the limitation of Black-Scholes option pricing model that requires market data and estimates used by the Company in the assumptions. These inputs are subjective assumptions and changes in these inputs can materially affect the fair value estimated.

(vi) Identification and disclosure of contingent liabilities and commitments.

(vii) 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 13).

(viii) Assumptions on useful life of property, plant and equipment and related depreciation.

(b) 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.

(c) 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-off as the properties are sold, allowed to lapse or are abandoned. Mineral property costs not directly attributable to specific properties are expensed during the year.

(d) Reserves and resources

The Company routinely engages independent professional consultants to evaluate its mineral resources and reserves. The estimation of resources and reserves involves the application of scientific principles as well as the exercise of educated judgement. Forecasts are based on geological, geophysical, geochemical, engineering and economic data, all of which are subject to many uncertainties and interpretations.

The Company expects that over time its resource and reserve estimates will be revised upward or downward based on updated information. Such information may include revisions to geological data or assumptions, a change in economic data, and the interpretation of results of future drilling and exploration activities. Resource and reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depreciation and depletion.

In addition, changes in resource and reserve estimates, the price of cobalt, gold, copper or silver and future operating and capital costs can have a significant impact on the impairment assessments of the assets.

(e) Property, plant and equipment

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

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

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

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

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

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

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

(f) 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 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.

1.12 Adoption of new accounting standards

The following standards issued by the International Accounting Standards Board will become effective in future periods:

IFRS 9 *Financial Instruments* (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss

- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

IFRS 9 *Financial Instruments* (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of “currently has a legally enforceable right of set-off”
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Amends IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to:

- provide “investment entities” (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated)

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

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

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

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amends IAS 39 to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations.

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

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

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

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

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

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

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

1.13 Financial Instruments and Other Instruments

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

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

The Company's financial instruments include other liabilities which consist of accounts payable, accrued liabilities, convertible debenture and federal stimulus recovery zone facility bonds. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments.

At November 30, 2014 and 2013, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

		November 30, 2014		November 30, 2013
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**4,910,814**	**4,910,814**	7,851,181	7,851,181
Trade and other receivables	**21,964**	**21,964**	985,955	985,955
Reclamation bond	**2,561,264**	**2,514,704**	2,377,677	2,334,454
Financial liabilities				-
Accounts payable	**54,017**	**54,017**	990,973	990,973
Accrued liabilities	**247,297**	**247,297**	495,744	495,744

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, foreign exchange rate risk, and metal price risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Credit risk

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

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At November 30, 2014 and 2013, the Company had no material past due trade receivables.

The Company currently invests its excess cash, which are held in US dollars, in a high interest savings account. 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:

	November 30, 2014	November 30, 2013
	$	$
Cash and cash equivalents	**4,910,814**	7,851,181
Trade and other receivables	**21,964**	985,955
Reclamation bond	**2,561,264**	2,377,677

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:

	November 30, 2014				November 30, 2013
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	308,366	-	-	308,366	4,018,179
Short term savings	4,602,448	-	-	4,602,448	3,833,002
	4,910,814	-	-	4,910,814	7,851,181

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 November 30, 2014, US short term savings account of $4,602,448 (2013 - $3,833,002) earns an interest rate of up to 0.45%. The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

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

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

Translation exposure

The Company's functional and reporting currency is Canadian dollars. The Company's foreign operations with a Canadian functional currency translate their operating results from the currency in which their books and records are maintained into Canadian dollars resulting in foreign exchange gains or loss which are expensed in the reporting period. Therefore, exchange rate movements in the US dollar and Mexican peso can have a significant impact on the Company's consolidated operating results.

A 10% strengthening (weakening) of the Canadian dollar against the US$ dollar would have increased (decreased) the Company's net income (loss) before taxes of $706,446 (2013 - $946,254).

Metal price risk

Metal price risk is the risk that changes in metal prices will affect the Company's reported loss or the value of its related financial instruments. The Company derives some of its refining revenue from the purchase and sale of silver and gold material as well as charging refining fees in the form of "retainage", (the retention of some of the refined product). The Company mitigates the price risk associated with the purchase and sale of silver and gold materials by entering into forward contracts to secure the margin associated with refining the materials. The Board of Directors continually assesses the Company's strategy towards its base metal exposure, depending on market conditions.

Based on the quantities and market price of silver and gold at November 30, 2014, a 10% increase or decrease in the price of gold and silver would result in a $nil (2013 - $435,307) increase or decrease in the Company's net loss before taxes.

1.14 Other MD&A Requirements

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

As at January 14, 2015 there were 90,887,205 outstanding common shares, 4,245,000 outstanding stock options with a weighted average exercise price of $0.56. 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 November 30, 2014.

Internal Controls over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the period ended November 30, 2014.

The Company's controls include policies and procedures that:

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

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

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

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

Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) **Additional Information**

More information can be found on the Company's website at www.FormationMetals.com. Additional information is provided in the Company's audited annual consolidated financial statements for the years ended February 28, 2014 and 2013 and interim unaudited financial statements for the nine months ended November 30, 2014 and November 30, 2013. Information Circulars and Annual Information Forms are also available at www.sedar.com.