Formation Metals Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended

May 31, 2015

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

Formation Metals Inc.
May 31, 2015

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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 three month period ended May 31, 2015 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	**May 31, 2015**	February 28, 2015
		$	$
Assets			
Current assets			
Cash and cash equivalents		**3,569,180**	4,522,450
Trade and other receivables		**10,946**	5,894
Prepaid expenses and deposits		**56,824**	71,755
Total current assets		**3,636,950**	4,600,099
Reclamation bond	3	**2,784,479**	2,799,255
Mineral properties	4	**70,635,770**	70,761,824
Property, plant and equipment	5	**39,829,051**	39,847,704
Total assets		**116,886,250**	118,008,882
Liabilities			
Current liabilities			
Accounts payable		**107,964**	90,138
Accrued liabilities		**131,236**	354,910
Total current liabilities		**239,200**	445,048
Provision for site reclamation and closure costs	6	**5,198,438**	5,674,924
Deferred tax liabilities		**28,364**	28,364
Total liabilities		**5,466,002**	6,148,336
Equity			
Common shares	8	**160,945,419**	160,945,419
Share purchase warrants		**7,343,318**	7,343,318
Share-based payments reserve		**9,031,102**	8,697,121
Foreign currency translation reserve		**738,410**	723,693
Deficit		**(66,638,001)**	(65,849,005)
Total equity		**111,420,248**	111,860,546
Total liabilities and equity		**116,886,250**	118,008,882

Nature of operations and going concern (Note 1)
Commitments (Note 15)

"Scott B. Hean"
Director

"James Engdahl"
Director

Formation Metals Inc.

Condensed Interim Consolidated Statement of Operations and Comprehensive Loss

(Stated in Canadian dollars) (unaudited)

	Note	Three months ending May 31, 2015	May 31, 2014
		$	$
Expenses			
Accounting and audit		**21,582**	14,856
Accretion expense	6	**26,334**	19,017
Bank charges and interest expense		**978**	917
Depreciation		**11,632**	11,601
Director's fees		**31,875**	69,573
Foreign exchange loss (gain)		**24,764**	(1,105,311)
Legal fees		**11,582**	19,829
Listing and filing fees		**26,396**	28,712
Office		**103,363**	63,090
Salary and wages		**143,093**	136,978
Shareholder relations		**57,832**	24,607
Share based compensation	8	**333,981**	-
		793,412	(716,131)
Gain (loss) from operating activities		**(793,412)**	716,131
Interest income		**4,416**	4,604
Gain (loss) before taxes from continued operations		**(788,996)**	**720,735**
Income tax recovery (expense)		**-**	1,685,380
Gain (loss) after taxes from continued operations		**(788,996)**	**2,406,115**
Gain (loss) from discontinued operations	7	**-**	121,009
Other comprehensive income (loss):			
Currency translation adjustment		**14,717**	215,795
Total comprehensive gain (loss) for the period		**(774,279)**	**2,742,919**
Basic and diluted gain (loss) per share		**(0.01)**	0.03
Weighted average number of shares outstanding			
Basic and diluted		**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		Share Purchase Warrants	Share-based payments reserve	Foreign currency translation reserve	Deficit	Total shareholders' equity
		Shares	Amount					
			$	$	$	$	$	$
Balance, February 28, 2014		90,887,205	150,016,217	19,957,509	8,584,375	632,557	(56,543,567)	122,647,091
Expiration of warrants		-	10,929,202	(12,614,191)	-	-	-	(1,684,989)
Net loss and comprehensive loss		-	-	-	-	(1,559,593)	2,527,124	967,531
Balance, May 31, 2014		90,887,205	160,945,419	7,343,318	8,584,375	(927,036)	(54,016,443)	121,929,633
Share-based compensation		-	-	-	112,746	-	-	112,746
Net loss and comprehensive loss		-	-	-	-	1,650,729	(11,832,562)	(10,181,833)
Balance, February 28, 2015		90,887,205	160,945,419	7,343,318	8,697,121	723,693	(65,849,005)	111,860,546
Share-based compensation	8(b)(iii)	-	-	-	333,981	-	-	333,981
Net loss and comprehensive loss		-	-	-	-	14,717	(788,996)	(774,279)
Balance, May 31, 2015		**90,887,205**	**160,945,419**	**7,343,318**	**9,031,102**	**738,410**	**(66,638,001)**	**111,420,248**

Formation Metals Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian dollars) (unaudited)

	Note	Three months ending May 31, 2015	May 31, 2014
		$	$
Operating activities			
Net gain (loss) for the period		**(788,996)**	2,406,115
Items not involving cash			
Accretion expense on asset retirement obligation	6	**26,334**	19,017
Depreciation		**11,632**	11,601
Deferred income tax expense		**-**	(1,685,380)
Unrealized foreign exchange (gain) loss		**13,298**	(1,591,877)
Shared-based compensation	8	**333,981**	-
Change in working capital items		**(196,807)**	(26,043)
Net cash provided (used) by operating activities from continuing operations		**(600,558)**	(866,567)
Net cash provided (used) by operating activities from discontinued operations	7	**-**	1,358,632
		(600,558)	492,065
Investing activities			
Mineral property expenditures	4	**(346,278)**	11,373
Purchase of property, plant and equipment, net of deposits		**-**	(12,596)
Net cash provided (used) by investing activities from continuing operations		**(346,278)**	(1,223)
Net cash provided (used) by investing activities from discontinued operations		**-**	-
		(346,278)	(1,223)
Financing activities			
Net cash provided (used) by financing activities from continuing operations		**-**	-
Net cash provided (used) by financing activities from discontinued operations		**-**	-
		-	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(6,434)**	13,462
Net cash (outflow) inflows during the period		**(953,270)**	504,304
Cash and cash equivalents, beginning of period		**4,522,450**	5,691,140
Cash and cash equivalents, end of period		**3,569,180**	6,195,444

Financial position as at	May 31, 2015	May 31, 2014
Cash and cash equivalents are comprised of:		
Cash	**122,242**	87,379
Short-term investments	**3,446,938**	6,108,065
	3,569,180	6,195,444

Supplemental non-cash investing (Note 11)

1. Nature of business and going concern

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

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

Going concern

At May 31, 2015, the Company had working capital of $3,397,750 (February 28, 2015 - $4,155,051). For the period ended May 31, 2015, the Company reported a comprehensive loss of $774,279 (May 31, 2014 – gain $2,742,919) and accumulated deficit of $66,638,001 (February 28, 2015 - $65,849,005). The ability of the Company to continue as a going concern over a longer term is dependent on the Company's ability to successfully complete its feasibility level metallurgical work to be able to market the ICP's products to end users. This will not only reduce the finance risk on the ICP but will also facilitate financing for mine construction once feasibility level study has been completed on the ICP. While the Company continues to look for opportunities to significantly reduce operating and overhead costs and defer capital expenditures, these material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

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

2. Basis of preparation

(a) Statement of compliance

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Standards Board ("IASB"). These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34").

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company's most recent annual audited financial statements for the year ended February 28, 2015. These condensed interim consolidated financial statements should be read in conjunction with the Company's February 28, 2015 audited consolidated financial statements. The Board of Directors authorized these financial statements for issue on July 9, 2015.

Expressed in Canadian Dollars unless otherwise noted

3. 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, 2015 - 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, 2015, and the current period were minimal. The Reclamation Performance Bond will be released upon meeting the reclamation requirement of the U.S. Forest Service at the end of the Life of Mine of the Idaho Cobalt Project.

On June 21, 2011, the Company entered into an agreement with an insurance company to issue a surety bond in the amount required by the Reclamation Performance Bond. As part of the insurance agreement, the Company 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.

	$	**May 31, 2015**	February 28, 2015
		$	$
Reclamation Peformance			
Bond Requirement	US$	**6,379,617**	6,379,617
Insured	US$	**6,379,617**	6,379,617
In Trust:			
US Treasury Securities	US$	**2,239,196**	2,239,196
		2,239,196	2,239,196
Reclamation bond	CDN$	**2,784,479**	2,799,255

Expressed in Canadian Dollars unless otherwise noted

4. Mineral properties

Mineral properties at May 31, 2015 consist of:

	May 31, 2015	Additions	February 28, 2015
	$	$	$
Idaho Cobalt Belt			
Idaho Cobalt Project	**69,248,639**	(135,266)	69,383,905
	69,248,639	(135,266)	69,383,905
Other Projects			
Kernaghan	**477,034**	1,884	475,150
Virgin River	**877,321**	7,328	869,993
Other	**32,776**	-	32,776
	1,387,131	9,212	1,377,919
	70,635,770	(126,054)	**70,761,824**

Expressed in Canadian Dollars unless otherwise noted

5. Property, plant and equipment

	Land	Buildings	Equipment	Furniture and fixtures	Plants undergoing refurbishment	Construction in progress	Total
	$	$	$	$	$	$	$
Cost							
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	-	-	-	-	-	525,649	525,649
Impairment for the period	-	-	-	-	(5,386,920)	-	(5,386,920)
Foreign exchange adjustment	3,222	-	-	-	258,319	-	261,541
As at February 28, 2015	181,545	525,905	489,646	381,802	1,302,090	37,982,430	40,863,418
Additions for the period	-	-	-	-	-	-	-
Foreign exchange adjustment	(149)	-	-	-	(6,872)	-	(7,021)
As at May 31, 2015	**181,396**	**525,905**	**489,646**	**381,802**	**1,295,218**	**37,982,430**	**40,856,397**
Accumulated Depreciation							
As at February 28, 2014	-	(184,118)	(429,405)	(354,980)	-	-	(968,503)
Additions for the period	-	(18,485)	(20,381)	(8,345)	-	-	(47,211)
As at February 28, 2015	-	(202,603)	(449,786)	(363,325)	-	-	(1,015,714)
Additions for the period	-	(5,077)	(4,880)	(1,675)	-	-	(11,632)
As at May 31, 2015	**-**	**(207,680)**	**(454,666)**	**(365,000)**	**-**	**-**	**(1,027,346)**
Carrying value							
As at February 28, 2015	181,545	323,302	39,860	18,477	1,302,090	37,982,430	39,847,704
As at May 31, 2015	**181,396**	**318,225**	**34,980**	**16,802**	**1,295,218**	**37,982,430**	**39,829,051**

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.

Expressed in Canadian Dollars unless otherwise noted

6. 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 May 31, 2015 was US$3,815,032 (February 28, 2015 - US$3,815,032). The discount rate used to determine the present value of the obligation was based on US Treasury Bond rate of 2.125% and rate of inflation of 2.40% (February 28, 2015 - US Treasury Bond rate of 2.00% and rate of inflation of 2.90%) resulting in a net rate of 1.04% (February 28, 2015 of 1.14%), discounted by 15 years. The Company assumes that reclamation and decommissioning will take place one year after the 12 year Mine Life.

	$
Reclamation and closure cost- February 28, 2014	2,884,461
Additions	1,749,216
Accretion expense	83,135
Change in discount rate	509,077
Foreign exchange	449,035
Reclamation and closure cost- February 28, 2015	5,674,924
Additions	-
Accretion expense	26,460
Change in discount rate	(472,989)
Foreign exchange	(29,957)
Reclamation and closure cost - May 31, 2015	**5,198,438**

7. Discontinued operations

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

Below summarizes the results of discontinued operations of Formation Metals, U.S., and the Refinery Assets for the three months ended May 31, 2015 and 2014. Revenues and cost of revenues are from outstanding precious metal concentrates that were processed at third party facilities.

	May 31 2015	May 31 2014
	$	$
Revenue	**-**	192,117
Cost of revenues	**-**	(71,108)
Write down of inventory	**-**	-
Net gain from discontinued operations	**-**	121,009

Expressed in Canadian Dollars unless otherwise noted

8. 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 May 31, 2015, the Company had 90,887,205 (February 28, 2015 - 90,887,205) common shares issued and outstanding.

b) Stock Options

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

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 May 31, 2015 was 9,088,720 (February 28, 2015 – 9,088,720). The maximum number of shares reserved for issuance to insiders may not exceed 10% of the outstanding shares issued. Under certain conditions, Option holders may elect to exercise their stock options on a cashless basis.

(i) As at May 31, 2015 the outstanding and exercisable stock options were as follows:

Options outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
390,000	1.50	1.63 years	January 17, 2017
1,000,000	0.80	1.63 years	January 17, 2017
1,440,000	0.30	2.68 years	February 1, 2018
930,000	0.21	4.07 years	June 25, 2019
3,103,000	0.20	4.84 years	April 27, 2020
6,863,000	0.38		

Expressed in Canadian Dollars unless otherwise noted

8. Share capital (continued)

b) Stock Options (continued)

As at May 31, 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	0.52 years	December 5, 2014
1,490,000	1.50	1.05 years	June 17, 2015
200,000	0.76	2.52 years	December 5, 2016
3,950,000	0.80	2.52 years	December 5, 2016
1,620,000	0.30	3.67 years	February 1, 2018
7,385,000	0.83		

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

	May 31 2015	**Weighted average exercise price**	February 28, 2015	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**3,760,000**	**0.54**	7,560,000	0.83
Activity during the year				
Options granted	**3,103,000**	**0.20**	930,000	0.21
Options cancelled	**-**	**-**	(4,730,000)	0.94
Balance outstanding end of period	**6,863,000**	**0.38**	3,760,000	0.54

(iii) During the quarter ended May 31, 2015, 3,103,000 (May 31, 2014 – nil) stock options were granted to directors and employees. Using the Black-Scholes option pricing model, the fair value of stock options granted was $333,981 (May 31, 2014 - $nil).

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

		May 31 2015	May 31 2014
Risk free interest		**0.94%**	n/a
Expected life (years)		**5**	n/a
Annualized volatility		**73%**	n/a
Expected dividend	**$**	**-**	n/a
Share price	**$**	**0.20**	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

8. Share capital (continued)

c) Warrants

No warrants were outstanding as at May 31, 2015.

(d) Loss per share

		May 31, 2015		May 31 2014
Continued Operations:				
Net gain (loss)	$	(788,996)	$	2,406,115
Weighted average number of common shares outstanding		90,887,205		90,887,205
Weighted average number of diluted common shares		90,887,205		90,887,205
Loss per share- basic	$	(0.01)	$	0.03
Loss per share- diluted	$	(0.01)	$	0.03
Discontinued Operations:				
Net gain (loss)	$	-	$	121,009
Loss per share- basic	$	-	$	-
Loss per share- diluted	$	-	$	-
The following potential common shares, are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted earnings per share:				
Stock options		6,830,000		7,385,000
Warrants		-		-

9. 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	
	May 31, 2015	February 28, 2015
Formation Holdings Corp.	100%	100%
Formation Holdings US, Inc.	100%	100%
US Cobalt, Inc.	100%	100%
Formation Capital Corporation, U.S.	100%	100%
Essential Metals Corporation	100%	100%
Coronation Mines Ltd.	100%	100%
Minera Terranova S.A. de C.V.	100%	100%

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

Expressed in Canadian Dollars unless otherwise noted

9. Related party transactions (continued)

b) Compensation of key management personnel

The compensation to directors and officers of the Company during the three months ended May 31, 2015 and 2014 were as follows:

		May 31 2015	May 31 2014
		$	$
Salaries and short-term employee benefits including bonuses		**111,250**	111,250
Share-based compensation	(i)	**262,867**	-
Directors' fees		**31,875**	66,750
		405,992	178,000

Outstanding balances owed to directors and officers at May 31, 2015 was $31,875 (May 31, 2014 - $200,250).

(i) Share-based payments are based on fair value of stock options granted to directors and officers of the Company. On April 27, 2015, the Company granted 2,418,000 (2014 - nil) stock options to directors and officers with weighted average exercise price of $0.20 (2014 - $nil) per share, expiring five years from the issue date. Using the Black-Scholes option pricing model, the fair value of stock options granted was $262,867 (2014- $nil).

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

Expressed in Canadian Dollars unless otherwise noted

10. Segmented information

Prior to the disposition of the Sunshine Refinery on October 10, 2013 (see note 7), 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:

	May 31, 2015			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (from discontinued operations)	-	-	-	-
Non-current Assets				
Mineral properties	1,354,356	69,281,414	-	70,635,770
Property, plant & equipment	28,930	39,800,121	-	39,829,051
Reclamation bonds & deposits	-	2,784,479	-	2,784,479
Total non-current assets	1,383,286	111,866,014	-	113,249,300

	May 31, 2014			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (from disccontinued operations)	-	192,117	-	192,117
Non-current Assets				
Mineral properties	1,435,869	70,310,744	89,701	71,836,314
Property, plant & equipment	41,328	44,454,289	-	44,495,617
Reclamation bonds & deposits	-	2,427,380	-	2,427,380
Total non-current assets	1,477,197	117,192,413	89,701	118,759,311

Expressed in Canadian Dollars unless otherwise noted

10. Segmented information (continued)

	For the three month period ended May 31, 2015			
	Exploration and development	Discontinued operations	Corporate	Total
	$	$	$	$
Expenses				
Accretion & interest expense	(26,792)	-	(520)	(27,312)
Depreciation	(9,286)	-	(2,346)	(11,632)
Foreign exchange gain	-	-	(24,764)	(24,764)
General and administrative	(35,757)	-	(359,966)	(395,723)
Share based compensation	-	-	(333,981)	(333,981)
Other gain	-	-	4,416	4,416
Income (loss) before income taxes	(71,835)	-	(717,161)	(788,996)
Net income (loss) the period	(71,835)	-	(717,161)	(788,996)
Total Assets	113,234,819	-	3,651,431	116,886,250
Total Liabilities	5,336,533	-	129,469	5,466,002

	For the three month period ended May 31, 2014			
	Exploration and Exploration	Disontinued operations	Corporate	Total
	$	$	$	$
Expenses				
Accretion and interest expense	(19,299)	(237)	(398)	(19,934)
Depreciation	(8,250)	-	(3,351)	(11,601)
Foreign exchange gain	-	-	1,105,311	1,105,311
General and administrative	(13,468)	-	(344,177)	(357,645)
Gain from discontinued operations	-	121,009	-	121,009
Other gain	-	-	4,604	4,604
Income (loss) before income taxes	(41,017)	120,772	761,989	841,744
Net income (loss) for the period	(40,624)	120,772	2,446,976	2,527,124
Total Assets	119,334,055	-	6,287,443	125,621,498
Total Liabilities	3,373,365	-	318,498	3,691,863

11. Supplementary cash flow information

Change in working capital items for the three month periods ended:

	May 31 2015	May 31 2014
	$	$
Prepaid expenses and deposits	**14,932**	2,189
Accounts recievable	**(5,052)**	-
Accounts payable and accrued liabilities, relating to operating items	**(206,687)**	(28,232)
	(196,807)	(26,043)

12. 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 3).

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 May 31, 2015 and 2014, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

		May 31, 2015		May 31, 2014
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**3,569,180**	**3,569,180**	6,195,444	6,195,444
Trade and other receivables	**10,946**	**10,946**	182,844	182,844
Reclamation bond	**2,784,479**	**2,733,861**	2,427,380	2,383,253
Financial liabilities				-
Accounts payable	**107,964**	**107,964**	150,699	150,699
Accrued liabilities	**131,236**	**131,236**	353,264	353,264

13. Fair values and financial risk management

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, 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 May 31, 2015 and 2014, 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.

13. Fair values and financial risk management (continued)

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

	May 31, 2015	May 31, 2014
	$	$
Cash and cash equivalents	**3,569,180**	6,195,444
Trade and other receivables	**10,946**	182,844
Reclamation bond	**2,784,479**	2,427,380

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:

	May 31, 2015				May 31, 2014
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	122,242	-	-	122,242	87,379
Short term savings	3,446,938	-	-	3,446,938	6,108,065
	3,569,180	-	-	3,569,180	6,195,444

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 May 31, 2015, US short term savings account of $3,446,938 (February 28, 2015- $4,379,992) 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

13. 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 approximately $612,500 (2014 - $912,359).

14. Contingencies

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

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

15. Commitments

The following is a schedule of the Company's commitments as at May 31, 2015:

	Note	2016	2017	2018 and later
		$	$	$
Mineral property expenditure	(a)	2,500	-	-
General liability insurance	(b)	35,338	-	-
Office operating leases	(c)	81,201	69,864	286
		119,039	69,864	286

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

(b) The Company has a total liability insurance premium of $35,338 payable monthly until October 12, 2015.

(c) The Company has office operating lease commitments totalling $151,352 for the next two fiscals years ending 2016 to 2017, and half year lease for 2018.

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $694,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

Formation Metals Inc.

Management's Discussion and Analysis

For the Three Months Ended May 31, 2015

Date of Report: July 9, 2015

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

Symbol: Toronto Stock Exchange - FCO

Table of Contents

This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes thereto of Formation Metals Inc. (the "Company") for the three months ended May 31, 2015 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are available on SEDAR at www.sedar.com. All dollar amounts herein are expressed in Canadian Dollars unless stated otherwise.

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

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

1.1 Date

This MD&A is prepared as of July 9, 2015.

1.2 Overview

1.2.1 Summary

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

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

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

A feasibility level study was completed on the ICP in 2007 to produce a high purity cobalt metal suitable for critical applications in the aerospace sector. By November 2012, the Company had spent US$65.3M and completed two of three stages of construction on the ICP mine and mill site. The project was subsequently placed on care and maintenance in May 2013 due to unfavourable market conditions. In 2014, the Company began work on a new technical report on the ICP with the intention to produce cobalt chemicals in response to improved financial markets and the projected bullish long-term demand for cobalt driven mainly by cobalt used in rechargeable battery applications.

In January 2015, the Company commissioned Samuel Engineering, Inc. ("SE") of Denver, Colorado and Mine Development Associates ("MDA") of Reno, Nevada to produce a Preliminary Economic Assessment ("PEA") on the ICP. The goal of the PEA is to confirm the Company's internal assessment on producing cobalt chemicals used in rechargeable batteries.

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

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

Feasibility level metallurgical work has been commissioned on the ICP with results expected before the end of summer, 2015.

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 three months ended May 31, 2015 and subsequent events

Corporate:

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

(b) During the three months period ended May 31, 2015, the Company reported a comprehensive loss of $774,279 (May 31, 2014 - gain $2,742,919) and accumulated deficit of $66,638,001 (February 28, 2015 - $65,849,005); and

(c) As at May 31, 2015, the Company had working capital of $3,397,750 (February 28, 2015 - $4,155,051).

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 unaudited condensed interim consolidated financial statements for the for the three months ended May 31, 2015 and related notes thereto.

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

1.2.5 Property Activities

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

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

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

Background

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

The ICP was extensively explored and developed to a bankable feasibility stage in 2008 that demonstrated the viability of producing high purity cobalt metal ("HPC"). The Company continues to maintain an extensive database on the potential production of HPC from the ICP. In December 2009, the Company and the United States Department of Agriculture Forest Service signed the "Forest Service Evaluation" which approved and finalized the Company's Mine Plan of Operations (the "Mine Plan") for the ICP. The approval and finalization of the Company's Mine Plan allowed the Company to commence construction on the ICP Mine Site. By November 2012, the Company had completed two of three stages of construction at the mine and mill when the property was placed on care and maintenance in May 2013 due to weak financial markets and declining commodity prices. To date, the Company has spent US$65.3 million (US$50.3 million at the mine and mill and

US$15.0 million on the CPF) completing these two phases of the ICP mine and mill construction that commenced in June 2011 and was completed in December 2012. This work was comprised of extensive earthworks including access and haul road, portal bench, mill and concentrator pads and tailing waste storage facility construction. In addition, pre-purchased mining and milling equipment, including the ball mill, flotation circuits, grizzlies, hoppers, conveyors, etc., totaling approximately US$16.0 million has been delivered to a staging area outside the town of Salmon, Idaho, proximal to the mine and mill. The final Phase III of construction will involve underground development and the construction of the mill and concentrator and other ancillary facilities at the ICP Mine Site and at the CPF.

Preliminary Economic Assessment on the ICP

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

• Pre-Tax NPV8.5%:	$148 million, IRR 27.7%
• Post-Tax NPV8.5%:	$113 million, IRR 24.07%
• Initial Capital Costs:	$147 million
• Life of Mine (LOM):	12.5 years post preproduction
• EBITDA:	$515 million
• LOM Gross Revenue:	$983 million
• LOM Total Net After Tax Cash Flow	$258 million
• LOM Average Net Cash Cobalt Production Cost: (net of gold, copper and magnesium credits)	$4.94 per pound
• Pre-Tax Initial Capital Payback:	3.7 years
• LOM Cobalt Production:	35,356,415 pounds
• LOM Copper Production:	57,384,700 pounds
• LOM Gold Production: (including ounces in copper con and doré)	46,858 ounces

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

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

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

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

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

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

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

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

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

Initial conclusions from SE and MDA are that the ICP contains a viable cobalt and base metal resource that can be successfully mined by underground methods and recovered with conventional processing. Using the assumptions contained in the PEA, SE and MDA reports that the project is economic and should proceed to the pre-feasibility or feasibility stage. To date the Qualified Persons under NI 43-101 are not aware of any fatal flaws for the ICP. The advancement of the ICP towards feasibility is contingent upon financing.

Feasibility Level Metallurgical Test Work

Metallurgical work suitable for feasibility level studies was commissioned in January 2015 on the ICP with results expected before the end of summer, 2015. This metallurgical test work will determine the viability of producing cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector and will characterize the final product's expected specifications. Metallurgical test work is also being conducted on the viability of producing the by-products discussed above, namely copper and magnesium sulfate, copper concentrate and gold from the ICP.

(b) **Black Pine – Idaho, USA**

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

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

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

(c) **Morning Glory – Idaho, USA**

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

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

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

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

(e) **Wallace Creek – Idaho, USA**

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

(f) **El Milagro – Mexico**

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

The mineral claims are maintained in good standing. Non-exclusive Confidentiality Agreements have been signed with parties interested in a possible joint venture or other such partnerships.

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

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

The Company granted an option whereby the optionee earned an 80% interest in certain mineral claims by making certain payments (received), and completing exploration work totaling $1,000,000 (deemed completed). The project area is located near the northeast rim of the Athabasca Basin approximately 42 km north of Points North Landing. The Kernaghan / Bell project currently consists of 13 mineral claims totaling 4,342 hectares. The target unconformity depth ranges from 160m to 290m. To date 38 diamond drill holes within the property outline totaling 10,051.4m have been drilled targeting the unconformity.

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

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

The Company through its wholly owned subsidiary, Coronation Mines Ltd., owns 2% of the Virgin River project located in the Athabasca Basin of northern Saskatchewan. Cameco Corporation ("Cameco") and AREVA Inc. each own 49% in the joint exploration agreement with Cameco acting as the operator of the project. The Company also has the first right of offer to acquire up to 10% of the project and has been carried through to $10,000,000 worth of exploration and development. This right could be exercised in the event that one of the joint venture partners wishes to sell all or a portion of their interest to a third party, in which case they must first offer Coronation Mines an additional 8% of the project. As at February 28, 2015, over $32,874,828 has been spent on the project, exploring for a large unconformity-type deposit that has resulted in the discovery of the Centennial Deposit.

A budget of $120,000 has been approved for the 2015 calendar year for report compilation and continued studies on the Woodland Caribou. No drilling is planned for 2015.

1.2.6 Outlook

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

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

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

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

There are risks associated with the PEA. The most significant potential internal risks associated with the ICP are uncontrolled dilution, lower metal recoveries than those projected, operating and capital cost escalation, unforeseen schedule delays, the potential reduction of mineable reserves after removing inferred material from the model and the ability to raise financing. The reported mineral resources are not mineral reserves and do not have demonstrated economic viability. These risks are common to most mining projects, many of which can be mitigated with adequate engineering, planning and pro-active management.

As a result of the positive results of the PEA and recommendations from independent engineering consultants, the Board of Directors has given Management mandate to move the ICP towards feasibility. Current quotes are being assessed for project advancement. Results from an ongoing metallurgical test work suitable for a feasibility study are expected before August 31, 2015.

Figure 1: Formation Metals' Share Price, March 1, 2015 – July 9, 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 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.

Cobalt is primarily extracted as a by-product of copper and nickel ores. The Democratic Republic of Congo (“DRC”) produces the largest share of cobalt globally (~60%), and there it is extracted alongside copper. The rest of the world’s cobalt is extracted almost entirely as a nickel by-product. Countries in which cobalt is mined as a nickel by-product are numerous. The list of countries contributing the balance comprises Australia, Brazil, Canada, China, Cuba, Madagascar, Papua New Guinea, Philippines, Morocco, Russia, Zambia and New Caledonia.

Virtually all of the cobalt mined in the DRC is exported, mostly to China making China the largest producer of refined cobalt. Some is also exported to Finland and to a lesser extent, Zambia and Belgium, where the cobalt is subsequently refined into various chemical and pure metal forms. In an attempt to promote domestic value added (“beneficiation”), the government of the DRC recently introduced policies aimed at restricting the outflow of cobalt in its most “raw” forms (ores and concentrates). Such policies have introduced uncertainties to the supply chain and could impact cobalt price volatility. In addition, cobalt supply and price volatility is also susceptible to swings in copper and nickel demand as approximately two thirds of cobalt production is directly related to copper production, one third is related to nickel production, and less than 5% is related to primary cobalt production,

The United States is the world’s largest consumer of cobalt and has limited 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 for the balance of 2015. Market experts are now predicting that the cobalt supply deficit will occur in 2016 as opposed to the previous estimate of 2017. (source:CDI 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 at a time when metals are failing to attract considerable outsider attention, investor interest in cobalt continues to show early signs of pick-up.

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

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

1.3 Selected Annual Information

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

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

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

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

Selected Annual Information:

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

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

1.4 Results of Operations

Financial Results of Operations for the Three Months Ended May 31, 2015 and 2014

The following are highlights from the Company's results from operations for the three months ended May 31, 2015 and 2014:

(a) **Net loss** for the three months ended May 31, 2015 was $788,996 or $0.01 per share (2014- gain $2,406,115 or $0.03 per share).

(b) **Directors fees** for the three months ended May 31, 2015 was $31,875 (2014- $69,573). Lower directors fees during the period was a result of directors agreeing to reduce their annual retainers and meeting fees by 50%.

(c) **Shareholder relations** for the three months ended May 31, 2015 was $57,832 (2014- $24,607). Higher shareholder relations fees incurred during the current period was a result of increased investor relation activities to enhance shareholder awareness of the PEA.

(d) **Foreign exchange loss** for the three months ended May 31, 2015 was $24,764 (2014- gain $1,105,311). The US dollar depreciated against the Canadian dollar from $1.2503 on February 28, 2015 to $1.2437 on May 31, 2015. The realized foreign exchange loss is due to cash held in US dollars.

(e) **Office expense** for the three months ended May 31, 2015 was $103,363 (2014- $63,090). Higher office expense in the current period compared to the same period last year was a result of expenses related to discontinued operations, otherwise the Company have made material reductions to overhead and office expenses. These reductions include travel expenses, postage, rent, and professional membership and dues. The Company continues to assess and reduce its overhead expenses to conserve working capital.

(f) **Share-based compensation** was $333,981 (2014- $nil) for the three months ended May 31, 2015. On April 27, 2015 the Company granted 3,103,000 options to directors, officers and employees (2014- nil) exercisable at $0.20 per share and expiring on April 27, 2020. The fair value of the options was determined using the Black-Scholes option pricing model utilizing the following assumptions: risk free interest of 0.94%, expected life of 5 years, annualized volatility of 73% and share price of $0.185.

1.5 Summary of Quarterly Results

Financial Information in thousands (except per share information)

	Three Months ended May 31, 2015 $	Three Months ended February 28, 2015 $	Three Months ended November 30, 2014 $	Three Months ended August 31, 2014 $	Three Months ended May 31, 2014 $	Three Months ended Feb 28, 2014 $	Three Months ended Nov 30, 2013 $	Three Months ended Aug 31, 2013 $
Net gain (loss) from continued operations	(788,996)	(14,166)	2,884	(71)	2,406	(10,868)	(1,273)	253
Net gain (loss) from discontinued operations	nil	(183)	(35)	(261)	121	(1,766)	3,599	(441)
Basic and diluted income (loss) per share	(0.01)	(0.16)	0.03	(0.001)	0.03	(0.12)	(0.01)	(0.01)

1.6 Liquidity

May 31, 2015 and 2014

(a) **Cash and cash equivalents** as at May 31, 2015 were $3,569,180 (February 28, 2015- $4,522,450).

(b) **Working capital** as at May 31, 2015 was $3,397,750 (February 28, 2015- $4,155,051).

(c) **Mineral property expenditures** of $346,278 were capitalized during the three months ended May 31, 2015 (2014- recovery $11,373).

(d) **Net Purchase of Property, Plant and Equipment expenditures** for the three months period ended May 31, 2015 were $nil (2014- $12,596).

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 May 31 2015:

	Note	2016	2017	2018 and later
		$	$	$
Mineral property expenditure	(a)	2,500	-	-
General liability insurance	(b)	35,338	-	-
Office operating leases	(c)	81,201	69,864	286
		119,039	69,864	286

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

(b) The Company has a total liability insurance premium of $35,338 payable monthly until October 12, 2015.

(c) The Company has office operating lease commitments totalling $151,352 for the next two fiscals years ending 2016 to 2017, and half year lease for 2018.

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $694,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

1.7 Capital Resources

The Company's working capital as at May 31, 2015 was $3,397,750 (February 28, 2015- $4,155,051). 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 May 31, 2015	February 28, 2015
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

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

(b) Compensation of key management personnel

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

The compensation to directors and officers of the Company during the three months ended May 31, 2015 and 2014 were as follows:

		May 31 2015	May 31 2014
		$	$
Salaries and short-term employee benefits including bonuses		**111,250**	111,250
Share-based compensation	(i)	**262,867**	-
Directors' fees		**31,875**	66,750
		405,992	178,000

Outstanding balances owed to directors and officers at May 31, 2015 was $31,875 (May 31, 2014 - $200,250).

(i) Share-based payments are based on fair value of stock options granted to directors and officers of the Company. On April 27, 2015, the Company granted 2,418,000 (2014 - nil) stock options to directors and officers with weighted average exercise price of $0.20 (2014 - $nil) per share, expiring five years from the issue date. Using the Black-Scholes option pricing model, the fair value of stock options granted was $262,867 (2014- $nil).

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

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

`

		For the three months ended May 31, 2015				For the three months ended May 31, 2014			
		Share based compensation	**Salary and benefits**	**Directors Fees**	**Total Compensation**	Share based compensation	Salary and benefits	Directors Fees	Total Compensation
		$	**$**	**$**	**$**	$	$	$	$
Cecil Andurs	Director Emeritus	**2,690**	**-**	**-**	**2,690**	-	-	-	-
David Christie	Director	**25,178**	**-**	**4,625**	**29,803**	-	-	9,250	9,250
James Engdahl	Director	**25,178**	**-**	**4,625**	**29,803**	-	-	9,250	9,250
Paul Farquharson	President & CEO	**32,280**	**50,000**	**-**	**82,280**	-	50,000	-	50,000
Gregory Hahn	Director	**25,178**	**-**	**5,125**	**30,303**	-	-	8,250	8,250
Scott Hean	Director	**25,178**	**-**	**4,625**	**29,803**	-	-	10,250	10,250
Rick Honsinger	Vice President	**25,824**	**31,250**	**-**	**57,074**	-	31,250	-	31,250
Robert Metka	Director	**25,178**	**-**	**4,125**	**29,303**	-	-	10,250	10,250
Robert Quinn	Director	**25,178**	**-**	**4,125**	**29,303**	-	-	9,250	9,250
David Stone	Director	**25,178**	**-**	**4,625**	**29,803**	-	-	10,250	10,250
Marc Tran	CFO	**25,824**	**30,000**	**-**	**55,824**	-	30,000	-	30,000
		262,867	**111,250**	**31,875**	**405,992**	-	111,250	66,750	178,000

1.10 Proposed Transactions

None

1.11 Critical Accounting Estimates

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

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

Judgments

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

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

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

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

Estimates

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

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

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

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

1.12 Financial Instruments and Other Instruments

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

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

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

At May 31, 2015 and 2014, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	May 31, 2015		May 31, 2014	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**3,569,180**	**3,569,180**	6,195,444	6,195,444
Trade and other receivables	**10,946**	**10,946**	182,844	182,844
Reclamation bond	**2,784,479**	**2,733,861**	2,427,380	2,383,253
Financial liabilities				-
Accounts payable	**107,964**	**107,964**	150,699	150,699
Accrued liabilities	**131,236**	**131,236**	353,264	353,264

1.12 Fair Values and Financial Risk Management

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

Credit risk

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

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At May 31, 2015 and 2014, the Company had no material past due trade receivables.

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

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

	May 31, 2015	May 31, 2014
	$	$
Cash and cash equivalents	**3,569,180**	6,195,444
Trade and other receivables	**10,946**	182,844
Reclamation bond	**2,784,479**	2,427,380

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:

	May 31, 2015				May 31, 2014
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	122,242	-	-	122,242	87,379
Short term savings	3,446,938	-	-	3,446,938	6,108,065
	3,569,180	-	-	3,569,180	6,195,444

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 May 31, 2015, US savings account of $344,938 (February 28, 2015 - $4,379,992) earns an interest rate of up to 0.46%. The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

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

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

Translation exposure

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

A 10% strengthening (weakening) of the Canadian dollar against the US$ dollar would have increased (decreased) the Company's net income (loss) before taxes of approximately $612,500 (2014 - $912,359).

1.14 Other MD&A Requirements

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

As at July 9, 2015 there were 90,887,205 outstanding common shares, 6,863,000 outstanding stock options with a weighted average exercise price of $0.40 and weighted average life of 3.55 years. All common share purchase warrants have expired.

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

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. The certifying officers reviewed and evaluated such disclosure controls and procedures and concluded that the disclosure controls and procedures were operating effectively as of May 31, 2015.

Internal Controls over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the period ended May 31, 2015.

The Company's controls include policies and procedures that:

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

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

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

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

Limitation of Controls and Procedures

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

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

(c) **Additional Information**

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