FORMATION

Formation Metals Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the nine months ended

November 30, 2015

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

Formation Metals Inc.
November 30, 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 nine month period ended November 30, 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	**November 30, 2015**	February 28, 2015
		$	$
Assets			
Current assets			
Cash and cash equivalents		**1,883,832**	4,522,450
Trade and other receivables		**5,377**	5,894
Prepaid expenses and deposits		**69,580**	71,755
Total current assets		**1,958,789**	4,600,099
Reclamation bond	3	**2,989,559**	2,799,255
Mineral properties	4	**71,157,970**	70,761,824
Property, plant and equipment	5	**40,486,327**	39,847,704
Total assets		**116,592,645**	118,008,882
Liabilities			
Current liabilities			
Accounts payable		**368,430**	90,138
Accrued liabilities		**66,232**	354,910
Total current liabilities		**434,662**	445,048
Provision for site reclamation and closure costs	6	**5,241,563**	5,674,924
Deferred tax liabilities		**28,364**	28,364
Total liabilities		**5,704,589**	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		**656,823**	723,693
Deficit		**(67,088,606)**	(65,849,005)
Total equity		**110,888,056**	111,860,546
Total liabilities and equity		**116,592,645**	118,008,882

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent events (Note 15)

"Scott B. Hean"	***"James Engdahl"***
Director	Director

Formation Metals Inc.

Condensed Interim Consolidated Statement of Operations and Comprehensive Loss

(Stated in Canadian dollars) (unaudited)

		Three months ending		Nine months ending	
	Note	**November 30, 2015**	November 30, 2014	**November 30, 2015**	November 30, 2014
		$	$	**$**	$
Expenses					
Accounting and audit		**29,231**	14,250	**50,813**	29,106
Accretion expense	6	**27,235**	18,580	**78,576**	56,299
Bank charges and interest expense		**699**	447	**2,350**	2,189
Depreciation		**13,135**	11,740	**37,524**	34,819
Director's fees		**27,875**	57,072	**94,585**	196,603
Foreign exchange loss (gain)		**(30,442)**	(3,217,441)	**(179,552)**	(4,943,651)
Legal fees		**10,751**	19,650	**33,131**	56,731
Listing and filing fees		**5,424**	10,770	**36,617**	48,869
Office		**66,445**	46,356	**247,887**	154,855
Salary and wages		**130,364**	148,193	**402,153**	421,350
Shareholder information		**20,995**	14,748	**112,307**	52,106
Share-based compensation	8(b)(iii)	**-**	-	**333,981**	112,746
		301,712	(2,875,635)	**1,250,372**	(3,777,978)
Gain (loss) from operating activities		**(301,712)**	2,875,635	**(1,250,372)**	3,777,978
Loss from discontinued operations	7	**-**	(32,575)	**-**	(172,820)
Interest income		**2,496**	5,263	**10,771**	13,837
Net income (loss) before taxes		**(299,216)**	2,848,323	**(1,239,601)**	3,618,995
Income tax recovery		**-**	426	**-**	1,686,051
Net income (loss) for the period		**(299,216)**	2,848,749	**(1,239,601)**	5,305,046
Other comprehensive income (loss):					
Currency translation adjustment		**(11,927)**	(565,027)	**(66,870)**	(4,286,456)
Total comprehensive income (loss) for the period		**(311,143)**	2,283,722	**(1,306,471)**	1,018,590
Basic and diluted gain (loss) per share		**(0.003)**	0.031	**(0.01)**	0.06
Weighted average number of shares outstanding					
Basic and diluted		**90,887,205**	90,887,205	**90,887,205**	90,887,205

Formation Metals Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars) (unaudited)

	Note	Common shares without par value		Share Purchase Warrants	Share-based payments reserve	Foreign currency translation reserve	Deficit	Total shareholders' equity
		Shares	Amount					
			$	$	$	$	$	$
Balance, February 28, 2014		90,887,205	150,016,217	19,957,509	8,584,375	632,557	(56,543,567)	122,647,091
Expiration of warrants		-	10,929,202	(12,614,191)	-	-	-	(1,684,989)
Share-based compensation		-	-	-	112,746	-	-	112,746
Net loss and comprehensive loss		-	-	-	-	(4,286,456)	5,305,046	1,018,590
Balance, November 30, 2014		90,887,205	160,945,419	7,343,318	8,697,121	(3,653,899)	(51,238,521)	122,093,438
Net loss and comprehensive loss		-	-	-	-	4,377,592	(14,610,484)	(10,232,892)
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		-	-	-	-	(66,870)	(1,239,601)	(1,306,471)
Balance, November 30, 2015		**90,887,205**	**160,945,419**	**7,343,318**	**9,031,102**	**656,823**	**(67,088,606)**	**110,888,056**

Formation Metals Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian dollars) (unaudited)

	Note	Three months ending November 30, 2015	November 30, 2014	Nine months ending November 30, 2015	November 30, 2014
		$	$	**$**	$
Operating activities					
Net loss for the period		**(299,216)**	2,881,324	**(1,239,601)**	5,477,866
Items not involving cash					
Accretion expense on asset retirement obligation	6	**27,235**	18,580	**78,576**	56,299
Depreciation		**13,135**	11,740	**37,524**	34,819
Deferred income tax expense		**-**	(426)	**-**	(1,686,051)
Unrealized foreign exchange (gain) loss		**(78,751)**	(2,070,401)	**(201,148)**	(4,087,253)
Share-based compensation				**333,981**	-
Change in working capital items	11	**76,496**	147,992	**(9,838)**	(224,142)
Net cash provided (used) by operating activities from continuing operations		**(261,101)**	988,809	**(1,000,506)**	(428,462)
Net cash provided (used) by operating activities from discontinued operations	7	**-**	(105,764)	**-**	1,329,011
		(261,101)	883,045	**(1,000,506)**	900,549
Investing activities					
Mineral property expenditures	4	**(280,081)**	(1,318,225)	**(1,254,025)**	(1,625,684)
Purchase of property, plant and equipment, net of deposits	5	**(281,077)**	(365,450)	**(585,709)**	(568,665)
Net cash provided (used) by investing activities from continuing operations		**(561,158)**	(1,683,675)	**(1,839,734)**	(2,194,349)
Net cash provided (used) by investing activities from discontinued operations		**-**	-	**-**	-
		(561,158)	(1,683,675)	**(1,839,734)**	(2,194,349)
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		**82,966**	44,089	**201,623**	38,115
Net cash (outflow) inflows during the period		**(739,293)**	(756,541)	(2,638,618)	(1,255,685)
Cash and cash equivalents, beginning of period		**2,623,126**	5,191,996	**4,522,450**	5,691,140
Cash and cash equivalents, end of period		**1,883,832**	4,435,455	**1,883,832**	4,435,455

Financial position as at	November 30, 2015	November 30, 2014	November 30, 2015	November 30, 2014
Cash and cash equivalents are comprised of:				
Cash	**54,848**	308,366	**54,848**	308,366
Short-term investments	**1,828,984**	4,602,448	**1,828,984**	4,602,448
	1,883,832	4,910,814	**1,883,832**	4,910,814

Supplemental cash flow information (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") once and if the project is given approval by the Board, will likely 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 and its positive results announced on April 22, 2015. 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 remain in good standing.

Going concern

At November 30, 2015, the Company had working capital of $1,524,127 (February 28, 2015 - $4,155,051). For the nine month period ended November 30, 2015, the Company reported a comprehensive loss of $1,306,471 (November 30, 2014 – gain $5,305,046) and accumulated deficit of $67,088,606 (February 28, 2015 - $65,849,005). The ability of the Company to continue as a going concern over a longer term is dependent on the Company's ability raise the financing necessary to complete a definitive feasibility study. To obtain cash, the Company may sell non-core assets, reduce expenditures and/or sell equity. With more defined characteristics of the cobalt, the Company will 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

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 January 14, 2016.

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 been no 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 was 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.

	$	**November 30, 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$	**2,989,559**	2,799,255

Expressed in Canadian Dollars unless otherwise noted

4. Mineral properties

Mineral properties at November 30, 2015 consist of:

	November 30, 2015	Additions	February 28, 2015
	$	$	$
Idaho Cobalt Belt			
Idaho Cobalt Project	**69,753,163**	369,258	69,383,905
	69,753,163	369,258	69,383,905
Other Projects			
Kernaghan	**480,674**	5,524	475,150
Virgin River	**891,357**	21,364	869,993
Other	**32,776**	-	32,776
	1,404,807	26,888	1,377,919
	71,157,970	396,146	**70,761,824**

During the nine months period ended November 30, 2015, the Company spent $1,254,026 (November 30, 2014 - $811,995) on mineral properties. A non cash credit adjustment of $857,880 (November 30, 2014 - debit adjustment $589,592) for site reclamation and closure cost was also made (note 6) resulting a net addition of $396,146 (November 30, 2014 - $1,401,587).

(a) Idaho Cobalt Project

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

In order to assess the recoverability of the non-current assets recorded for ICP at February 28, 2015, management had made the following assessment to determine the recoverable amount and compared these results to the carrying value of the ICP for the purpose of impairment:

(i) Recoverable Amount:

At February 28, 2015, the Company conducted an impairment assessment of the ICP, which is the Company's sole primary asset, and estimated recoverable amount based on the fair value in use method. The economic model for future cash flows was derived from the Company's April 29, 2015 PEA which was SEDAR filed on May 8, 2015.

(ii) Cash Flow Period:

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

The initial Capex investment was necessary to bring the ICP into commercial production for the Life of Mine which was estimated to be 12.5 years after the preproduction period. The preproduction period is 21 months. Reducing the cash flow of the project to 5 years per paragraphs 33(b) and 35 of IAS 36 would have only captured the preproduction period and 3.25 years (39 months) of commercial production; resulting in an incomplete assessment of the project's cash flows and a negative NPV as 100% of initial Capex is required during the preproduction period.

4. Mineral properties (Continued)

(a) Idaho Cobalt Project (Continued)

As such, the Company believed that the use of a greater than five year cash flow was justified as use of the modeling was developed on a "life of mine basis", was external in nature, supportable, reliable and represented management's best estimate of the remaining useful life of the asset. Potential expansion to the resource is possible if/when additional exploratory drilling is completed; however, such enhancements have not been included in the current cash flow modelling.

(iii) Discount Rate:

A pre-tax discount rate of 11% was used for impairment testing and derived based on the Company's weighted average cost of capital ("WACC") using the Capital Asset Pricing Model. A debt to equity ratio of 80:20 was estimated based on strategic financing arrangements that the Company envisioned to finance project development, including factors such as the positive long term outlook for cobalt driven by increased demand rechargeable batteries industry and shortfall of cobalt supply, offtake agreements to de-risk revenue and future cash flows, management's previous experience in the marketplace, equity market conditions at the time, internal assessment completed comparing financing alternatives' effect on return to shareholders, and comparing the Company's discount rate amongst its peers. Management was of the position that the discount rate used for impairment assessment fairly reflected the pre-tax market assessment of time value of money for the ICP.

(iv) Impairment Assessment:

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

The recoverable amount of the ICP was derived using the pre-tax cash flow model of the PEA. Using a pre-tax discount rate of 11.0%, the recoverable value of the ICP was $143,400,759 or US$128,966,923. Compared to a carrying value of $109,200,233, the Company concluded that no additional impairment was required for the year ended February 28, 2015. Since 100% of measured, indicated and inferred resources were incorporated in the cash flow model used to derive the recoverable amount of the ICP, refer to items V and VI for management's assessment on these inclusions.

(v) Inclusion of Measured and Indicated Resources:

As required by IAS 1.122, the Company confirmed that 100% of measured and indicated resources were used as per the PEA in deriving the fair value in use of the ICP. In measuring value in use, the Company is required to "*base cash flow projections on reasonable and supportable assumptions that represent management's estimate of the range of economic conditions that will exist over the remaining useful life of the asset.*" (IAS 36.33(a), emphasis added).

The CPA Canada/PDAC Viewpoint Depletion Of A Mine In The Production Phase: Useful Life Of The Mine states: *"With respect to using measured and indicated resources along with proven and probable reserves to estimate the useful life of a mine, the appropriateness of such a reserve/resource base will also depend on the probability that these resources will be converted*

4. Mineral properties (Continued)

(a) Idaho Cobalt Project (Continued)

into reserves." Some of the factors the Viewpoint lists in determining the probability of conversion include the:

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

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

(i) Fully permitted;
(ii) Completed Definitive Feasibility Study in 2007 and updated in 2008. Note these reports are now considered out of date and should not be relied upon;
(iii) Completed Phase II of construction including earthworks at the mine and mill;
(iv) Have purchased all long lead equipment for the mine and mill in 2011;
(v) Project construction was placed on care and maintenance in 2013 due to poor financial markets to conserve cash; and
(vi) Filing of the PEA in May 2015 to produce cobalt sulfate heptahydrate instead of high purity cobalt metal in response to growth in the rechargeable batteries industry, which the Company is currently pursuing.

The Company has previously filed a NI 43-101 compliant definitive feasibility study with respect to production of high purity cobalt metal at the ICP suitable for critical applications in the aerospace sector. This technical report, dated September 14, 2007, revised May 19, 2008 and amended and restated June 23, 2008, contains economic assumptions that are considered out of date, and as such any economic assumptions from this report cannot be relied upon. Subsequently, positive initial results from in-house evaluations to modify the CPF design to produce cobalt heptahydrate suitable for the rapidly growing rechargeable battery sector resulted in the decision to proceed with a re-evaluation of the project and the commissioning and filing of the PEA. The PEA supersedes and replaces the aforementioned definitive feasibility study. The Company continues to work to enhance the project life as outlined under cash flows in item II above. As a result of the above activities, the Company is of the view that it has met the requirements of the Viewpoints to use 100% of measured and indicated resources in deriving the recoverable amount of the ICP.

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

(vi) Inferred Resources

The recoverable amount of the ICP, based on fair value in use calculated using 3,458,481 tonnes from the Mine Development and Production Schedule of the PEA, was $143,400,759 or US$128,966,923 by discounting pre-tax cash flows by a pre-tax discount rate of 11% (item III above). Inferred resource was integrated into the Mine Development and Production Schedule with the highest volumes mined from year 9. The effects of removing inferred resources would result in only measured and indicated resources totaling 2,254,299 tonnes and reduce the mine life from 13 years to 9.5 years. However, this affects the stope design, priority and timing of development, and capacity at the mine and mill and refinery. These changes will have a direct effect on revenue, Capex, development cost, and operating cost.

4. Mineral properties (Continued)

(a) Idaho Cobalt Project (Continued)

Without commissioning our engineers to recreate the Mine Development and Production Schedule that excludes inferred resources solely for the purpose of an impairment assessment, the Company excluded inferred resources and made other changes as follows:

(i) Removed inferred resources: cash flow from years 9.5 to 13 have been removed from the project, reducing project cash flow to 9.5 years resulting in total production of 2,254,229 tonnes;
(ii) Deducted US$2,232,000 from cash flow for reclamation cost at the end of year 9;
(iii) Removed sustaining Capex from year 8 and subsequent years; and
(iv) No changes to initial Capex and initial development cost. An in depth review by engineers is required to assess the effect of reduced capacity and mine life on initial Capex and development cost.

The recoverable amount incorporating the above changes using pre-tax cash flow and discount rate of 11% would be CAD$99,886,852 or US$89,832,857. However, in accordance with impairment assessment in item IV above, no impairment provision has been recorded to date other than otherwise as described due to management's past experience with the ICP and the recent commencement to re-evaluate the ICP for production of cobalt heptahydrate.

(vii) Timing of Production:

Based on estimates provided by the Company’s engineers and conditions of the construction work already completed on the ICP, the Company expects commercial production to commence within 2 years from commissioning a NI 43-101 compliant Definitive Feasibility Study pending market conditions, medium and long term outlook on cobalt and copper prices, and also the Company’s ability to finance working capital, the Definitive Feasibility Study and initial Capex of the ICP.

The recoverable amount was derived based on the assumption that project development would commence within 2 years. Each additional year of delay to project development would result in an average of $10,900,000 reduction from recoverable value.

(viii) Additional Expenditures Required

Based on estimates included in the PEA, the additional initial Capex required to put the ICP into commercial production, ready in use, is US$147 million.

4. Mineral properties (Continued)

(a) Idaho Cobalt Project (Continued)

(ix) Sensitivity Analysis

As discussed in the section 22.2- Sensitivity Analysis on pages 211 to 213 of the PEA, since 70% of total revenues from the Life of Mine of the ICP is from the sale of cobalt sulfate heptahydrate, changes in the price of cobalt has the biggest impact on the recoverable amount of the ICP. This is followed by changes in operating cost, Capex and discount rate. Below illustrates the sensitivity of changes in price of cobalt sulfate heptahydrate, operating cost, Capex, and discount rate have on the recoverable value of the ICP.

Percentage Change of Inputs	**-40%**	**-30%**	**-20%**	**-10%**	**0%**	**10%**	**20%**	**30%**	**40%**
	Recoverable Amount Sensitivity- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ -	$ 7,342,938	$ 52,695,545	$ 98,048,152	$ 143,400,759	$ 188,753,366	$ 234,105,973	$ 279,458,580	$ 324,811,188
Operating Cost	$ 221,559,499	$ 202,350,352	$ 182,920,846	$ 163,270,982	$ 143,400,759	$ 123,310,178	$ 102,999,263	$ 82,468,008	$ 61,716,402
Capex	$ 202,914,618	$ 188,036,154	$ 173,157,689	$ 158,279,224	$ 143,400,759	$ 128,522,295	$ 113,643,830	$ 98,765,365	$ 83,886,900
Discount Rate	$ 205,644,460	$ 188,145,087	$ 172,027,039	$ 157,152,811	$ 143,400,759	$ 130,663,066	$ 118,843,984	$ 107,858,329	$ 97,630,178
	Surplus (Short-fall) from Carrying Value- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ (109,200,333)	$ (101,857,394)	$ (56,504,787)	$ (11,152,180)	$ 34,200,427	$ 79,553,034	$ 124,905,641	$ 170,258,248	$ 215,610,855
Operating Cost	$ 112,359,167	$ 93,150,020	$ 73,720,514	$ 54,070,649	$ 34,200,427	$ 14,109,846	$ (6,201,070)	$ (26,732,325)	$ (47,483,930)
Capex	$ 93,714,286	$ 78,835,821	$ 63,957,356	$ 49,078,892	$ 34,200,427	$ 19,321,962	$ 4,443,497	$ (10,434,968)	$ (25,313,432)
Discount Rate	$ 96,444,128	$ 78,944,755	$ 62,826,706	$ 47,952,478	$ 34,200,427	$ 21,462,733	$ 9,643,651	$ (1,342,003)	$ (11,570,155)

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

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	-	-	4,843	19,336	-	561,530	585,709
Foreign exchange adjustment	1,916	-	-	-	88,522	-	90,438
As at November 30, 2015	**183,461**	**525,905**	**494,489**	**401,138**	**1,390,612**	**38,543,960**	**41,539,565**
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	-	(15,743)	(15,664)	(6,117)	-	-	(37,524)
As at November 30, 2015	**-**	**(218,346)**	**(465,450)**	**(369,442)**	**-**	**-**	**(1,053,238)**
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 November 30, 2015	**183,461**	**307,559**	**29,039**	**31,696**	**1,390,612**	**38,543,960**	**40,486,327**

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 November 30, 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	78,576
Change in discount rate	(863,264)
Foreign exchange	351,327
Reclamation and closure cost - November 30, 2015	**5,241,563**

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 nine months ended November 30, 2015 and 2014. Revenues and cost of revenues are from outstanding precious metal concentrates that were processed at third party facilities.

	November 30, 2015	November 30, 2014
	$	$
Revenue	-	187,404
Cost of revenues	-	(332,131)
Write down of inventory	-	(28,093)
Net gain from discontinued operations	-	(172,820)

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 November 30, 2015, the Company had no preferred shares outstanding and 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 November 30, 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 November 30, 2015 the outstanding and exercisable stock options were as follows:

Options outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
215,000	1.50	0.90 years	October 25, 2016
550,000	0.80	0.90 years	October 25, 2016
220,000	0.30	0.90 years	October 25, 2016
175,000	1.50	1.13 years	January 17, 2017
450,000	0.80	1.13 years	January 17, 2017
1,220,000	0.30	2.18 years	February 1, 2018
930,000	0.21	3.57 years	June 25, 2019
3,103,000	0.20	4.40 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 November 30, 2014 the outstanding and exercisable stock options were as follows:

Options outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	$		
125,000	0.80	0.02 years	December 5, 2014
85,000	1.50	0.55 years	June 17, 2015
250,000	0.80	2.02 years	December 5, 2016
390,000	1.50	2.13 years	January 15, 2017
1,000,000	0.80	2.13 years	January 15, 2017
1,590,000	0.30	3.17 years	February 1, 2018
930,000	0.21	4.56 years	June 24, 2019
4,370,000	0.57		

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

	November 30, 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 nine months ended November 30, 2015, 3,103,000 (November 30, 2014 – 930,000) 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 (November 30, 2014 – $112,746).

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

	November 30, 2015	November 30, 2014
Risk free interest	**0.94%**	1.56%
Expected life (years)	**5**	5
Annualized volatility	**73%**	69%
Expected dividend	**$ -**	$ -
Share price	**$ 0.20**	$ 0.21

Expressed in Canadian Dollars unless otherwise noted

8. Share capital (continued)

b) Stock Options (continued)

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.

c) Warrants

No warrants were outstanding as at November 30, 2015.

(d) Loss per share

		November 30, 2015		November 30, 2014
Continued Operations:				
Net gain (loss)	**$**	**(1,239,601)**	$	5,305,046
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)**	$	0.06
Loss per share- diluted	**$**	**(0.01)**	$	0.06
Discontinued Operations:				
Net gain (loss)	**$**	**-**	$	(172,820)
Loss per share- basic	**$**	**-**	$	(0.00)
Loss per share- diluted	**$**	**-**	$	(0.00)
The following potential common shares, are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted earnings per share:				
Stock options		**6,863,000**		4,370,000
Warrants		**-**		-

Expressed in Canadian Dollars unless otherwise noted

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 November 30, 2015	Ownership interest February 28, 2015
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

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

b) Compensation of key management personnel

The compensation to directors and officers of the Company during the nine months ended November 30, 2015 and 2014 were as follows:

		November 30, 2015	November 30, 2014
		$	$
Salaries and short-term employee benefits including bonuses		**333,750**	333,750
Share-based compensation	(i)	**262,867**	87,892
Directors' fees		**86,125**	187,250
		682,742	608,892

Outstanding balances owed to directors and officers at November 30, 2015 was $27,875 (November 30, 2014 - $120,500).

(i) Share-based payments (non-cash expense) 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 – 725,000l) stock options to directors and officers with weighted average exercise price of $0.20 (2014 - $0.20) 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-$87,892). Refer to 8. (b) (iii) for pricing assumptions.

Some executive officers are entitled to termination and change of control benefits. These executive officers are entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of termination without sufficient advance notice. These executive officers are also entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of change of control. Pursuant to employment agreements, the Company may be obligated to pay up to $744,000 in the event that executive officers are terminated without cause or upon a change of control.

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:

	November 30, 2015			
	Canada	United States	Mexico	Total
	$	$	$	$
Revenue (from discontinued operations)	-	-	-	-
Non-current Assets				
Mineral properties	1,372,031	69,785,939	-	71,157,970
Property, plant & equipment	34,287	40,452,039	-	40,486,326
Reclamation bonds & deposits	-	2,989,559	-	2,989,559
Total non-current assets	1,406,318	113,227,537	-	114,633,855

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

Expressed in Canadian Dollars unless otherwise noted

10. Segmented information (continued)

	For the nine month period ended November 30, 2015			
	Exploration and development	Discontinued operations	Corporate	Total
	$	$	$	$
Expenses				
Accretion & interest expense	(79,709)	-	(1,217)	(80,926)
Depreciation	(28,792)	-	(8,732)	(37,524)
Foreign exchange gain	-	-	179,552	179,552
General and administrative	(62,796)	-	(914,697)	(977,493)
Share based compensation	-	-	(333,981)	(333,981)
Other gain	-	-	10,771	10,771
Income (loss) before income taxes	(171,297)	-	(1,068,304)	(1,239,601)
Net income (loss) the period	(171,297)	-	(1,068,304)	(1,239,601)
Total Assets	114,616,790	-	1,975,855	116,592,645
Total Liabilities	5,594,379	-	110,208	5,704,587

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

11. Supplementary cash flow information

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

	November 30, 2015	November 30, 2014
	$	$
Prepaid expenses and deposits	**2,175**	13,480
Accounts recievable	**517**	-
Accounts payable and accrued liabilities, relating to operating items	**(12,530)**	(237,621)
	(9,838)	(224,141)

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.

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

At November 30, 2015 and 2014, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

		November 30, 2015		November 30, 2014
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**1,883,832**	**1,883,832**	4,910,814	4,910,814
Trade and other receivables	**5,377**	**5,377**	21,964	21,964
Reclamation bond	**2,989,559**	**2,935,213**	2,561,264	2,514,704
Financial liabilities				-
Accounts payable	**368,430**	**368,430**	54,017	54,017
Accrued liabilities	**66,230**	**66,230**	247,297	247,297

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 November 30, 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:

	November 30, 2015	November 30, 2014
	$	$
Cash and cash equivalents	**1,883,832**	4,910,814
Trade and other receivables	**5,377**	21,964
Reclamation bond	**2,989,559**	2,561,264

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. To meet its liquidity requirements, the Company has discretion to modify capital investment plans as required. Also, additional liquidity may arise from reduced expenses, the sale of non-core assets and/or the sale of equity. The following summarizes the financial assets and their maturity that are held to manage liquidity risk:

	November 30, 2015				November 30, 2014
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	41,094	-	-	41,094	308,366
Short term savings	1,842,738	-	-	1,842,738	4,602,448
	1,883,832	-	-	1,883,832	4,910,814

Interest rate risk

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

As at November 30, 2015, US short term savings account of $1,842,738 (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 $450,600 (2014 - $706,400).

14. Commitments

The following is a schedule of the Company's commitments as at November 30, 2015:

	Note	2016	2017	2018 and later
		$	$	$
Mineral property expenditure	(a)	20,000	-	-
General liability insurance	(b)	18,708	37,415	-
Office operating leases		26,792	71,636	286
		65,500	109,051	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 2016 exploration program budget is $18,000. The Company is also committed to spend $2,000 for Kernaghan project representing 20% of its budget.

(b) The Company has a total liability insurance premium of $56,123 payable monthly until October 12, 2016.

(c) The Company has office operating lease commitments totalling $98,714 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 $744,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

15. Subsequent events

(a) On December 8, 2015, the Company announced that initial bench test production of cobalt sulfate heptahydrate crystals suitable for the rechargeable battery sector has been successfully completed from ore samples from the Company's Idaho Cobalt Project ("ICP"). This bench test work, outlined through a Memorandum of Understanding ("MoU") and Non-Disclosure Agreements with critical technology and equipment suppliers, has developed and tested the process of producing cobalt salts used in the rechargeable battery sector.

This metallurgical advancement represents the culmination of a year-long testing program designed to demonstrate that high purity, battery grade cobalt sulfate could be produced from ICP ore and was recently verified by General Electric's Water and Process Technologies' ("GE") group. Under the terms of a MoU, GE is to supply the equipment for the crystallizer sections of the ICP's Cobalt Process Facility, while the Company will utilize Cytec Industries Inc.'s ("Cytec") reagents in the solvent extraction of cobalt used to purify solutions for GE equipment to produce high purity cobalt sulfate heptahydrate crystals.

15. Subsequent events (continued)

(b) 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 Complaint was dismissed on January 6, 2016, and the Settlement and Release Agreement have been signed by all parties involved including NMI, Intalco and FCC. The Company paid half of the Shared Remediation Cost in the amount of US$197,239.

Formation Metals Inc.

Management's Discussion and Analysis

For the Nine Months Ended November 30, 2015

Date of Report: January 14, 2016

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

Symbol: Toronto Stock Exchange – FCO

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This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes thereto of Formation Metals Inc. (the "Company") for the nine months ended November 30, 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 January 14, 2016.

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.

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"). Should the project proceed, it will likely be located along a railhead in an industrial hub in southern Idaho.

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 was 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. Initial plans called 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.

Feasibility level metallurgical work was commissioned on the ICP. Flotation and leaching laboratory test work was completed by Hazen Research Inc. ("Hazen"), under the supervision of SE, both of Denver Colorado. On December 8, 2015, the Company announced that initial bench test production of cobalt sulfate heptahydrate crystals had been successfully completed from ICP ore samples. This bench test work, outlined through a Memorandum of Understanding ("MOU") and Non-Disclosure Agreements with General Electric's Water and Process Technologies' ("GE") group, has developed and tested the process of producing cobalt salts used in the rechargeable battery sector. This metallurgical advancement represents the culmination of a year-long testing program designed to demonstrate that high purity, battery grade cobalt sulfate could be produced from ICP ore and was recently verified by GE. Under the terms of the MOU, GE will supply the equipment for the crystallizer sections of the ICP, while the Company will utilize Cytec Industries Inc.'s ("Cytec") reagents in the solvent extraction of cobalt used to purify solutions for GE equipment to produce high purity cobalt sulfate heptahydrate crystals.

Upon the completion of a definitive process flow sheet and based on recommendations from SE, the Company intends to submit requests for proposals to a number of qualified engineering firms to complete a Definitive Feasibility Study ("DFS") once the final report on the results of the 2015 metallurgical testwork is completed by SE, expected in mid to late January, 2016. The DFS will summarize and report on a compilation of results including the flotation and leach metallurgical test work recently completed by Hazen, crystallization bench tests currently in progress, and results from previous metallurgical test work from various process firms including SGS Lakefield Research Limited, Mintek Group, Hydromet (Pty) Ltd and CAMP (Center for Advanced Metallurgical Processing).

In addition to cobalt, the Company has interests in other properties through its various subsidiaries that include silver, gold, copper, lead, and zinc exploration targets and is exploring for uranium through joint venture partnerships in northern Saskatchewan. Very little work has been expended on these properties during 2015. This portfolio of mineral properties is being evaluated for possible monetization.

1.2.2 Highlights for nine months ended November 30, 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 nine months period ended November 30, 2015, the Company reported a comprehensive loss of $1,306,471 (November 30, 2014 - gain $1,018,590) and accumulated deficit of $67,088,606 (February 28, 2015 - $65,849,005);

(c) As at November 30, 2015, the Company had working capital of $1,524,127 (February 28, 2015 - $4,155,051);

(d) On May 8, 2015, the Company filed a PEA on the ICP with NPV of US$113M discounted at 8.5%;

(e) On December 8, 2015, the Company announced that initial bench test production of cobalt sulfate heptahydrate crystals suitable for the rechargeable battery sector had been successfully completed from ICP ore samples. This bench test work, outlined through a MOU and Non-Disclosure Agreements with GE and Cytec, was developed and successfully tested the process of producing cobalt salts used in the rechargeable battery sector; and

(f) On March 18, 2015FCC, 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 Complaint was dismissed on January 6, 2016 and the Company paid half of the Shared Remediation Cost in the amount of US$197,239. The Settlement and Release Agreement have been signed by all parties involved including NMI, Intalco and FCC.

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 nine months ended November 30, 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 discussion of the Company's primary mineral exploration and development project, the Idaho Cobalt Project. Please refer to the Company's February 28, 2015 year end MD&A for disclosures of the Company's other projects.

Idaho Cobalt Project – Idaho, USA

Background

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

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

2015 Preliminary Economic Assessment on the ICP

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

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

The total LOM capital cost is estimated at $201.41 million, including $146.76 million for initial capital, and $54.65 million in sustaining capital and mine development capital during production over the LOM. These estimates do not include past costs totalling $65.31 million.

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

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

Current plans, based on the feasibility level metallurgical test work completed over the summer, call for the initial scalping of copper from concentrate produced at the mine and mill to produce a copper rich concentrate and a cobalt rich concentrate utilizing standard froth flotation circuits for further hydrometallurgical processing at the CPF. Additional cobalt is expected to be recovered from the copper rich concentrate at the CPF to produce a clean copper concentrate suitable for direct sale to a copper smelter. Hydrometallurgical processing of the cobalt rich, copper bearing sulfide concentrate will be conducted at the CPF to produce cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector. Marketable by-products include copper concentrate (from the copper rich concentrate), copper sulfate pentahydrate and magnesium sulfate used primarily in the agricultural industry, and gold. The substitution of magnesium oxide for lime as a neutralizing agent at the CPF results in the production of agricultural grade magnesium sulfate. Free gold is planned to be recovered through a carbon-in-leach cyanidation circuit producing gold-loaded carbon.

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

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

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

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

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

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

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

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

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

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

Additional testing and the finalization of the process flow sheet are expected to be completed later in January, 2016. Process personnel indicated that the characteristics of the cobalt sulfate heptahydrate crystals are consistent with those needed by the battery industry and the methodology to produce them fits with the methodology contemplated in the Company's PEA.

Management of the Company anticipates utilizing the final results of this metallurgical testwork to assist in the advancement of the project towards definitive feasibility as recommended by SE.

Impairment Assessment

In order to assess the recoverability of the non-current assets recorded for ICP at February 28, 2015, management had made the following assessment to determine the recoverable amount and compared these results to the carrying value of the ICP for the purpose of impairment:

(i) Recoverable Amount:

At February 28, 2015, the Company conducted an impairment assessment of the ICP, which is the Company's sole primary asset, and estimated recoverable amount based on the fair value in use method. The economic model for future cash flows was derived from the Company's April 29, 2015 PEA which was SEDAR filed on May 8, 2015.

(ii) Cash Flow Period:

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

The initial Capex investment was necessary to bring the ICP into commercial production for the Life of Mine which was estimated to be 12.5 years after the preproduction period. The preproduction period is 21 months. Reducing the cash flow of the project to 5 years per paragraphs 33(b) and 35 of IAS 36 would have only captured the preproduction period and 3.25 years (39 months) of commercial production; resulting in an incomplete assessment of the project's cash flows and a negative NPV as 100% of initial Capex is required during the preproduction period.

As such, the Company believed that the use of a greater than five year cash flow was justified as use of the modeling was developed on a "life of mine basis", was external in nature, supportable, reliable and represented management's best estimate of the remaining useful life of the asset. Potential expansion to the resource is possible if/when additional exploratory drilling is completed; however, such enhancements have not been included in the current cash flow modelling.

(iii) Discount Rate:

A pre-tax discount rate of 11% was used for impairment testing and derived based on the Company's weighted average cost of capital using the Capital Asset Pricing Model. A debt to equity ratio of 80:20 was estimated based on strategic financing arrangements that the Company envisioned to finance project development, including factors such as the positive long term outlook for cobalt driven by increased demand rechargeable batteries industry and shortfall of cobalt supply, offtake agreements to de-risk revenue and future cash flows, management's previous experience in the marketplace, equity market conditions at the time, internal assessment completed comparing financing alternatives' effect on return to shareholders, and comparing the Company's discount rate amongst its peers. Management was of the position that the discount rate used for impairment assessment fairly reflected the pre-tax market assessment of time value of money for the ICP.

(iv) Impairment Assessment:

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

The recoverable amount of the ICP was derived using the pre-tax cash flow model of the PEA. Using a pre-tax discount rate of 11.0%, the recoverable value of the ICP was $143,400,759 or US$128,966,923. Compared to a carrying value of $109,200,233, the Company concluded that no additional impairment was required for the year ended February 28, 2015. Since 100% of measured, indicated and inferred resources were incorporated in the cash flow model used to derive the recoverable amount of the ICP, refer to items V and VI for management's assessment on these inclusions.

(v) Inclusion of Measured and Indicated Resources:

As required by IAS 1.122, the Company confirmed that 100% of measured and indicated resources were used as per the PEA in deriving the fair value in use of the ICP. In measuring value in use, the Company is required to "base cash flow projections on reasonable and supportable assumptions that represent management's estimate of the range of economic conditions that will exist over the remaining useful life of the asset." (IAS 36.33(a), emphasis added).

The CPA Canada/PDAC Viewpoint Depletion Of A Mine In The Production Phase: Useful Life Of The Mine states: "With respect to using measured and indicated resources along with proven and probable reserves to estimate the useful life of a mine, the appropriateness of such a reserve/resource base will also depend on the probability that these resources will be converted into reserves." Some of the factors the Viewpoint lists in determining the probability of conversion include the:

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

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

(i) Fully permitted;
(ii) Completed Definitive Feasibility Study in 2007 and updated in 2008. Note these reports are now considered out of date and should not be relied upon;
(iii) Completed Phase II of construction including earthworks at the mine and mill;
(iv) Have purchased all long lead equipment for the mine and mill in 2011;
(v) Project construction was placed on care and maintenance in 2013 due to poor financial markets to conserve cash; and
(vi) Filing of the PEA in May 2015 to produce cobalt sulfate heptahydrate instead of high purity cobalt metal in response to growth in the rechargeable batteries industry, which the Company is currently pursuing.

The Company has previously filed a NI 43-101 compliant definitive feasibility study with respect to production of high purity cobalt metal at the ICP suitable for critical applications in the aerospace sector. This technical report, dated September 14, 2007, revised May 19, 2008 and amended and restated June 23, 2008, contains economic assumptions that are considered out of date, and as such any economic assumptions from this report cannot be relied upon. Subsequently, positive initial results from in-house evaluations to modify the CPF design to produce cobalt heptahydrate suitable for the rapidly growing rechargeable battery sector resulted in the decision to proceed with a re-evaluation of the project and the commissioning and filing of the PEA. The PEA supersedes and replaces the aforementioned definitive feasibility study. The Company continues to work to enhance the project life as outlined under cash flows in item II above. As a result of the above activities, the Company is of the view that it has met the requirements of the Viewpoints to use 100% of measured and indicated resources in deriving the recoverable amount of the ICP.

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

(vi) Inferred Resources

The recoverable amount of the ICP, based on fair value in use calculated using 3,458,481 tonnes from the Mine Development and Production Schedule of the PEA, was $143,400,759 or US$128,966,923 by discounting pre-tax cash flows by a pre-tax discount rate of 11% (item III above). Inferred resource was integrated into the Mine Development and Production Schedule with the highest volumes mined from year 9. The effects of removing inferred resources would result in only measured and indicated resources totaling 2,254,299 tonnes and reduce the mine life from 13 years to 9.5 years. However, this affects the stope design, priority and timing of development, and capacity at the mine and mill and refinery. These changes will have a direct effect on revenue, Capex, development cost, and operating cost.

Without commissioning our engineers to recreate the Mine Development and Production Schedule that excludes inferred resources solely for the purpose of an impairment assessment, the Company excluded inferred resources and made other changes as follows:

(i) Removed inferred resources: cash flow from years 9.5 to 13 have been removed from the project, reducing project cash flow to 9.5 years resulting in total production of 2,254,229 tonnes;
(ii) Deducted US$2,232,000 from cash flow for reclamation cost at the end of year 9;
(iii) Removed sustaining Capex from year 8 and subsequent years; and
(iv) No changes to initial Capex and initial development cost. An in depth review by engineers is required to assess the effect of reduced capacity and mine life on initial Capex and development cost.

The recoverable amount incorporating the above changes using pre-tax cash flow and discount rate of 11% would be CAD$99,886,852 or US$89,832,857. However, in accordance with impairment assessment in item IV above, no impairment provision has been recorded to date other than otherwise as described due to management's past experience with the ICP and the recent commencement to re-evaluate the ICP for production of cobalt heptahydrate.

(vii) Timing of Production:

Based on estimates provided by the Company's engineers and conditions of the construction work already completed on the ICP, the Company expects commercial production to commence within 2 years from commissioning a NI 43-101 compliant Definitive Feasibility Study pending market conditions, medium and long term outlook on cobalt and copper prices, and also the Company's ability to finance working capital, the Definitive Feasibility Study and initial Capex of the ICP.

The recoverable amount was derived based on the assumption that project development would commence within 2 years. Each additional year of delay to project development would result in an average of $10,900,000 reduction from recoverable value.

(viii) Additional Expenditures Required

Based on estimates included in the PEA, the additional initial Capex required to put the ICP into commercial production, ready in use, is US$147 million.

(ix) Sensitivity Analysis

As discussed in the section 22.2- Sensitivity Analysis on pages 211 to 213 of the PEA, since 70% of total revenues from the Life of Mine of the ICP is from the sale of cobalt sulfate heptahydrate, changes in the price of cobalt has the biggest impact on the recoverable amount of the ICP. This is followed by changes in operating cost, Capex and discount rate. Below illustrates the sensitivity of changes in price of cobalt sulfate heptahydrate, operating cost, Capex, and discount rate have on the recoverable value of the ICP.

Percentage Change of Inputs	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%
	Recoverable Amount Sensitivity- in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ -	$ 7,342,938	$ 52,695,545	$ 98,048,152	$ 143,400,759	$ 188,753,366	$ 234,105,973	$ 279,458,580	$ 324,811,188
Operating Cost	$ 221,559,499	$ 202,350,352	$ 182,920,846	$ 163,270,982	$ 143,400,759	$ 123,310,178	$ 102,999,263	$ 82,468,008	$ 61,716,402
Capex	$ 202,914,618	$ 188,036,154	$ 173,157,689	$ 158,279,224	$ 143,400,759	$ 128,522,295	$ 113,643,830	$ 98,765,365	$ 83,886,900
Discount Rate	$ 205,644,460	$ 188,145,087	$ 172,027,039	$ 157,152,811	$ 143,400,759	$ 130,663,066	$ 118,843,984	$ 107,858,329	$ 97,630,178
	Surplus (Short-fall) from Carrying Value - in Canadian Dollars								
Price of Cobalt Sulfate Heptahydrate	$ (109,200,333)	$ (101,857,394)	$ (56,504,787)	$ (11,152,180)	$ 34,200,427	$ 79,553,034	$ 124,905,641	$ 170,258,248	$ 215,610,855
Operating Cost	$ 112,359,167	$ 93,150,020	$ 73,720,514	$ 54,070,649	$ 34,200,427	$ 14,109,846	$ (6,201,070)	$ (26,732,325)	$ (47,483,930)
Capex	$ 93,714,286	$ 78,835,821	$ 63,957,356	$ 49,078,892	$ 34,200,427	$ 19,321,962	$ 4,443,497	$ (10,434,968)	$ (25,313,432)
Discount Rate	$ 96,444,128	$ 78,944,755	$ 62,826,706	$ 47,952,478	$ 34,200,427	$ 21,462,733	$ 9,643,651	$ (1,342,003)	$ (11,570,155)

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

1.2.6 Outlook

Despite the lackluster performance of cobalt prices in 2015, demand continues to grow with an average annual growth rate of 7.6 % over the previous 5 years to 2013 and production is currently estimated at 100,000 tonnes per annum. Rechargeable batteries consume the largest proportion of world cobalt production representing 46% of total demand. Stationary storage cells utilized to store energy from sources such as wind and solar powered generators and off peak grid charging are also contributing to this significant growth in the markets. In 2014, Tesla Motors, Inc. ("Tesla") confirmed its plans to build a US$5.0 billion EV "Gigafactory" in Reno, Nevada of which construction is well underway and ahead of schedule. At its peak, the Gigafactory is expected to have the capacity to produce 500,000 electric vehicles annually and this can potentially increase the annual global demand for cobalt by approximately 20% once the Gigafactory reaches full commercial production capacity planned for 2020. Recently, the following companies have also announced investments in EVs including:

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

The EV market continues to rise in popularity and importance and there are several other EV manufacturers which have announced plans for new vehicle production. In addition, the demand for cobalt in the smart phone market remains strong with new models being released by several of the larger manufacturers.

Cobalt metal, powders and chemicals remain critical in the production of rechargeable batteries and the ICP remains the sole near term, fully permitted primary cobalt deposit in the United States.

Subsequent to the end of the quarter ended November 30, 2015, the Company released news regarding metallurgical test work conducted with the assistance of GE, Cytec, Hazen and Irish Metals LLC, under the supervision of SE, that conclusively demonstrated that high purity cobalt sulphate heptahydrate crystals suitable for the rechargeable battery sector could be produced from ICP ore material. The Company will continue 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 cut-off. With modifications to the processing design incorporating copper and gold values back into the cut-off calculation, an increase in tonnage within the resource would be realized. Further information and engineering and geological assessments are needed before these opportunities should be included in the project economics.

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

Figure 1: Formation Metals' Share Price, March 1, 2015 – January 14, 2016 (Stockwatch.com, 2016)

The Cobalt Market

About Cobalt

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 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). Despite slowing supply growth (4% in 2015), market tightness was overestimated in 2015. The markets were expected to respond with steady price increases beginning late 2015, however this did not occur. Cobalt prices remained relatively stable until October of 2015, when sharp declines in prices were seen. Strengthening markets and prices through to 2018 are still expected. Andrew Miller of Benchmark Mineral Intelligence stated in November of 2015 that Benchmark "expect[s] supply to move into deficit in 2016, particularly as demand from the battery sector increases." He added, "we think this will see a rebound in prices throughout the year." By 2018, cobalt metal prices are forecasted to reach close to $24.00/lb (Skybeco Inc., 2015).

Cobalt Sulfate Heptahydrate

Cobalt sulfate heptahydrate is used as precursor for cathode manufacturing of lithium ion batteries as well as in storage batteries and electroplating baths. It is also used in the preparation of pigments, as well as in the manufacture of other cobalt salts. The ICP's annual production is projected to be approximately 1,500 tons (1,360 MT or 3,000,000 pounds) per year of contained cobalt in high purity technical grade cobalt sulfate having a minimum cobalt content of 20.9%. This equates to an annual production of 6,500 tons of high grade cobalt sulfate heptahydrate.

Price for higher valued cobalt sulfate heptahydrate in January 2016, was ranged between US$6,000 to $8,500 per tonne. This equates to a contained cobalt value of between US$3.17 - $3.86 per pound of cobalt sulfate. Cobalt content in 100% pure cobalt sulfate is 20.96%. Thus one pound of cobalt can produce almost 5 pounds (4.77 lbs) of cobalt sulfate. This equates to a value of cobalt contained in cobalt sulfate of US$15.12 - $18.41 per pound.

Supply & Demand

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).

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. Virtually all of the cobalt mined in the DRC is exported, mostly to China making China the largest producer of refined cobalt.

Market experts continue to predict that a cobalt supply deficit will occur in 2016 as opposed to the previous estimate of 2017. (source: CDI 2015). This is supported by a 2015 report from Metal Bulletin stating that at a time when metals are failing to attract considerable outsider attention, investor interest in cobalt continues to show signs of pick-up. Further indication of anticipated deficit is that current major cobalt producers such as Glencore and Freeport McMorRan are taking a substantial amount of cobalt supply off the market. In early September, Glencore announced it was suspending operations at its Katanga Mining complex in the DRC for up to 18 months. The decision to suspend operations was based on an in-depth review of its business, including operations and expenses in light of the challenging environment for commodities and the current low prices of nickel and copper. According to Roskill Information Services, this closure could have a considerable impact on the market as the operation is an important source of cobalt hydroxide and metal to the international market. They also commented that this closure comes at a time of falling cobalt prices and may serve as a strong catalyst that many have been waiting to reverse the price trend.

Cobalt & the ICP

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 Results of Operations

<u>Financial Results of Operations for the Nine Months Ended November 30, 2015 and 2014</u>

The following are highlights from the Company's results from operations for the nine months ended November 30, 2015 and 2014:

(a) **Net loss** for the nine months ended November 30, 2015 was $1,239,601 or $0.01 per share (2014- gain $5,305,046 or $0.06 per share). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the items discussed below. Net gain of $5,305,046 for the period ended November 30, 2014 was mainly due to gain in foreign exchange and income tax recovery, which non cash adjustments.

(b) **Directors fees** for the nine months ended November 30, 2015 was $94,585 (2014- $196,603). Lower directors' fees during the period were a result of directors agreeing to reduce their annual retainers and meeting fees by 50%.

(c) **Shareholder relations** for the nine months ended November 30, 2015 was $112,307 (2014- $52,106). Higher shareholder relations fees incurred during the current period was a result of increased investor relation activities to enhance shareholder awareness of the ICP. These activities include hiring an investor relations consultant, attending conferences and distribution of investor communication materials.

(d) **Foreign exchange gain** for the nine months ended November 30, 2015 was $179,552 (2014- gain $4,943,651). The US dollar appreciated against the Canadian dollar from $1.2503 on February 28, 2015 to $1.3353 on November 30, 2015. The Company changed its foreign exchange accounting policy during the year ended February 28, 2015 to recognize in profit or loss only foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at reporting period exchange rates for monetary assets and liabilities denominated in currencies other than the Company's subsidiaries' functional currency. In addition to significant reduction in the value of Canadian dollar against the US dollar during the current period, the change in accounting policy also contributed to the large difference in foreign exchange gain compared to the same period last year.

(e) **Office expense** for the nine months ended November 30, 2015 was $247,887 (2014- $154,855). Higher office expense reported in the current period was due to the cost of disposing refinery slag materials that remained from the sale of the Sunshine Refinery. The disposition costs were high due to the environmentally sensitive nature of the materials; otherwise the Company has made material reductions to overhead and office expenses. These reductions include travel expenses, postage, rent, and professional membership and dues. The Company continues to assess and reduce its overhead expenses to conserve working capital.

(f) **Share-based compensation, a non-cash expense,** was $333,981 (2014- $112,746) for the nine months ended November 30, 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.

(g) **Salary and wages** for the nine months ended November 30, 2015 was $402,153 (2014- $421,350). The Company made some reductions to salaries and wages during the beginning of the second quarter.

<u>Financial Results of Operations for the Three Months Ended November 30, 2015 and 2014</u>

The following are highlights from the Company's results from operations for the three months ended November 30, 2015 and 2014:

(a) **Net loss** for the three months ended November 30, 2015 was $299,216 or $0.003 per share (2014- gain $2,848,749 or $0.03 per share). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the items discussed below.

(b) **Directors fees** for the three months ended November 30, 2015 was $27,875 (2014- $57,072). Lower directors' fees during the period were a result of directors agreeing to reduce their annual retainers and meeting fees by 50%.

(c) **Foreign exchange gain** for the three months ended November 30, 2015 was $30,442 (2014- gain $3,217,441). The US dollar appreciated against the Canadian dollar from $1.3157 (2014- $1.0873) on August 31, 2015 to $1.3353 (2014- $1.144) on November 30, 2015.

(d) **Office expense** for the three months ended November 30, 2015 was $66,445 (2014- $46,356). Higher office expense reported in the current period was due to cost of general liability, D&O and ICP insurance. The Company changed its accounting policy during the current year to expense cost of insurance. These costs have been capitalized in the past. 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.

(e) **Salary and wages** for the three months ended November 30, 2015 was $130,364 (2014- $148,193). The Company made some reductions to salaries and wages during the beginning of the second quarter.

(f) **Shareholder relations** for the three months ended November 30, 2015 was $20,995 (2014- $14,748). Higher shareholder relations fees incurred during the current period was a result of increased investor relation activities to enhance shareholder awareness of the ICP. These activities include hiring an investor relations consultant and distribution of investor communication materials.

1.4 Summary of Quarterly Results

Financial Information in thousands (except per share information)

	Three Months ended November 30, 2015 $	Three Months ended August 31, 2015 $	Three Months ended May 31, 2015 $	Three Months ended February 28, 2015 $	Three Months ended November 30, 2014 $	Three Months ended August 31, 2014 $	Three Months ended May 31, 2014 $	Three Months ended Feb 28, 2014 $
Net gain (loss) from continued operations	(299,216)	(151,389)	(788,996)	(14,166)	2,884	(71)	2,406	(10,868)
Net gain (loss) from discontinued operations	Nil	nil	nil	(183)	(35)	(261)	121	(1,766)
Basic and diluted income (loss) per share	(0.003)	(0.002)	(0.01)	(0.16)	0.03	(0.001)	0.03	(0.12)

Net loss from operations for Q3 ended November 30, 2015 was $299,216 compared to $151,389 and $788,996 reported for Q2 and Q1 respectively. Net loss was significantly higher in Q1 and this was due to a non-cash expense of $331,889 for shared based compensation from the issuance stock based options on April 27, 2015 (see section 1.4 part (f)). Foreign exchange gains of $30,442 and $173,874 reported in Q3 and Q2 respectively compared to a foreign exchange loss of $24,764 reported in Q1. The Canadian dollar depreciated against the US dollar from $1.2437/$US in Q1 to $1.3353/$US in Q3. The Company recorded accounting and audit fees of $29,231 in Q3 compared to $nil and $21,582 in Q2 and Q1 respectively. This is due to fees related to annual filing of US corporate taxes and other non-audit fees. All other expenses remained comparable between all three quarters of 2015.

Net gain from operations for Q3 ended November 30, 2014 was $2,884 compared to a net loss of $71,072 and gain of $2,406,115 reported Q2 and Q1 respectively. The Company recognized a loss of $32,575 from discontinued operations in Q3 compared to a loss of $261,254 and gain of $121,009 in Q2 and Q1 respectively. A foreign exchange gain of 3,217,441 was reported in Q3 compared to $620,899 and $1,105,311 in Q2 and Q1 respectively. The Company also recorded an income tax recovery of $1,685,380 in Q1 compared to $245 and $nil in Q2 and Q3 respectively and this had a significant effect on net loss in Q1. All other expenses remained comparable between Q1 and Q2, 2014.

1.5 Liquidity

November 30, 2015 and 2014

(a) **Cash and cash equivalents** as at November 30, 2015 were $1,883,832 (February 28, 2015- $4,522,450).

(b) **Working capital** as at November 30, 2015 was $1,524,127 (February 28, 2015- $4,155,051).

(c) **Mineral property expenditures** of $1,254,025 were capitalized during the nine months ended November 30, 2015 (2014- $811,995).

(d) **Net Purchase of Property, Plant and Equipment expenditures** for the nine months period ended November 30, 2015 were $585,709 (2014- $568,665).

The Company's cash and cash equivalent are held in US dollars and are invested in highly rated securities at fixed interest rates of 0.46% with varying terms maturing in less than three months from the date of purchase. All cash and cash equivalents are maintained by the parent company with cash distribution to fund the Company's subsidiaries' operations on an as needed basis. The Company has sufficient working capital to sustain overhead, administrative, and property maintenance expenses over the next twelve months. Since the ICP is on care and maintenance, the Company does not have significant commitments (see Contractual Commitments) or uncertainties in liquidity but cash flow is cyclical as more cash outflows happen during the summer months due to maintenance of the ICP.

Additional capital is required for working capital and to complete an NI 43-101 compliant Definitive Feasibility Study on the ICP, market its products to end users and obtain mine financing to complete development of the ICP. Marketing and investor relation activities have increased to improve investor awareness since the filing of the PEA. The Company continues to seek various financing opportunities to advance the ICP in this volatile market. The Company is confident that positive developments in the rechargeable battery industry and advanced nature of the ICP are advantageous for the project. To meet its liquidity requirements, the Company has discretion to modify capital investment plans as required. Also, additional liquidity may arise from reduced expenses, the sale of non-core assets and/or the sale of equity.

Contractual Commitments

The following is a schedule of the Company's commitments as at November 30, 2015:

	Note	2016	2017	2018 and later
		$	$	$
Mineral property expenditure	(a)	20,000	-	-
General liability insurance	(b)	18,708	37,415	-
Office operating leases		26,792	71,636	286
		65,500	109,051	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 2016 exploration program budget is $18,000. The Company is also committed to spend $2,000 for Kernaghan project representing 20% of its budget.

(b) The Company has a total liability insurance premium of $56,123 payable monthly until October 12, 2016.

(c) The Company has office operating lease commitments totalling $98,714 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 $744,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

1.6Capital Resources

The Company's working capital as at November 30, 2015 was $1,524,127 (February 28, 2015- $4,155,051). The Company's capital resource requirements are dependent on the development stages of its respective properties.

1.7 Off-Balance Sheet Arrangements

None

1.8 Transactions with Related Parties

(a) Subsidiaries

	Ownership interest November 30, 2015	Ownership interest February 28, 2015
Formation Holdings Corp.	**100%**	100%
Formation Holdings US, Inc.	**100%**	100%
US Cobalt, Inc.	**100%**	100%
Formation Capital Corporation, U.S.	**100%**	100%
Essential Metals Corporation	**100%**	100%
Coronation Mines Ltd.	**100%**	100%
Minera Terranova S.A. de C.V.	**100%**	100%

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

(b) Compensation of key management personnel

The compensation to directors and officers of the Company during the nine months ended November 30, 2015 and 2014 were as follows:

		November 30, 2015	November 30, 2014
		$	$
Salaries and short-term employee benefits including bonuses		**333,750**	333,750
Share-based compensation	(i)	**262,867**	87,892
Directors' fees		**86,125**	187,250
		682,742	608,892

Outstanding balances owed to directors and officers at November 30, 2015 was $27,875 (November 30, 2014 - $120,500).

(i) Share-based payments, which are non-cash expenses, 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 – 725,000l) stock options to directors and officers with weighted average exercise price of $0.20 (2014 - $0.20) 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- $87,892). Refer to 8. (b) (iii) for pricing assumptions.

Some executive officers are entitled to termination and change of control benefits. These executive officers are entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of termination without sufficient advance notice. These executive officers are also entitled to lump sum compensation ranging from 6 to 36 months of base compensation in the event of change of control. Pursuant to employment agreements, the Company may be obligated to pay up to $744,000 in the event that executive officers are terminated without cause or upon a change of control.

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

		For the nine months ended November 30, 2015				For the nine months ended November 30, 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**	3,031	-	-	3,031
David Christie	Director	**25,178**	**-**	**12,375**	**37,553**	6,062	-	26,750	32,812
James Engdahl	Director	**25,178**	**-**	**12,875**	**38,053**	6,062	-	26,750	32,812
Paul Farquharson	President & CEO	**32,280**	**150,000**	**-**	**182,280**	18,185	150,000	-	168,185
Gregory Hahn	Director	**25,178**	**-**	**12,875**	**38,053**	6,062	-	24,750	30,812
Scott Hean	Director	**25,178**	**-**	**12,875**	**38,053**	6,062	-	28,750	34,812
Rick Honsinger	Vice President	**25,824**	**93,750**	**-**	**119,574**	12,123	93,750	-	105,873
Robert Metka	Director	**25,178**	**-**	**11,875**	**37,053**	6,062	-	27,750	33,812
Robert Quinn	Director	**25,178**	**-**	**11,375**	**36,553**	6,062	-	24,750	30,812
David Stone	Director	**25,178**	**-**	**11,875**	**37,053**	6,062	-	27,750	33,812
Marc Tran	CFO	**25,824**	**90,000**	**-**	**115,824**	12,123	90,000	-	102,123
		262,867	**333,750**	**86,125**	**682,742**	87,892	333,750	187,250	608,892

1.9 Proposed Transactions

None

1.10 Critical Accounting Estimates

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

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

Judgments

(i) Annually, the Company assesses whether indicators of impairment exist. 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.

1.11 Financial Instruments and Other Instruments

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

The Company's financial assets 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 November 30, 2015 and 2014, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	November 30, 2015		November 30, 2014	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**1,883,832**	**1,883,832**	4,910,814	4,910,814
Trade and other receivables	**5,377**	**5,377**	21,964	21,964
Reclamation bond	**2,989,559**	**2,935,213**	2,561,264	2,514,704
Financial liabilities				-
Accounts payable	**368,430**	**368,430**	54,017	54,017
Accrued liabilities	**66,230**	**66,230**	247,297	247,297

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 November 30, 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:

	November 30, 2015	November 30, 2014
	$	$
Cash and cash equivalents	**1,883,832**	4,910,814
Trade and other receivables	**5,377**	21,964
Reclamation bond	**2,989,559**	2,561,264

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. To meet its liquidity requirements, the Company has discretion to modify capital investment plans as required. Also, additional liquidity may arise from reduced expenses, the sale of non-core assets and/or the sale of equity. The following summarizes the financial assets and their maturity that are held to manage liquidity risk:

	November 30, 2015				November 30, 2014
	Within 1 year	2-5 years	Over 5 years	Total	Total
	$	$	$	$	$
Cash	41,094	-	-	41,094	308,366
Short term savings	1,842,738	-	-	1,842,738	4,602,448
	1,883,832	-	-	1,883,832	4,910,814

Interest rate risk

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

As at November 30, 2015, US short term savings account of $1,842,738 (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.

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 $450,600 (2014 - $706,400).

1.13 Other MD&A Requirements

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

As at January 14, 2016, 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 3.04 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 November 30, 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 November 30, 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* (the "Framework"), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2002. The Company confirms that the design and operation effectiveness of the Company's internal control over financial reporting is effective.

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

Limitation of Controls and Procedures

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

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

(c) **Additional Information**

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