



**eCobalt Solutions Inc.**  
(Formerly Formation Metals Inc.)

***Management's Discussion and Analysis***

***For the Nine Months Ended November 30, 2017***

Date of Report: January 11, 2018

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Symbol: Toronto Stock Exchange – ECS

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## Quarterly Snapshot and Short Term Outlook

### Idaho Cobalt Project Update

On November 10, 2017, the Company SEDAR filed the Feasibility Study ("FS") on the Idaho Cobalt Project (the "ICP") based on an underground mine with a target production rate of 800 short tons per day and a weighted average annual production of 2.4M lbs of cobalt, 3.3M lbs of copper and 3,000 oz of gold over a 12.5 year mine life with an estimated pre-production period of 24 months utilizing a 0.25% cobalt cut-off grade. The economic model uses a 34% corporate tax rate and a 7.5% discount rate, resulting in an after-tax NPV of \$135.8M and an IRR of 21.3% using an average base case price of \$26.65/lb for contained cobalt in cobalt sulphate. The FS has been compiled in accordance with the Revised National Instrument 43-101 ("NI 43-101") guidelines and a Technical Report. Based on today's LME cobalt price of US\$34/lb (Co-99.3%), the ICP's after tax NPV (7.5% discount rate) and IRR per the FS is US\$240M and 30.6% respectively.

Since the release of the FS, the Company has reported the following optimization tasks to enhance project economics and to further reduce overall risks of the ICP:

- I. **Clean Cobalt Concentrate Product:** In response to changing battery market dynamics, market feedback, and in-depth discussions with potential offtakers since the release of the FS, there is an opportunity to reduce capital and operating costs at the Cobalt Production Facility ("CPF") and improve construction timelines by pursuing a clean cobalt concentrate product and by-product of copper/gold concentrate. Clean cobalt concentrate is an upstream product containing less than 1% arsenic that is used in the production of precursor battery cathode material. Since it is a less refined product compared to cobalt sulphate, capital expenditures related to the CPF may be reduced. The Company has received Letters of Intent for offtake and project financing from multiple parties on this new strategy and intends to identify its partner(s) by early 2018 after thorough evaluation of the proposals.

The total capital cost estimate for the ICP per the FS is US\$187M, of which US\$124M (66%) is for the CPF. Operating cash cost for the ICP, net of by-product credits, is US\$5.05/lb cobalt, of which US\$13.88 is direct cost before by-product credits and 34% of direct cost is related to the CPF. The Company believes that a more simplified flowsheet to produce a clean cobalt concentrate product may reduce both capital and operating costs which is expected to have a positive impact on overall project economics. The Company has engaged Micon International Ltd. ("Micon"), SNC Lavalin Inc. ("SNC") and Dundee Sustainable Technologies ("DST") to conduct detailed metallurgical testing and engineering for the revised flowsheet with the intent to develop feasibility level designs and costs. Testing during the week of December 18, 2017 at DST's facility in Quebec, witnessed by Micon and SNC metallurgists, has confirmed successful laboratory scale testing to remove arsenic from ICP ore concentrates by conventional roasting methods to produce a clean cobalt concentrate with arsenic levels below 0.5%.

- II. **Resource Definition Drill Program:** The Company has completed the planned three-hole, 5,000-foot drill program on schedule. The three completed holes all intersected mineralized zones anticipated in the FS resource model. Based on core logging and assay results, this drill program is also expected to have a positive impact on the project's resource model. The Company has engaged Micon to update the FS resource model in the first quarter of 2018. In addition, a fourth drill hole was completed in coordination with an independent geotechnical firm to provide rock mass data and acquire additional mineralized material for metallurgical testing.
- III. **New Detailed Mine Design and Production Schedule:** The Company has also engaged Micon to evaluate a detailed mine design and production schedule developed in-house with third party consultants to reduce planned dilution. Working with Micon, this design enhancement will be applied to the updated resource model and evaluated using Micon's FS cost model. The Company believes the updated resource and mine plans will have a positive impact on mine units costs per pound of cobalt and life of mine cobalt production which would positively impact project economics.

Preparation of the ICP mine and mill site for construction activities, expected to commence in 2018 after successful mine financing is in place, continues with the procurement of the water treatment plant, installation of the main power substation and extension of power lines to the portal bench, the concentrator pad, water retention ponds and control wells. Along with the stockpiling of existing construction aggregate, the mobilization of the crushers to the mill site for early spring resumption of waste pad construction has been completed. The existing pre-purchased building has been transported to a site in Blackfoot, ID where the CPF is proposed to be built. Senior and Support Staff capacity ramp up continues as hiring of key employees in various functional areas is being implemented to support pre-construction and project development goals.

## Cobalt Market – Growing Demand and Supply Deficit Forecasted

Cobalt has been trading as high as \$34/lb (99.3%) and as low as \$25/lb over the past six months, a 145% year to year increase in price from 2016 average.<sup>1</sup> Cobalt consumption has remained strong over the past six years because of stable demand in alloys, established chemical markets and rapid uptake in lithium ion batteries. Global refined cobalt demand is expected to approach 166,210 tonnes by 2026 (2016 - 96,000 tonnes). Demand is forecasted to grow at 6% CAGR in the mid-term spurred on by growing demand for lithium ion batteries.<sup>2</sup> Demand is forecasted to increase at CAGR 4.1% in the long-term (2021-2026) as the EV sector matures and the metals sector continues to grow robustly. Automotive companies such as Volkswagen and BMW have recently announced their intent to source cobalt from the producers themselves to secure future supply. Further, major cobalt producers such as Glencore PLC recently announced ramping up cobalt production. However, even doubling their current cobalt production would not meet expected electric vehicle demand. World mine production of cobalt in 2016 was estimated to be 123,000 tonnes. Glencore PLC estimates that at least 285,000 tonnes of additional cobalt production would be required to make 30 percent of new vehicles electric by 2030.

Cobalt mine supply is consolidated in a small number of countries and dominated by the DRC. The DRC's share of global supply is forecasted to reach 67% in 2021 despite considerable risks to political stability, infrastructure development and energy supply. Cobalt chemicals supply is dominated by China, the largest importer of cobalt concentrates and hydrometallurgical intermediates. With the ICP located in the United States, with access to its own mined feedstock and sustainable operating practices following ethical principles, it has an advantageous position in the current market environment. The ICP has the opportunity to become a reliable and transparent source of cobalt product supply to the domestic market and export markets outside DRC and China.

Tightness in both the metallurgical and non-metallurgical sectors is forecasted to increase competition for both mined and refined supply helping support prices at or above current levels over the next ten years. Most of this deficit is expected to be felt in the non-metallurgical market, where supply and demand is expected to increase at CAGR 7.0 % and CAGR 7.9 % respectively. This infers additional refining capacity may need to be created in the mid-term. Delays in capacity increases could occur as a function of political instability, energy disruption or as a function of falling copper and nickel prices. The global supply of refined cobalt is becoming increasingly prone to mine supply bottlenecks, a major upside risk to cobalt prices.

### Summary of Current Quarter Financial Results

Comprehensive loss for the Company's three month period ended November 30, 2017 was \$1,114,267 or \$0.01 per share (November 30, 2016 - \$1,184,572 or \$0.01 per share). As at November 30, 2017, the Company had working capital of \$11,515,844 (February 28, 2017 - \$18,142,854). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the following items.

- (a) Shareholder relations for the three month period ended November 30, 2017 was \$162,834 (November 30, 2016 - \$38,713). Higher shareholder relations fees incurred during the current period was a result of investor relations and marketing activities of the FS, offtake, project financing and to enhance shareholder awareness of the ICP. These activities include travelling, conferences and marketing road shows fees.
- (b) Salary and wages for the three month period ended November 30, 2017 was \$282,250 (November 30, 2016 - \$112,775). Higher salaries during the period were due to the addition of new members of senior management and new employees. The Company also recently commissioned and completed an independent compensation review that benchmarked the Company's compensation policies against its peer group. The results of this independent review and recommendations were recently adopted by the Board of Directors and were reflected in report salary and wages.
- (c) Share-based compensation, a non-cash expense, for the three month period ended November 30, 2017 was \$279,201 (November 30, 2016 - \$745,689). During the three month period ended November 30, 2017, 175,000 (November 30, 2016 - 2,010,000) stock options were granted to directors, officers, employees and consultants of the Company. Using the Black-Scholes option pricing model, the fair value of stock options vested was \$279,201 (November 30, 2016 - \$745,689).
- (d) Foreign exchange gain, a non-cash adjustment, for the three month period ended November 30, 2017 was \$88,254 (November 30, 2016 - \$5,865). The US dollar depreciated against the Canadian dollar during this period from \$1.2536 on August 31, 2017 (August 31, 2016 - \$1.3116) to \$1.2888 on November 30, 2017 (November 30, 2016 - \$1.3429). The Company keeps a portion of its cash and its reclamation bond in US dollars. The Company's provision for site reclamation and closure costs is also originated in US dollars. The Company reports foreign exchange gains or losses as a result of changes in valuation from foreign exchange rates at the end of the period.
- (e) Interest income for the three month period ended November 30, 2017 was \$59,507 (November 30, 2016 - \$10,345). Higher interest income during the period was due to higher current cash balance compared to the same period last year.

<sup>1</sup> [www.infomine.com](http://www.infomine.com) price quote

<sup>2</sup> CRU Cobalt Market Outlook- August 2017

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 eCobalt Solutions Inc. (formerly Formation Metals Inc.) (the "Company") for the nine months ended November 30, 2017 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are available on SEDAR at [www.sedar.com](http://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 NI 43-101.

## **1.1 Date**

This MD&A is prepared as of January 11, 2018.

## **1.2 Overview**

### **1.2.1 Summary**

The Company is a mineral exploration and mine development company listed on the Toronto Stock Exchange under the symbol ECS. 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 ICP. All critical environmental permits are in place with an approved mine Plan of Operations. The ICP is comprised of the primary high grade cobalt deposit and the partially completed mine site and mill located in Lemhi County outside of the town of Salmon, Idaho, and a CPF to be constructed in Southern Idaho.

On November 10, 2017, the Company SEDAR filed a NI 43-101 compliant FS on the ICP. The results of the FS are based on an underground mine with a target production rate of 800 short tons per day and a weighted average annual production of 2.4M lbs of cobalt, 3.3M lbs of copper and 3,000 oz of gold over a 12.5 year mine life with an estimated pre-production period of 24 months utilizing a 0.25% cobalt cut-off grade. The economic model uses a 34% corporate tax rate and a 7.5% discount rate, resulting in an after-tax NPV of \$135.8M and an IRR of 21.3% using an average base case price of \$26.65/lb for contained cobalt in cobalt sulphate. Based on today's LME cobalt price of US\$34/lb (Co-99.3%), the ICP's after tax NPV (7.5% discount rate) and IRR per the FS is US\$240M and 30.6% respectively.

The Company filed a final short form base shelf prospectus (the "Shelf Prospectus") on January 12, 2017. The Shelf Prospectus, subject to regulatory requirements, may allow the Company to make offerings up to \$100,000,000 by issuing securities during the 25 month period that the Shelf Prospectus is effective. Under the Shelf Prospectus, the Company completed a bought deal financing on February 28, 2017 for gross proceeds of \$17,250,000 and issued 17,250,000 units at a purchase price of \$1.00 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. The Shelf Prospectus is expected to provide efficiency, flexibility and opportunities to finance the ICP to complete development and advance the project into commercial production.

In addition to the development of the cobalt project, the Company has interests in other non-core properties through its various subsidiaries that include exploration and development for silver, gold, copper, lead, and zinc exploration targets and is exploring for uranium through joint venture partnerships in northern Saskatchewan with Cameco and AREVA as joint venture partners. Limited work was conducted on these properties during the past couple of years. This portfolio of mineral properties continues to be evaluated for possible monetization.

### **1.2.2 Highlights for the nine months ended November 30, 2017 and subsequent events**

#### **Corporate:**

- (a) During the nine months ended November 30, 2017, the Company reported a comprehensive loss of \$2,822,320 (November 30, 2016 - \$1,884,348) and accumulated deficit of \$124,163,329 (February 29, 2017 - \$121,059,833);
- (b) As at November 30, 2017, the Company had working capital of \$11,515,844 (February 28, 2017 - \$18,142,854);

- (c) On June 21, 2017, the Company replaced its Reclamation Performance Bond ("Bond"). The new Bond was brokered by Aon Risks Solutions and was placed with Trisura Guarantee Insurance Company. Collateral on the Bond was reduced from US\$2,239,196 to US\$1,913,885. The Company also saved 7% in annual premiums to put the Bond in place;
- (d) The Company held its Annual and Special Meeting on June 28, 2017 and all resolutions were passed including:
- i. Election of Directors;
  - ii. Number of Directors set at 6;
  - iii. Appointment of Smythe LLP, Chartered Professional Accountants, as the Company's auditor; and
  - iv. Ratification and approval of all unallocated options, rights or other entitlements under the Company's Stock Option Plan.
- (e) At the Company's Annual and Special Meeting on June 28, 2017, Director and Chairman of the Board, Mr. Robert J. Quinn, and Director, Dr. David Stone, after years of dedicated service to the Company, did not stand for re-election. The Company thanks Mr. Quinn and Dr. Stone for their valued contributions over the years and wishes them well in their future endeavours. The Company welcomed Mr. David Smith, Senior Vice President of Finance and Chief Financial Officer of Agnico Eagle Mines Limited, as Director to the Board. The Board of Directors also elected Scott Hean, Director, as Chairman of the Board;
- (f) The Company granted 2,055,000, 375,000 and 175,000 stock options at a price of \$1.17, \$1.17 and \$1.16 on June 28, July 7 and October 5, 2017 respectively with a term of five years to directors, employees and consultants of the Company. The options are subject to vesting provisions and will be fully vested on their second anniversary;
- (g) On July 11, 2017, the Company announced the appointment of Floyd D. Varley, B.Sc. as COO and Robert L. (Llee) Chapman, CPA, B.A. as General Manager of US operations effectively immediately; and
- (h) On November 10, 2017, the Company filed the FS on the ICP. The FS has been compiled in accordance with NI 43-101 guidelines and a Technical Report is available on SEDAR. Further, preparation of the ICP mine and mill site for construction activities continues with the procurement of the water treatment plant, installation of the main substation and extension of power lines to the portal bench, the concentrator pad, water retention ponds and control wells. Along with the stockpiling of existing construction aggregate, the mobilization of the crushers to the mill site for early spring resumption of waste pad construction has been completed. The existing pre-purchased building has been transported to a site in Blackfoot, ID where the CPF is proposed to be built.

### **1.2.3 Risk Management**

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

### **1.2.4 Basis of Analysis**

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

The content and organization of the financial and non-financial data presented in these sections is consistent with information used by the Company for, among other purposes, evaluating performance and allocating resources. The following discussion should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended February 28, 2017 and related notes thereto.

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

## **1.2.5 Property Activities**

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

The Company conducts its exploration independently as well as through joint venture agreements with third parties. The following is a discussion of the Company's primary mineral exploration and development project, the Idaho Cobalt Project, in addition to other projects that the Company has interests in.

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

#### **Background**

The Company's principal property is the 100% owned ICP Mine Site, a primary high grade cobalt deposit located in Lemhi County, Idaho, acquired through staking in 1994 and 1995. The property is held by the Company's 100% owned subsidiary, Formation Capital and is comprised of 163 contiguous unpatented mining claims covering an area of approximately 2,520 acres. All required environmental permits have been received from the various permitting agencies and remain in good standing. A Reclamation Performance Bond in the amount of US\$6.38 million was placed to cover the estimated reclamation cost of actual and planned surface disturbance and US\$1.91 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. By that time, the Company had spent US\$65.3 million completing two phases of the ICP mine and mill construction that commenced in June 2011 and 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 is planned to involve underground development and the construction of the mill and concentrator and other ancillary facilities at the ICP Mine Site and at the CPF.

#### **2017 Feasibility Study on the ICP**

On November 10, 2017, the Company SEDAR filed a FS on the ICP, which was prepared by Micon and aspects of the study concerning the processing, infrastructural engineering, risk assessment, project scheduling, and cost estimating were subcontracted to SNC. The FS is based on an underground mine with a target production rate of 800 short tons per day and a weighted average annual production of 2.4M lbs of cobalt, 3.3M lbs of copper and 3,000 oz of gold over a 12.5 year mine life with an estimated pre-production period of 24 months utilizing a 0.25% cobalt cut-off grade. The economic model uses a 34% corporate tax rate and a 7.5% discount rate, resulting in an after-tax NPV of \$135.8M and an IRR of 21.3% using an average base case price of \$26.65/lb for contained cobalt in cobalt sulphate. Based on today's LME cobalt price of US\$34/lb (Co-99.3%), the ICP's after tax NPV (7.5% discount rate) and IRR per the FS is US\$240M and 30.6% respectively.

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 FS are in US dollars.

• Pre-Tax NPV 7.5%:	\$176.9 million, IRR 25.1%
• Post-Tax NPV 7.5%:	\$135.8 million, IRR 21.3%
• Initial Capital Costs:	\$186.7 million
• Life of Mine (LOM):	12.5 years post preproduction
• LOM Gross Revenue:	\$1.129 billion
• LOM Total Net After Tax Cash Flow	\$331.4 million
• LOM Average Net Cash Cobalt Production Cost: (net of gold, copper and magnesium credits)	\$5.05 per pound
• Pre-Tax Initial Capital Payback:	2.9 years
• LOM Cobalt Production:	31,767,000 pounds
• LOM Copper Production:	42,819,000 pounds
• LOM Gold Production:	39,241 ounces
(including ounces in copper con and doré)	

The total LOM capital and reclamation cost is estimated at \$288.1 million, including \$186.7 million for initial capital, \$5.8 million for long term water treatment bond collateral, and \$95.6 million in sustaining capital and mine development capital during production over the LOM, reclamation and closure cost. Prior to the deferral of the ICP to care and maintenance status in May

2013 due to depressed market conditions, the Company spent \$65.3 million on the ICP for earthworks, engineering and milling equipment including the crushing, ball mill, flotation and filtration circuits, pumps, grizzlies, hoppers, conveyers, etc. These are sunk costs and not included in the remaining initial capital costs.

The FS utilizes an updated resource, mine model and mine schedule with a feasibility study level of design for the CPF to produce cobalt sulphate. A combined cobalt/copper/gold concentrate is to be produced from the mine and mill and processed at the CPF through hydrometallurgical processing of cobalt and copper bearing sulphides to produce cobalt sulphate heptahydrate which is used in the production of cathodes for rechargeable batteries. Marketable by-products include copper concentrate, copper sulphate, magnesium sulphate and gold. Gold will be recovered through a gold carbon in leach circuit producing gold-loaded carbon which will be refined at a contract facility to produce doré. The stripped carbon will be returned to the CPF for reuse.

Micon updated the estimate of cobalt, copper and gold resources in a three-dimensional resource wire frame and block model to be used for mine planning, design and scheduling as part of the FS. Micon utilized the previously estimated resources for the Ram deposit (completed by MDA for the PEA) supported by their own geostatistical model and reserve criteria. The resulting model moved some PEA level Measured resources into the Indicated category and adjusted grades within the resource categories. Cobalt, copper and gold reported in resources in the FS model are shown in the table below. The stated resource is reported at a cobalt cut-off grade of 0.20% cobalt. There is approximately 34% dilution forecasted in the stope designs with additional dilution applied, by mining method and stope conditions, for over-break. The copper and gold resources and reserves are those resources and reserves carried within the stope blocks which attain the cobalt cut-off grade. No metal recoveries are applied, as this is an in-situ resource.

**Ram Deposit Mineral Resources at 0.2% Co Cut-off**

Category	Zone	Co% Cut-off	Resource (Tons)	Co (%)	Co (lbs)	Au (opt)	Au (ounces)	Cu (%)	Cu (lbs)
Measured	All Zones	0.2	1,725,000	0.54	18,589,700	0.014	24,300	0.76	26,324,900
Indicated	All Zones	0.2	1,711,000	0.64	21,988,000	0.017	29,900	0.71	24,110,600
M+I	All Zones	0.2	3,436,000	0.59	40,577,700	0.016	54,200	0.73	50,435,500
Inferred	All Zones	0.2	1,543,000	0.51	15,593,800	0.012	18,700	0.68	21,032,200

**Ram Deposit Mineral Reserves at 0.25% Co Cut-off**

Category	Zone	Co% Cut-off	Resource (Tons)	Co (%)	Co (lbs)	Au (opt)	Au (ounces)	Cu (%)	Cu (lbs)
Proven	3021, 3022, 3023	0.25	1,987,209	0.43	17,107,067	0.013	25,276	0.69	27,383,521
Probable	3021, 3022, 3023	0.25	1,674,685	0.52	17,409,858	0.017	28,010	0.67	22,372,024
Total Reserve	3021, 3022, 3023	0.25	3,661,894	0.47	34,516,925	0.016	53,286	0.68	49,755,545

For a more detailed description of the results of the FS and the ICP, the reader is referred to the Company's news release dated November 10, 2017. The FS has been compiled in accordance with NI 43-101 guidelines and a Technical Report is available on SEDAR.

Micon and SNC have concluded that the FS contains adequate detail and information to support the positive outcome shown for the ICP and that the ICP contains a viable cobalt and base metal resource that can be successfully mined by underground methods and recovered to concentrate with conventional milling processes. Using the assumptions contained in the FS, the project economics merit consideration by the Company to proceed to the project financing and executions stage. Management has, however, identified significant opportunities that could improve the economics of the ICP.

**Project Optimization, Preconstruction Work and Operational Expansion**

Since the release of the FS, the Company has reported the following optimization tasks to enhance project economics and to further reduce overall risks of the ICP:

- I. **Clean Cobalt Concentrate Product:** In response to changing battery market dynamics, market feedback, and in-depth discussions with potential offtakers since the release of the FS, there is an opportunity to reduce capital and operating costs at the Cobalt Production Facility ("CPF") and improve construction timelines by pursuing a clean cobalt concentrate product and by-product of copper/gold concentrate. Clean cobalt concentrate is an upstream product containing less than 1% arsenic that is used in the production of precursor battery cathode material. Since it is a less refined product compared to cobalt sulphate, investment in a CPF may be reduced. The Company has begun receiving Letters of Intent for offtake and project financing from multiple parties on this new strategy and intends to identify its partner(s) by early 2018 after thorough evaluation of the proposals.

The total capital cost estimate for the ICP per the FS is US\$187M, of which US\$124M (66%) is for the CPF. Operating cash cost for the ICP, net of by-product credits, is US\$5.05/lb cobalt, of which US\$13.88 is direct cost before by-product credits and 34% of direct cost is related to the CPF. The Company believes that a more simplified flowsheet to produce a clean cobalt concentrate product may reduce both capital and operating costs which is expected to have a positive impact on overall project economics. The Company has engaged Micon International Ltd. ("Micon"), SNC Lavalin Inc. ("SNC") and Dundee Sustainable Technologies ("DST") to conduct detailed metallurgical testing and engineering for the revised flowsheet with the intent to develop feasibility level designs and costs. Testing during the week of December 18, 2017 at DST's facility in Quebec, witnessed by Micon and SNC metallurgists, has confirmed successful laboratory scale testing to remove arsenic from ICP ore concentrates by conventional roasting methods to produce a clean cobalt concentrate with arsenic levels below 0.5% and up to 50% reduction in sulphur.

- II. **Resource Definition Drill Program:** The positive results of the FS have given Management and the Board of Directors a clear mandate to move the ICP towards project financing and development, although no production decision based on the current FS model has been made at this time until results of the optimization studies have been fully evaluated. Management's immediate goal is to evaluate a variety of opportunities and optimization strategies for the ICP. The Company has completed a planned three-hole, 5,000-foot drill program on schedule. The three completed holes all intersected mineralized zones anticipated in the FS resource model. Based on core logging and assay results, this drill program is expected to have a positive impact on the project's resource model. The Company has engaged Micon to update the FS resource model in the first quarter of 2018. In addition, a fourth drill hole was completed in coordination with an independent geotechnical firm to provide rock mass data and acquire additional mineralized material for metallurgical testing.
- III. **New Detailed Mine Design and Production Schedule:** The Company has also engaged Micon to evaluate a detailed mine design and production schedule developed in-house with third party consultants to reduce planned dilution. Working with Micon, this design enhancement will be applied to the updated resource model and evaluated using Micon's FS cost model. The Company believes the updated resource and mine plans will have a positive impact on mine units costs per lb of cobalt and life of mine cobalt production which would positively impact project economics.

Preparation of the ICP mine and mill site for construction activities, expected to commence in 2018 after successful mine financing in place, continues with the procurement of the water treatment plant, installation of the main substation and extension of power lines to the portal bench, the concentrator pad, water retention ponds and control wells. Along with the stockpiling of existing construction aggregate, the mobilization of the crushers to the mill site for early spring resumption of waste pad construction has been completed. The existing pre-purchased building has been transported to a site in Blackfoot, ID where the CPF is proposed to be built. Senior and Support staff capacity ramp up continues as hiring of key employees in various functional areas is being implemented to support pre-construction and project development goals.

#### (b) Other Mineral Assets

- i. **Black Pine – Idaho, USA:** All mineral claims related to the Black Pine are in good standing;
- ii. **Morning Glory – Idaho, USA:** the Company also has 100% ownership of certain additional unpatented placer mining claims located in the same area as the ICP. All mineral claims are in good standing;
- iii. **Queen of the Hills – Idaho, USA:** the Company holds a 100% lease option on certain mineral claims located in Lemhi County, Idaho. All mineral claims are in good standing; and
- iv. **Wallace Creek – Idaho, USA:** the Company has a 100% lease option on certain additional mineral claims located in the same area as the ICP.

#### (c) El Milagro – Mexico

The Company has a 100% interest in the El Milagro property in Tamaulipas, Mexico. The Company acquired the claims through staking and through purchase agreements executed with the the underliers.

#### (d) Kernaghan / Bell Project – Saskatchewan, Canada

The Company granted an option whereby the optionee earned an 80% interest in certain mineral claims by making certain payments (received), and completing exploration work totaling \$1,000,000 (deemed completed). The project area is located near the northeast rim of the Athabasca Basin approximately 42 km north of Points North Landing. The Kernaghan / Bell project currently consists of 13 mineral claims totaling 4,342 hectares. The target unconformity depth ranges from 165m to 290m. To date 38 diamond drill holes within the property outline totaling 10,051.4m have been drilled targeting the unconformity.

Anomalous uranium intersections were returned from two drill holes with a maximum partial uranium value returned in drill hole KB-11 of 160 ppm and a maximum partial uranium value returned in drill hole KB-07 of 34.2 ppm.

A Geochemical Compilation Report completed in 2012 was sent to joint venture partners and filed for assessment credit. The operator, Areva Resources Canada Inc. (Areva), of the project did not conduct any exploration work during the year ended February 28, 2017. In 2018, all of the claims require an assessment filing totalling \$103,845 with the earliest lapse date being May 14, 2018 plus 90 days. The estimated cost of the proposed 2018 exploration program including overhead is \$940,000, with the Company's share being \$188,000 (20%). Seven diamond drill holes totaling 3,000 metres are planned to further evaluate three distinct under or untested geophysical conductor strike lengths in the western portion of the property. This program will bring the claims in good standing until 2025.

#### (e) Virgin River – Saskatchewan, Canada

The Company through its wholly owned subsidiary, Coronation Mines Ltd., owns 2% of the Virgin River project located in the Athabasca Basin of northern Saskatchewan. Cameco Corporation ("Cameco") and AREVA Inc. each own 49% in the joint exploration agreement with Cameco acting as the operator of the project. The Company also has the first right of offer to acquire up to 10% of the project and has been carried through to \$10,000,000 worth of exploration and development. This right could be exercised in the event that one of the joint venture partners wishes to sell all or a portion of their interest to a third party, in which case they must first offer Coronation Mines an additional 8% of the project.

The 2018 exploration program will consist of mobilization and freighting, and diamond drilling on the Dufferin Lake fault (5 holes, 4,500 m) and CF conductor (3 holes, 2,700 m) for a total budget of \$2,250,000, with the Company's share being \$45,000 (2%). The claims are in good standing until 2035.

### 1.2.6 Market Outlook

*The reader is advised that information in the following section discussing the outlook of the cobalt market was derived from independent cobalt publications. The reader is also referred to the cautionary statement on page 4 regarding forward looking statements.*

#### Cobalt Market Overview

##### Demand

Refined cobalt consumption has been steadily increasing over the past couple of years with 83,000<sup>3</sup> tonnes in 2013, 89,000<sup>4</sup> tonnes in 2014, 90,150<sup>5</sup> tonnes in 2015 and 98,000 tonnes in 2016<sup>6</sup>. Global cobalt demand is expected to exceed 100,000 tonnes for the first time in 2017 as the market begins to face supply deficit<sup>7</sup>. Demand for cobalt used in metallurgical applications is forecasted to grow steadily from 36,690 tonnes in 2016 to 50,000 tonnes in 2025, driven by the aerospace industry. Demand for cobalt used in non-metallurgical applications is forecasted to grow at a faster rate, at 7.2% compounded annual growth rate ("CAGR") in the mid-term and 4.1% CAGR long-term<sup>8</sup>. Non-metallurgical demand is expected to reach over 110,000 tonnes by 2026, driven by the rechargeable battery sector.

End user consumption of cobalt is forecasted to change rapidly by 2020, with the most significant change in demand by lithium ion batteries used in electric vehicles ("EVs")<sup>9</sup> by 114%:

<u>Applications</u>	<u>2015 Consumption</u>	<u>2020 Consumption</u>	<u>Percentage Change</u>
Lithium ion batteries for other applications	36%	33%	-8%
Lithium ion batteries for EVs	7%	15%	114%
NiMH/NiCd cells	2%	1%	-50%
Other chemical applications	19%	17%	-11%
Superalloys	16%	16%	-
Hard facing	3%	3%	-
C&D tools	10%	9%	-10%
Magnets	6%	5%	-17%
Synthetic diamonds	1%	1%	-

The main three types of batteries in the rechargeable lithium ion batteries market is comprised of the lithium cobalt oxide ("LCO"), nickel manganese cobalt ("NMC") and lithium nickel cobalt aluminum ("NCA") cells. These three types of batteries made up 75% of the rechargeable batteries market share in 2015. LCO cathode contains the highest cobalt by weight in the

<sup>3</sup> CRU Cobalt Market Outlook 2015

<sup>4</sup> CRU Cobalt Market Outlook 2015

<sup>5</sup> CRU Cobalt Market Outlook 2015

<sup>6</sup> CRU Cobalt Market Outlook 2016

<sup>7</sup> CRU Cobalt Market Outlook 2016

<sup>8</sup> CRU Cobalt Market Outlook 2017

<sup>9</sup> CRU Cobalt Market Outlook 2016

form of cobalt oxide followed by NMC and NCA batteries which contains cobalt in the form of cobalt sulphate. LCO batteries are the largest consumer of cobalt and accounts for 28% of global consumption. NMC and NCA batteries, used in EVs, is expected to have the highest demand growth in the mid and long term range forecast<sup>10</sup>. The growth in the EVs market is forecasted to increase consumption of cobalt sulphate to 45,529 tonnes by 2026, accounting for greater than 40% of chemical cobalt consumption<sup>11</sup>.

Energy requirement in MWh for EVs are expected to grow at 16% per annum until 2025<sup>12</sup>. Battery supply is one of the key hurdles to EV growth, especially to meet demand requirements beyond 2019 and 2020<sup>13</sup>. In addition to Tesla Motors, Inc.'s US\$5.0 billion EV "Gigafactory", LG Chem has confirmed a plant in Poland and Daimler has commenced a €500 million battery assembly plant. Recently, the following companies have also announced investments in EVs including<sup>14</sup>:

<b>Auto Manufacturers</b>	<b>Long Term EV Targets</b>	<b>EV Models</b>
BMW	15-25% EV penetration by 2025	X3, Mini, iNext
Daimler	15-25% EV penetration by 2025	10 new models by 2020
Audi	25-30% EV penetration by 2025	Q6 e-tron Quattro
Porsche		Mission E Concept
PSA		4 Evs and 7 PHEVs
Renault	1.6m EVs by 2016	Products partnering Dongfeng
VW	25-30% EV penetration by 2025	>30% EVs by 2025
Ford	30% penetration by 2030	13 EVs by 2020
GM	500k EVs by 2017	Chevrolet Bolt
Tesla	500k EVs in 2018	Model 3
Toyota	Less 90% CO2 emissions by 2050	Mass production of EVs for 2020
Honda	60% hybrid and EVs penetration by 2030	Honda Clarity 2017
Nissan	RNO Nissan 1.6m EVs by 2016	Next Gen Leaf
JLR (Jaguar and Land Rover)		I Pace- 2018
Valeo	5% to 9% EVs penetration by 2026	

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. It has been forecasted that strong forecast demand from the EV market can potentially double current cobalt demand by 2022<sup>15</sup>. Stationary storage cells utilized to store energy from sources such as wind and solar powered generators and off peak grid charging are also contributing to this significant growth in the markets.

### Supply

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

Approximately 62.5% of the world cobalt supply is mined from the Democratic Republic of Congo ("DRC") with 64,364 tonnes produced in 2016<sup>16</sup>. Artisanal mining accounts for approximately 6,100 tonnes of cobalt production from the DRC. Supply from artisanal production is expected to taper off as easily accessible high grade reserves get depleted. In addition, Amnesty International published a report in January 2016 titled "This Is What We Die For" which exposes abuses of the human rights, safety and environmental issues related to artisanal mining. The article also made allegations against global technology companies for using cobalt sourced from artisanal mining supply, highlighting the importance of supply chain management and traceability of the sourcing raw materials. This may also result in regulation changes relating to artisanal mining activities in the DRC.

China is the largest importer of cobalt raw materials estimated at 65% or 59,223 tonnes<sup>17</sup> of world supply in 2015. Approximately 94%<sup>18</sup> of Chinese import comes from cobalt contained in intermediates such as crude hydroxide produced in the DRC. In turn, China is also the largest producer of refined cobalt with a 9.3% growth in production in 2016 representing 78% or 48,910 tonnes of world production<sup>19</sup>. This growth is predominately driven by demand from downstream markets. This growth forces China's biggest refiners and producers to expand and aggressively acquire cobalt assets.

<sup>10</sup> CRU Cobalt Market Outlook 2016

<sup>11</sup> CRU Cobalt Market Outlook 2017

<sup>12</sup> CRU Cobalt Market Outlook 2015

<sup>13</sup> BNP Paribas Plugged- In- November 22, 2016

<sup>14</sup> BNP Paribas Plugged- In- November 22, 2016

<sup>15</sup> BNP Paribas Plugged- In- November 22, 2016

<sup>16</sup> CRU Cobalt Market Outlook 2017

<sup>17</sup> Darton Commodities Limited Cobalt Market Review 2015-16

<sup>18</sup> Darton Commodities Limited Cobalt Market Review 2015-16

<sup>19</sup> CRU Cobalt Market Outlook 2016

## Supply Demand Balance

The following illustrates supply and demand balance forecast for the 2015-2020 period<sup>20</sup>:

Supply CAGR (2015-2020)	Demand CAGR (2015-2020)	Surplus and Deficit
Non-metallurgical applications- 4.5%	Non-metallurgical applications -6.7%	1,794 tonnes deficit in 2016
Metallurgical applications- 4.4%	Metallurgical applications- 4.0%	6,400 tonnes deficit by 2020

Forecasted compounded annual growth rate for cobalt supply is 2.4%<sup>21</sup>. As a result of increase in demand and reduction in supply of cobalt, overall supply demand balance is forecasted to progressively tighten over the medium and long term with minimal prospects of new cobalt projects coming into production within the next decade<sup>22</sup>. Demand for metallurgical cobalt is forecasted to continue to grow against supply even though there is a small surplus in metallurgical cobalt supply. Significant increase in demand of non-metallurgical or cobalt chemicals used in rechargeable batteries may cause a deep deficit. The combined effect is expected to result in a projected deficit of 10,000 tonnes annually by 2020<sup>23</sup>.

Historically, metallurgical supply demand balance has the most impact in setting market cobalt price and this tends to also influence the price of non-metallurgical or cobalt chemicals. The serious deficit expected in the non-metallurgical or cobalt chemicals may change these market dynamics.

Cobalt prices have increased significantly since the beginning of 2017 as end users and hedge funds secure supply of cobalt metal and sulphate in anticipation of further supply and demand deficits. Cobalt 99.3% metal has reached a six year high of over \$34 per lb while cobalt sulphate prices have attracted an average of \$2.00 per lb premium over 99.3% due to stronger demand.

## **Cobalt and the ICP**

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

There are significant opportunities identified by management of the Company 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. The Company has completed a planned three-hole, 5,000 foot drill program on schedule. The three completed holes all intersect mineralized zones anticipated in the FS resource model. This drill program is expected to have a positive impact on the project's resource model. The Company has engaged Micon to update the FS resource model in the first quarter of 2018 accordingly. 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. Previous core drilling on the Black Pine property returned significant intercepts of cobalt and copper including 1.13% cobalt over 17.5 feet with another drill hole returning an intercept of 4.9% copper over 9.2 feet. Further exploration and development on the property would be required to further define and develop a potential resource suitable for providing additional feed for the ICP mill.

As previously discussed, there is also an opportunity to reduce capital and operating costs at the CPF and improve construction timelines by pursuing a clean cobalt concentrate product and by-product of copper/gold concentrate. Since clean cobalt concentrate is a less refined product compared to cobalt sulphate, investment in a CPF can be reduced significantly compared to the capital identified in the FS. This decision is in response to the changing battery market dynamics and in-depth discussions with potential offtakers during Management's recent marketing campaigns in North America, Asia, Australia and Europe.

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. The Company has engaged Micon to evaluate a detailed mine design and production schedule developed in-house with third party consultants to reduce planned dilution. This design enhancement will

<sup>20</sup> CRU Cobalt Market Outlook 2016

<sup>21</sup> CRU Cobalt Market Outlook 2015

<sup>22</sup> CRU Cobalt Market Outlook 2015

<sup>23</sup> CRU Cobalt Market Outlook 2015

be applied to the updated resource model and evaluated using Micon's FS cost model. There also exists the possibility of obtaining 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 could be included in the project economics.

There are risks associated with the FS. 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.

## Share Price Performance

The price of cobalt remains strong as the EV and ESS markets are expected to continue to ramp up. The positive FS was released while financing efforts are progressing well as well as pre-construction for the mine and mill and optimization of the overall project. With continued effort and de-risking of the project the upward trend the Company's share price has enjoyed most of the year should continue. The Volume Weighted Average Price (VWAP) for the first nine months of the fiscal year was \$1.268 and the closing price on January 11, 2018 was \$1.76. The Company's one year share price historic chart as of the date of this report continues to significantly outperform the TSX and TSX Base Metals Index's.



## 1.3 Results of Operations

### Financial Results of Operations for the Nine Months Ended November 30, 2017 and 2016

The following are highlights from the Company's results from operations for the nine months ended November 30, 2017 and 2016:

- (a) **Comprehensive loss** for the nine month period ended November 30, 2017 was \$2,822,320 or \$0.02 per share (November 30, 2016 - \$1,884,348 or \$0.02 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) **Shareholder relations** for the nine month period ended November 30, 2017 was \$428,347 (November 30, 2016 - \$131,798). Higher shareholder relations fees incurred during the current period was a result of investor relations and marketing activities of the FS, offtake, project financing and to enhance shareholder awareness of the ICP. These activities include travelling, conferences and marketing road shows fees.
- (c) **Salary and wages** for the nine month period ended November 30, 2017 was \$953,053 (November 30, 2016 - \$311,812). Higher salaries and short term benefits in the current period were due to the addition of new members of senior management and employees as well as bonuses granted to executive management and employees. The Company recently commissioned and completed an independent compensation review that benchmarked the Company's compensation policies against its peer group. The results of this independent review and recommendations were recently adopted by the Board of Directors and were reflected in report salary and wages. In addition, executive management and employees took salary reductions during the first two quarters of 2016, resulting in lower salaries and short term employee benefits during that period.
- (d) **Legal and advisory fees** for the nine month period ended November 30, 2017 was \$112,795 (November 30, 2016 - \$61,460). Higher legal and advisory fees were the result of increased legal advisory activities related to project financing.
- (e) **Share-based compensation, a non-cash expense**, for the nine month period ended November 30, 2017 was \$890,698 (November 30, 2016 - \$812,215). During the nine month period ended November 30, 2017, 2,625,000 (November 30, 2016 - 2,228,182) stock options were granted to directors, officers, employees and consultants of the Company. Using the Black-Scholes option pricing model, the fair value of stock options vested was \$890,698 (November 30, 2016 - \$812,215).
- (f) **Foreign exchange loss, a non-cash adjustment**, for the nine month period ended November 30, 2017 was \$90,223 (November 30, 2016 - \$24,328). The US dollar depreciated against the Canadian dollar during this period from \$1.3281 on February 28, 2017 (February 29, 2016 - \$1.3531) to \$1.2888 on November 30, 2017 (November 30, 2016 - \$1.3429). The Company keeps a portion of its cash and its reclamation bond in US dollars. The Company's provision for site reclamation and closure costs is also originated in US dollars. The Company reports foreign exchange gains or losses as a result of changes in valuation from foreign exchange rates at the end of the period.
- (g) **Interest income** for the nine month period ended November 30, 2017 was \$165,624 (November 30, 2016 - \$20,878). Higher interest income during the period was due to higher current cash balance compared to the same period last year.

#### **Financial Results of Operations for the Three Months Ended November 30, 2017 and 2016**

The following are highlights from the Company's results from operations for the three months ended November 30, 2017 and 2016:

- (a) **Comprehensive loss** for the three month period ended November 30, 2017 was \$1,114,267 or \$0.01 per share (November 30, 2016 - \$1,184,572 or \$0.01 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) **Shareholder relations** for the three month period ended November 30, 2017 was \$162,834 (November 30, 2016 - \$38,713). Higher shareholder relations fees incurred during the current period was a result of investor relations and marketing activities of the FS, offtake, project financing and to enhance shareholder awareness of the ICP. These activities include travelling, conferences and marketing road shows fees.
- (c) **Salary and wages** for the three month period ended November 30, 2017 was \$282,250 (November 30, 2016 - \$112,775). Higher salaries during the period were due to the addition of new members of senior management and new employees. The Company also recently commissioned and completed an independent compensation review that benchmarked the Company's compensation policies against its peer group. The results of this independent review and recommendations were recently adopted by the Board of Directors and were reflected in report salary and wages.
- (d) **Share-based compensation, a non-cash expense**, for the three month period ended November 30, 2017 was \$279,201 (November 30, 2016 - \$745,689). During the three month period ended November 30, 2017, 175,000 (November 30, 2016 - 2,010,000) stock options were granted to directors, officers, employees and consultants of the Company. Using the Black-Scholes option pricing model, the fair value of stock options vested was \$279,201 (November 30, 2016 - \$745,689).
- (e) **Foreign exchange gain, a non-cash adjustment**, for the three month period ended November 30, 2017 was \$88,254 (November 30, 2016 - \$5,865). The US dollar depreciated against the Canadian dollar during this period from \$1.2536 on August 31, 2017 (August 31, 2016 - \$1.3116) to \$1.2888 on November 30, 2017 (November 30, 2016 - \$1.3429). The Company keeps a portion of its cash and its reclamation bond in US dollars. The Company's provision for site reclamation and closure costs is also originated in US dollars. The Company reports foreign exchange gains or losses as a result of changes in valuation from foreign exchange rates at the end of the period.

- (f) **Interest income** for the three month period ended November 30, 2017 was \$59,507 (November 30, 2016 - \$10,345). Higher interest income during the period was due to higher current cash balance compared to the same period last year.

### 1.3.1 Summary of Quarterly Results

Financial Information in thousands (except per share information)

	Three Months ended November 30, 2017	Three Months ended August 31, 2017	Three Months ended May 31, 2017	Three Months ended February 28, 2017	Three Months ended November 30, 2016	Three Months ended August 31, 2016	Three Months ended May 31, 2016	Three Months ended February 29, 2016
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss from continued operations	(996)	(1,322)	(785)	(345)	(1,087)	(431)	(347)	(51,762)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.002)	(0.01)	(0.005)	(0.002)	(0.57)

Net loss from operations for the three months ended November 30, 2017 was \$996,458 compared to a net loss of \$1,086,597 from the same period last year. The main difference was due to higher salary and wages, shareholder relations expense, share-based compensation expense, foreign exchange loss and interest income as discussed in section 1.3.

## 1.4 Liquidity

### November 30, 2017 and 2016

- (a) **Cash and cash equivalents** as at November 30, 2017 were \$12,608,232 (February 28, 2017 - \$19,221,353).
- (b) **Working capital** as at November 30, 2017 was \$11,515,844 (February 28, 2017 - \$18,142,854).
- (c) **Mineral property expenditures** of \$2,699,151 (2016 - \$1,474,844) was incurred during the period ended November 30, 2017. Expense accruals of \$6,264 (2016 - \$Nil) and a non-cash adjustment of \$1,721,025 (2016 - \$965,073) for site reclamation and closure cost was also made, resulting a total addition of \$4,426,438 (2016 - \$2,439,957).
- (d) **Net Purchase of Property, Plant and Equipment expenditures** for the period ended November 30, 2017 was \$2,942,693 (2016 - \$306,078).

The Company's cash and cash equivalents are held in Canadian dollars and are invested in highly rated securities at fixed interest rates of up to 1.10% 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. There are no uncertainties in liquidity but cash flow is cyclical as more cash outflows happen during the summer months due to maintenance of the ICP.

To finance operations and development of the ICP, the Company financed total gross proceeds of \$21,676,560 during the year ended February 28, 2017 including a private placement on June 1, 2016 and a bought deal financing on February 28, 2017. Proceeds from financing are used for general working capital to expand the Company's operations for project development and to strengthen the Company's financial position for project financing. As the FS technical report was filed on November 10, 2017, the Company also continues to market the ICP and pursue product offtake arrangements to facilitate financing of capital costs for project development. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company has sufficient working capital to sustain overhead, administrative, and property maintenance expenses over the next twelve months after the completion of the bought deal financing. The Company also has the ability to scale back on pre-construction activities at its discretion in order to continue its operations for at least the next 12 months if additional financing is not obtained in that timeframe.

## Contractual Commitments

The following is a schedule of the Company's annual commitments as at November 30, 2017:

	Note	2017	2018	2019
		\$	\$	\$
Mineral property expenditure	(a)	7,344	233,000	-
General liability insurance	(b)	6,497	58,470	-
Office operating leases	(c)	25,426	101,605	93,046
Professional fees - Feasibility Study	(d)	-	446,500	-
		39,267	839,575	93,046

- (a) As per the February 28, 1999 Virgin River joint venture exploration agreement whereby the Company has 2% interest, the Company's remaining commitment to the 2017 exploration program budget is \$410. The Company has also committed to spending an additional \$45,000 towards the 2018 exploration program. The Company has committed to spend \$188,000 for 2018 towards the Kernaghan / Bell project representing 20% of its budget and has \$6,934 remaining to spend towards the 2017 budget.
- (b) The Company has a total liability of \$64,967 on premiums for its commercial general and umbrella liability insurance policies payable monthly until October 12, 2018.
- (c) The Company has an office lease commitment totaling \$220,077 ending January 31, 2020.
- (d) The Company has a total remaining commitment of \$446,500 as a result of commissioning the optimization of the FS on the ICP with Micon Engineering Ltd.
- (e) Pursuant to employment agreements, the Company may be obligated to pay up to \$2,300,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

## 1.5 Capital Resources

The Company's working capital as at November 30, 2017 was \$11,515,844 (February 28, 2017 - \$18,142,854). The Company expects working capital to increase with proceeds from the exercise of stock options and warrants that are currently in the money. The Company continues to market the ICP, pursue product offtake arrangements to facilitate financing of capital costs for project development and seek further equity and debt funding in the capital markets. The Company also continues to look at opportunities to reduce capital and operating costs at the CPF and improve construction timelines by pursuing a clean cobalt concentrate product and by-product of copper/gold concentrate. Since a clean cobalt concentrate is a less refined product compared to cobalt sulphate, investment in a CPF may be reduced to a fraction of the capital identified in the FS.

## 1.6 Off-Balance Sheet Arrangements

None.

## 1.7 Transactions with Related Parties

- (a) Subsidiaries

	Ownership interest	
	November 30, 2017	February 28, 2017
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, 2017 and 2016 were as follows:

		November 30, 2017	November 30, 2016
		\$	\$
Salaries and short-term employee benefits			
including bonuses	(i)	792,925	319,844
Share-based compensation	(ii)	646,550	623,280
Directors' fees	(iii)	96,750	65,375
		<b>1,536,225</b>	<b>1,008,499</b>

Outstanding balances owed to directors and officers at November 30, 2017 were \$39,000 (November 30, 2016 - \$91,500).

- (i) Total salaries and short term benefits for the period ended November 30, 2017 was \$792,925 (November 30, 2016 - \$319,844). Higher salaries and short term benefits in the current period were due to bonuses granted to executive management and employees of the Company and the addition of a new member of senior management during the period. In addition, executive management and employees took salary reductions during the first two quarters of 2016, resulting in lower salaries and short term employee benefits during that period.
- (ii) Share-based payments (non-cash expense) are based on fair value of stock options granted to directors and officers of the Company. During the period ended November 30, 2017, the Company granted 2,025,000 stock options to directors and officers who are considered key management of the Company, of which 25%, or 506,250 stock options, vested on the grant date.
- (iii) The Company paid or accrued directors fees of \$96,750 (November 30, 2016 - \$65,375). The Company also reimbursed directors for business related expenses in the amount of \$13,256 (November 30, 2016 - \$9,430).

All executive officers are entitled to termination and change of control benefits. Pursuant to employment agreements, the Company may be obligated to pay up to \$2,300,000 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 period ended November 30, 2017				For the period ended November 30, 2016			
	Non cash share based compensation	Salary, Bonus and Benefits	Directors Fees	Total Compensation	Non cash share based compensation	Salary, Bonus and benefits	Directors Fees	Total Compensation
	\$	\$	\$	\$	\$	\$	\$	\$
David Christie Director	39,910	-	17,125	57,035	55,650	-	10,375	66,025
James Engdahl Director	-	-	-	-	-	-	4,125	4,125
Paul Farquharson President & CEO	159,642	295,833	-	455,475	111,300	143,750	-	255,050
Gregory Hahn Director	39,910	-	17,747	57,657	55,650	-	10,375	66,025
Scott Hean Director	47,893	-	28,503	76,396	55,650	-	10,375	66,025
Rick Honsinger Vice President	79,821	179,167	-	258,988	89,040	89,844	-	178,884
Robert Metka Director	39,910	-	15,125	55,035	55,650	-	10,375	66,025
Robert Quinn Director	-	-	3,125	3,125	55,650	-	9,875	65,525
David Smith Director	39,910	-	12,000	51,910	-	-	-	-
David Stone Director	-	-	3,125	3,125	55,650	-	9,875	65,525
Marc Tran CFO	79,821	219,165	-	298,986	89,040	86,250	-	175,290
Floyd Varley COO	119,731	98,760	-	218,492	-	-	-	-
	<b>646,550</b>	<b>792,925</b>	<b>96,750</b>	<b>1,536,225</b>	<b>623,280</b>	<b>319,844</b>	<b>65,375</b>	<b>1,008,499</b>

## 1.8 Proposed Transactions

None.

## 1.9 Critical Accounting Estimates

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

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

### *Judgments*

- (i) Annually, the Company assesses whether indicators of impairment exist with respect to the mineral properties, and property, plant and equipment. If indicators of impairment are identified, then the Company assesses whether its asset carrying values are greater than their recoverable values. The recoverable value is the higher of an asset's fair value, less costs to sell, and its value in use. The determination of the recoverable amount of mineral properties and property, plant and equipment includes critical judgments by management of items including: discount rates, future commodity prices, production levels, operating and capital expenditures, taxes, length of mine life, proven and probable mineral reserves and resources, and other assumptions used within the Company's mine model for assessing possible impairment. Should those judgments prove to be inaccurate, the assessed recoverable amounts could differ materially from their actual amounts.
- (ii) The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.
- (iii) Judgments by management with respect to the useful lives of property, plant and equipment, and related rates of depreciation, could result in carrying values of the underlying assets being over or understated, should those judgments be determined to be incorrect.
- (iv) The functional and presentation currencies of the Company are the Canadian dollar. The functional currencies of the Company's subsidiaries are also Canadian dollar. Activities of the subsidiaries are integrated with the operations of the parent company. Should management's judgment about the nature of a subsidiary differ from its actual nature, a material difference in the cumulative translation adjustment and/or foreign exchange gain (loss) could result.

### *Estimates*

- (i) The carrying value of mineral properties, exploration expenditures incurred, and property, plant and equipment, and the likelihood of future economic recoverability of these carrying values is subject to significant management estimates. The application of the Company's accounting policy for and determination of recoverability of capitalized assets is based on assumptions about future events or circumstances. New information may change estimates and assumptions made. If information becomes available indicating that recovery of expenditures are unlikely, the amounts capitalized are impaired and recognized as a loss in the period that the new information becomes available. A change in estimate could result in the carrying amount of capitalized assets being materially different from their presented carrying costs.
- (ii) The provision for site reclamation and closure costs requires the Company to examine its site reclamation and closure cost obligations annually. Significant estimates and assumptions are made to determine provision for site reclamation and closure cost due to various factors that will affect the ultimate liability. These factors include estimates of extent and cost of reclamation activities, technological and regulatory changes, cost increases and changes in discount rates. Uncertainty of these factors may result in future actual reclamation expenditure being materially different from current estimates.
- (iii) The provision for income and mining taxes including expected recovery and periods of reversals of timing differences and composition of deferred income taxes and liabilities requires significant estimates about the future profitability, ability to utilize deferred tax assets and future income tax rates, among others. Should the Company's performance differ from management's estimates, or should future tax rates change, the Company's estimate of income and mining taxes could differ materially from current estimates.
- (iv) The fair value of stock options and warrants are subject to measurement by the Black-Scholes option pricing model, which requires market data and estimates made by the Company as inputs to the calculation. These inputs are subjective assumptions and changes in these inputs could materially affect the fair value estimated.

## 1.10 Financial Instruments and Other Instruments

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

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

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

At November 30, 2017, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	November 30, 2017		February 28, 2017	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	12,608,232	12,608,232	19,221,353	19,221,353
Reclamation bond	2,466,615	2,461,085	2,973,439	2,966,773
<b>Financial liabilities</b>				
Accounts payable	1,161,815	1,161,815	945,254	945,254
Accrued liabilities	64,117	64,117	289,992	289,992

## 1.11 Fair Values and Financial Risk Management

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

### *Credit risk*

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

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

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

	November 30, 2017	February 28, 2017
	\$	\$
Cash and cash equivalents	12,608,232	19,221,353
Reclamation bond	2,466,615	2,973,439
<b>Total</b>	<b>15,074,847</b>	<b>22,194,792</b>

### *Liquidity risk*

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

	November 30, 2017			February 28, 2017	
	Within 1 year	2-5 years	Over 5 years	Total	Total
	\$	\$	\$	\$	\$
Accounts payable	1,161,815	-	-	1,161,815	945,254
Accrued liabilities	64,117	-	-	64,117	289,992
	<b>1,225,932</b>	-	-	<b>1,225,932</b>	<b>1,235,246</b>

### *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, 2017, the Company's Canadian savings account of \$2,598,947 (February 28, 2017- \$2,576,504) earns an interest rate of up to 1.10%. The Company has interests in equity instruments of other corporations which are not material.

### *Foreign exchange rate risk*

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

Exploration and development activities in the US are held in the Company's US subsidiaries and are recorded in US dollars and translated into Canadian dollars on the consolidated financial statements date, as such, the Company can be exposed to significant fluctuations in the exchange rate between the US dollar and the Canadian dollar. The Company does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors continually assesses the Company's strategy toward its foreign exchange rate risk, depending on market conditions.

### *Translation exposure*

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

At November 30, 2017, a 10% strengthening (weakening) of the Canadian dollar against the US\$ dollar would have increased (decreased) the Company's net loss before taxes of approximately \$147,700 (November 30, 2016 - \$289,400).

## **1.13 Other MD&A Requirements**

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

As at January 11, 2018, there were 134,379,201 outstanding common shares, 6,191,500 outstanding stock options with a weighted average exercise price of \$0.71 and weighted average life of 3.45 years. The Company has 9,857,189 share purchase warrants outstanding with a weighted average price of \$1.23 and average life of 1.07 years.

### **(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, 2017.

#### **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, 2017.

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.eCobalt.com](http://www.eCobalt.com). Additional information is provided in the Company's audited annual consolidated financial statements for the years ended February 28, 2017 and 2016. Information Circulars and Annual Information Forms are also available at [www.sedar.com](http://www.sedar.com).