



# **eCobalt Solutions Inc.**

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

***For the Year Ended December 31, 2018***

Date of Report: March 29, 2019

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Symbol: Toronto Stock Exchange – ECS

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## **Annual Snapshot and Short-Term Outlook**

### **Announcement of Arrangement Agreement**

The Company and Jervois Mining Limited (“Jervois”) entered into an arrangement agreement (the “Arrangement Agreement”) pursuant to which the companies will combine (the “Transaction”). The Transaction will be completed by way of a Plan of Arrangement under the Business Corporations Act (British Columbia) (the “Arrangement”) whereby Jervois will acquire all of the issued and outstanding common shares of eCobalt that Jervois does not already own.

Under the Arrangement, each common share of the Company will be exchanged for 1.65 common shares of Jervois (the “Exchange Ratio”). This represents an implied offer price of \$0.36 per eCobalt share based on the closing price of Jervois’ common shares on the Australian Securities Exchange (“ASX”) on March 29, 2019. After closing of the Transaction, eCobalt stock options and warrants will provide that upon exercise the holders will receive Jervois shares. To increase eCobalt’s cash position, eCobalt has entered into a binding term sheet pursuant to which Dundee Resources Limited (“Dundee”) has agreed to subscribe for approximately 6.3 million units for aggregate gross proceeds to eCobalt of approximately \$2 million (the “Dundee Placement”). Each unit is comprised of one common share of eCobalt and one common share purchase warrant. The Dundee Placement is conditional on eCobalt obtaining Toronto Stock Exchange (“TSX”) approval.

The Arrangement will be subject to the approval of at least 66 2/3% of the votes cast by eCobalt shareholders present in person or represented by proxy at a special meeting of eCobalt shareholders. In addition to the eCobalt shareholder approval, the Arrangement is also subject to Jervois shareholder approval and receipt of certain regulatory, court and stock exchange approvals, as well as shares of Jervois being conditionally accepted for listing on the TSX Venture Exchange (“TSXV”), and other closing conditions customary in transactions of this nature. Jervois may terminate the Arrangement if the Dundee Placement has not been completed by April 30, 2019.

Following completion of the Transaction, the Board of Directors of the combined entity will consist of three members from Jervois and two members from eCobalt. The Arrangement Agreement has been unanimously approved by the Board of Directors of both Jervois and eCobalt.

### **Bought Deal Financing**

On February 23, 2018, eCobalt Solutions Inc. (the “Company”) completed a bought deal financing and issued 23,000,000 units at \$1.30 per unit for gross proceeds of \$29,900,000 (the “Financing”). Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.95 expiring August 23, 2019. The Financing was completed pursuant to the final short form base shelf prospectus dated January 12, 2017 (the “Shelf Prospectus”) and a supplement to the Shelf Prospectus dated February 15, 2018.

The Company intends to use the net proceeds of the Financing for advancing the development of the Company’s Idaho Cobalt Project (the “ICP”), supporting pre-construction activities at the mine and mill site in preparation for production, support of engineering for new mine and Cobalt Processing Facility design, and for general working capital purposes.

### **Idaho Cobalt Project Update**

On November 10, 2017, the Company SEDAR filed the Feasibility Study (“FS”) on 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 sulfate. The FS has been compiled as a Technical Report in accordance with the National Instrument 43-101 (“NI 43-101”) guidelines.

Since the release of the FS, in response to feedback from potential off-takers and diminishing premiums of cobalt sulphate price the Company decided to further de-risk the project by pursuing the production of a cobalt concentrate, an upstream precursor material for battery cathode production, which may result in a material reduction of capital and operating costs at the Cobalt Production Facility (“CPF”). 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 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 been working on a new Feasibility Study for the production of a cobalt concentrate, and has reported the following tasks related to this work:

- (a) **Metallurgical Test Work for Clean Cobalt Concentrate Product:** In response to changing battery market dynamics, market feedback, and in-depth discussions with potential off-takers 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. The Company has received Letters of Intent for off-take and project financing from multiple parties on this new strategy and intends to identify its partner(s) after thorough evaluation of the proposals.

The Company engaged Micon International Ltd. (“Micon”), SNC Lavalin Inc. (“SNC”), Dundee Sustainable Technologies (“DST”), Expert Processing Solutions (“XPS”) and Hazen Research, Inc. (“Hazen”) to conduct detailed metallurgical testing and engineering for the revised flowsheet with the intent to develop feasibility level designs and costs. Bench scale testing, conducted by XPS, demonstrated that arsenic removal from ICP ore concentrates by conventional roasting methods was successful. Pilot scale testing, conducted by Hazen, was successfully completed during the third quarter and has confirmed the arsenic removal process to produce a clean cobalt concentrate from ICP ore concentrates using rotary kiln roasting methods, as reported in a news release dated September 11, 2018.

- (b) **Evaluation of Other Cobalt Concentrate Types:** Since completion of this test work, payables for clean cobalt concentrate have declined, leading the Company to evaluate the potential of producing other forms of cobalt concentrate, which may in turn further reduce capital and operating costs for the CPF. With the objective to produce a concentrate with the lowest processing cost to be sold at attractive terms, samples have been sent to a list of potential off-take partners. As there is no equivalent or benchmark concentrate in the market, thorough testing by refineries is required to obtain final concentrate specifications and commercial terms. Testing and analysis of ICP cobalt concentrate samples is currently underway by these parties. As final concentrate specifications may affect downstream processing and requirements for the CPF, an agreement on final indicative terms is needed in order to finalize the new Feasibility Study.

**Updated Resource Model:** The Company completed a three-hole, 5,000-foot drill program in 2017. On February 7, 2018 the Company announced an updated resource model that incorporated results from the 2017 drill program, as well as a review and inclusion of past drill results not included in the model previously and the creation of a new three-dimensional resource model using current state of practice software and geostatistical tools. The updated resource model delineated a total resource as follows:

**Table 1. 2018 Updated Mineral Resource Estimate for the Idaho Cobalt Project<sup>(3)(4)</sup>**

Category	Resource	Co (%)	Co	Cu (%)	Cu	Au (oz/t)	Au
	(M tons)		(M lbs)		(M lbs)		(oz)
Measured <sup>(1)</sup>	1.50	0.66	19.9	0.78	23.6	0.017	26,000
Indicated <sup>(1)</sup>	2.37	0.54	25.8	0.89	42.2	0.018	42,000
M+I	3.87	0.59	45.7	0.85	65.8	0.017	68,000
Inferred <sup>(2)</sup>	1.82	0.46	16.7	0.81	29.4	0.015	27,000

1. *Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The Mineral Resources in this news release were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.*
2. *The quantity and grade of reported Inferred resources in this estimation are uncertain in nature. There has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.*
3. *The Cobalt cut-off grade for inclusion in the resource is 0.20%, no consideration of copper or gold content was used in determination of cut-off grade.*
4. *Contained metal figures and totals may differ due to rounding of figures*

- (c) **Increase to Targeted Production Rate:** Following an extensive internal review and in response to volatility in the price for cobalt, the Company identified the potential to increase the targeted production rate to 1,200 tonnes per day (“tpd”) from 800 tpd, an increase of 50% compared to the previous mine plan. This 1,200 tpd mine plan with improved economies of scale should create an economic plan for the project to be able to better withstand low price environments while capitalizing on high price environments as well. The change in targeted production rate will not require any adjustments to the planned surface disturbance of the mine and mill, therefore changes to the Company’s permits which comprise the approved Plan of Operations are not expected.

Pre-construction activities at the ICP mine and mill site continued through 2018 with the procurement of the water treatment plant (“WTP”), 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 resumption of waste pad construction was completed. The existing pre-purchased building was transported to a site in Blackfoot, ID where the CPF is proposed to be built. Pre-construction activities allow the Company to advance the project on the ground as it completes a new technical report. Once the project is fully financed, underground development can begin with environmental systems and supporting infrastructure already in place.

The Company’s main objective with pre-construction activities was to ensure that all environmental systems are in place to manage mine water and waste rock prior to commencing underground development. These systems include the ground water protection wells, the WTP to be located adjacent to the concentrator facility, piping and instrumentation, installation of the liners on the Tailings Waste Storage Facility (“TWSF”) and Water Storage Ponds, and the completion of all access and maintenance roads. These activities are part of the use of proceeds from the February 2018 public offering and were approximately 80% complete prior to work being halted for the winter season.

On February 20, 2019, the Company announced that in response to current cobalt market conditions it is imposing cost control measures throughout the organization to preserve its treasury while it focuses on critical path items needed to bring the ICP into production. Non-essential operating and corporate expenses will be reduced or eliminated. Further work at the ICP will focus on activities required to maintain the site and comply with the approved Plan of Operations, with the objective of re-commencing project development when full project financing is secured. The Company’s workforce will be reduced to only those employees essential for completing all critical path items and ongoing activities at site, which will include continuation of the water monitoring program, monitoring of the storm water plan and environmental compliance.

### **Cobalt Market – Near-term Price Weakness Expected; Long-Term Fundamentals Remain Strong**

The cobalt price has fallen more than 50% since mid 2018 due to a current oversupply of product on the market resulting from excess cobalt production coming out of the DRC and refined supply from China. While the long-term fundamentals for cobalt remain very strong, forecast prices for the near term have dropped as a result of this oversupply.

Cobalt demand can be broken down into two main categories, Metallurgical end-uses and Chemical end-uses. Currently, nearly 34% of refined cobalt globally is consumed in metallurgical applications, with the remaining 66% consumed in non-metallurgical (chemical) end-uses. Driven by growing demand for electric vehicles and the cobalt-containing lithium-ion batteries needed to power them, this trend is expected to continue reaching 73% in chemical uses by 2025 and 85% by 2035.<sup>1</sup>

CRU forecasts strong demand for cobalt from the battery industry over the forecast period, as the uptake in electric vehicles and the pursuit of higher performing batteries increases the demand for cobalt. It is forecasted that demand for all forms of cobalt will increase from 118,000 tonnes in 2018 to 191,000 tonnes in 2025 and 488,000 tonnes by 2035. This demand growth will be driven by the rapid increase in EVs that will take place over this period.

Cobalt supply is forecasted to increase from around 150,000 tonnes in 2018 to over 396,000 tonnes in 2035. It is estimated that enough supply will be produced from existing producers until 2021.<sup>2</sup> Thereafter, a combination of expansions by existing producers, new projects, and increased levels of cobalt recycling will be required if supply is to meet demand.

Cobalt mine supply is consolidated in a small number of countries and dominated by the Democratic Republic of the Congo (“DRC”). Cobalt reserves in 2018 are estimated by the USGS to be just over 7 million tonnes of cobalt of which 50% are found in 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. The DRC government signed a new mining code in Q1 2018 (“2018 DRC Mining Code”) which resulted in increased taxes and royalties on all minerals produced in the DRC. Further, cobalt is categorized as a strategic substance under the 2018 DRC Mining Code, resulting in royalties on the metal being raised from 2% to 10%. 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.

### **Summary of Current Quarter Financial Results**

Effective October 18, 2017, the Company changed its financial year end from February 28 to December 31. Accordingly, the Company is reporting audited financial results for the three-month period ended December 31, 2018 with comparative results for the four-month period ended December 31, 2017. Management has used the four months ended December 31, 2017 as the basis for its comparative analysis as this provides for the most directly comparable period to the fourth quarter of the current fiscal year. The amounts for the periods may not be directly comparable due to the different periods and due to the increased level of corporate activity during the current period. While seasonality has an impact at the ICP site, the major differences are due to the significantly increased level of construction activities to develop the ICP and equity financings completed to enable the Company to finance those activities.

<sup>1</sup> CRU Long Term Cobalt Market Outlook – October 17, 2018

<sup>2</sup> Roskill Consulting Group Cobalt Price Outlook to 2037 – October 2018

Comprehensive loss for the Company's three months ended December 31, 2018 was \$20,624,886 or \$0.13 per share (four months ended December 31, 2017 - \$1,638,892 or \$0.01 per share). As at December 31, 2018, the Company had working capital of \$4,637,856 (December 31, 2017 - \$10,435,691). Changes to net loss in the three months ended December 31, 2018 compared to the four months ended December 31, 2017 were mainly the result of changes to the following items:

- (a) Retirement allowance for the three months ended December 31, 2018 was \$975,000 (four months ended December 31, 2017 - \$Nil). Retirement allowance during the period was due to the departure of two members of senior management as stipulated in their employment agreements. Senior management employment agreements are consistent with the compensation policy adopted by the Board of Directors based on an independent compensation review that benchmarked the Company's compensation policies against its peer group.
- (b) Salary and wages for the three months ended December 31, 2018 was \$503,776 (four months ended December 31, 2017 - \$781,599). Lower salaries during the period were due to three months of salary being compared to four months as well as deferral of senior management bonuses in the current period.
- (c) Shareholder relations for the three months ended December 31, 2018 was \$376,229 (four months ended December 31, 2017 - \$228,786). Higher shareholder relations fees incurred during the current period was a result of investor relations and marketing activities related to the FS, off-take, project financing and enhancing shareholder awareness of the ICP. These activities include administrative costs, travelling, conferences and marketing roadshow fees.
- (d) Foreign exchange loss, a non-cash adjustment, for the three months ended December 31, 2018 was \$500,089 (four months ended December 31, 2017 – gain of \$236,763). The US dollar appreciated against the Canadian dollar during this period from \$1.2945 on September 30, 2018 (August 31, 2017 - \$1.2536) to \$1.3642 on December 31, 2018 (December 31, 2017 - \$1.2545). The foreign exchange loss is mainly due to an increased amount of US dollar denominated accounts payable and accrued liabilities outstanding at period end. The Company's provision for site reclamation and closure costs is also originated in US dollars, which contributed to the loss. The Company keeps a portion of its cash and its reclamation bond in US dollars, which offset a portion of the foreign exchange loss. 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) Share-based payments, a non-cash expense, for the three months ended December 31, 2018 was \$586,806 (four months ended December 31, 2017 - \$380,812). During the three months ended December 31, 2018, 1,300,000 stock options were granted to directors, officers, employees and consultants of the Company (four months ended December 31, 2017 – 175,000). Using the Black-Scholes option pricing model, the fair value of stock options vested during the three months ended December 31, 2018 was \$586,806 (December 31, 2017 - \$380,812).
- (f) Impairment of mineral properties, a non-cash expense, for the three months ended December 31, 2018 was \$697,980 (four months ended December 31, 2017 - \$Nil). Impairment on mineral properties was recognized on the Kernaghan/Bell Joint Venture Project. The 2018 exploration program brought the project claims into good standing until 2025. Accordingly, there is no requirement to complete further work on the project until this date. As the operator has neither budgeted nor planned for further exploration work, the Company has recognized an impairment on this project in accordance with IFRS 6.
- (g) Impairment of property, plant and equipment, a non-cash expense, for the three months ended December 31, 2018 was \$16,820,451 (four months ended December 31, 2017 - \$Nil). For the year ended December 31, 2018, the Company examined economic indicators to determine the likelihood of impairment of its assets. These economic indicators include the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. These indicators compared to those from the 2017 fiscal year indicate the likelihood of impairment. In order to assess the impairment of the non-current assets recorded for the ICP at December 31, 2018, management had reviewed and identified specific assets acquired and costs incurred that were capitalized prior to 2013 which have become redundant or obsolete. Accordingly, these assets have been written down to their estimated recoverable values.

This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the annual audited consolidated financial statements and the notes thereto of eCobalt Solutions Inc. (the "Company") for the year ended December 31, 2018 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 Darby Stacey, P. Eng., Process Manager and Qualified Person for the Company as defined by NI 43-101.

## **1.1 Date**

This MD&A is prepared as of March 29, 2019.

## **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 and developing 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 ("ICP"). All critical environmental permits are in place with an approved mine Plan of Operations. The ICP is comprised of a 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 sulfate.

Since the release of the FS, in response to feedback from potential off-takers and diminishing premiums of cobalt sulphate price the Company decided to further de-risk the project by pursuing the production of a cobalt concentrate, an upstream precursor material for battery cathode production, which may result in a material reduction of capital and operating costs at the Cobalt Production Facility ("CPF"). The Company believes that a more simplified flowsheet to produce a cobalt concentrate product may reduce both capital and operating costs which is expected to have a positive impact on overall project economics.

The Company filed a final short form base shelf prospectus (the "Shelf Prospectus") on January 12, 2017 and subsequently filed a renewal of the Shelf Prospectus on March 15, 2019. 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 by issuing 17,250,000 units at \$1.00 per unit and on February 23, 2018 for gross proceeds of \$29,900,000 by issuing 23,000,000 units at \$1.30 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 Orano (formerly 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 year ended December 31, 2018 and subsequent events**

### **Corporate:**

- (a) During the year ended December 31, 2018, the Company reported a comprehensive loss of \$25,514,741 (December 31, 2017 - \$3,628,121) and accumulated deficit of \$150,202,695 (December 31, 2017 - \$124,687,954);
- (b) As at December 31, 2018, the Company had working capital of \$4,637,856 (December 31, 2017 - \$10,435,691);
- (c) On February 23, 2018, the Company completed a bought deal financing and issued 23,000,000 units at \$1.30 per unit for gross proceeds of \$29,900,000 (the "Financing"). Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.95 expiring August 23, 2019. The Company paid \$2,015,688 for commission, legal and other expenses related to the Financing. The Financing was completed pursuant to the Shelf Prospectus and a supplement to the Shelf Prospectus dated February 15, 2018.
- (d) On April 10, 2018, the Company announced the appointment of Ms. Monique Rabideau to the Board of Directors. A lawyer with expertise in corporate governance, Ms. Rabideau is the Practice Lead, Capital Markets and Securities for Practical Law Canada at Thomson Reuters, the world's leading source of news and information for professional markets. Her experience and strong background in regulatory compliance, legal and finance adds significant value and strength to the Board.
- (e) The Company held its Annual General Meeting on June 28, 2018 and all resolutions were passed including:
  - i. Election of Directors;
  - ii. Number of Directors set at 7; and
  - iii. Appointment of Smythe LLP, Chartered Professional Accountants, as the Company's auditor.
- (f) On September 27, 2018, the Company announced the retirement of Paul Farquharson and the appointment of Michael Callahan as President, CEO and director of the Company, effective October 1, 2018. Mr. Callahan is a strong and experienced executive with extensive operational and public-company management experience having held senior management roles at numerous development and production stage mining companies. As a result of Mr. Farquharson's retirement, and in accordance with the terms of his employment agreement, the Company made a payment to him in the fourth quarter of 2018.
- (g) During the year ended December 31, 2018, the Company granted 4,810,000 (December 31, 2017 – 2,625,000) stock options to directors, officers, employees and/or consultants of the Company. The options are subject to vesting provisions and will be fully vested on their second anniversary.
- (h) E.R. (Rick) Honsinger, Vice President of the Company, retired from his position with the Company effective January 1, 2019. As a result of Mr. Honsinger's retirement, and in accordance with the terms of his employment agreement, the Company made a payment to him in January 2019.
- (i) On February 20, 2019, the Company announced that in response to current cobalt market conditions it is imposing cost control measures throughout the organization to preserve its treasury while it focuses on critical path items needed to bring the ICP into production. Non-essential operating and corporate expenses will be reduced or eliminated. Work at the ICP will focus on activities required to maintain the site and comply with the approved Plan of Operations, with the objective of re-commencing project development when full project financing is secured. The Company's workforce will be reduced to only those employees essential for completing all critical path items and ongoing activities at site, which will include continuation of the water monitoring program, monitoring of the storm water plan and environmental compliance.
- (j) 948,750 warrants with an exercise price of \$1.35 and 6,430,250 warrants with an exercise price of \$1.50 expired on February 28, 2019.
- (k) On March 15, 2019, the Company filed a renewal of the Shelf Prospectus, which allows the Company to make offerings of up to \$100,000,000 of common shares, preference shares, debt securities, warrants, subscription receipts, units, or any combination of such securities during the 25-month period that the shelf prospectus is effective. Unless otherwise specified in a prospectus supplement, the net proceeds from the sale of securities for cash will be used for general corporate purposes, including completing the development of the ICP to commercial production, working capital, funding ongoing operation and/or capital requirements, reducing the level of indebtedness outstanding from time to time, discretionary capital programs, exploration and development of additional properties or interests (direct or indirect) therein, and potential future acquisitions.

- (l) The Company and Jervois Mining Limited (“Jervois”) entered into an arrangement agreement (the “Arrangement Agreement”) pursuant to which the companies will combine (the “Transaction”). The Transaction will be completed by way of a Plan of Arrangement under the Business Corporations Act (British Columbia) (the “Arrangement”) whereby Jervois will acquire all of the issued and outstanding common shares of eCobalt that Jervois does not already own.

Under the Arrangement, each common share of the Company will be exchanged for 1.65 common shares of Jervois (the “Exchange Ratio”). This represents an implied offer price of \$0.36 per eCobalt share based on the closing price of Jervois’ common shares on the Australian Securities Exchange (“ASX”) on March 29, 2019. After closing of the Transaction, eCobalt stock options and warrants will provide that upon exercise the holders will receive Jervois shares. To increase eCobalt’s cash position, eCobalt has entered into a binding term sheet pursuant to which Dundee Resources Limited (“Dundee”) has agreed to subscribe for approximately 6.3 million units for aggregate gross proceeds to eCobalt of approximately \$2 million (the “Dundee Placement”). Each unit is comprised of one common share of eCobalt and one common share purchase warrant. The Dundee Placement is conditional on eCobalt obtaining Toronto Stock Exchange (“TSX”) approval.

The Arrangement will be subject to the approval of at least 66 2/3% of the votes cast by eCobalt shareholders present in person or represented by proxy at a special meeting of eCobalt shareholders. In addition to the eCobalt shareholder approval, the Arrangement is also subject to Jervois shareholder approval and receipt of certain regulatory, court and stock exchange approvals, as well as shares of Jervois being conditionally accepted for listing on the TSX Venture Exchange (“TSXV”), and other closing conditions customary in transactions of this nature. Jervois may terminate the Arrangement if the Dundee Placement has not been completed by April 30, 2019.

Following completion of the Transaction, the Board of Directors of the combined entity will consist of three members from Jervois and two members from eCobalt. The Arrangement Agreement has been unanimously approved by the Board of Directors of both Jervois and eCobalt.

### **1.2.3 Risk Management**

Factors that may 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, general economic, market or business conditions and such other factors as discussed in the Company’s Annual Information Form dated March 29, 2019. Any forward-looking statement made in this MD&A is based only on information currently available and speaks only as of the date on which it is made. Except as required by applicable securities laws, we undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

### **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 December 31, 2018 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 rechargeable 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 Corporation, U.S. and is comprised of 313 contiguous unpatented mining claims covering an area of approximately 5,990 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 explored and developed to a 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 commenced certain aspects of pre-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 were delivered to a staging area outside the town of Salmon, Idaho. During fiscal 2018, an additional US\$27 million was spent on pre-construction activities to get the ICP ready for development, including the advancement and completion of environmental systems, as required by the Mine Plan. The final phase of construction will involve underground development and the construction of the mill and concentrator and other ancillary facilities at the ICP mine site.

##### **2017 Feasibility Study ("FS") 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 sulfate.

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 sulfate. Based on the 2017 FS, 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 sulfate heptahydrate which is used in the production of cathodes for rechargeable batteries. Marketable by-products include copper concentrate, copper sulfate, magnesium sulfate 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
<b>Total Reserve</b>	<b>3021, 3022, 3023</b>	<b>0.25</b>	<b>3,661,894</b>	<b>0.47</b>	<b>34,516,925</b>	<b>0.016</b>	<b>53,286</b>	<b>0.68</b>	<b>49,755,545</b>

A more detailed description of the results of the FS and the ICP is in 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 Update, Preconstruction Work and Operational Expansion**

Since the release of the FS, in response to feedback from potential off-takers and diminishing premiums of cobalt sulphate price the Company decided to further de-risk the project by pursuing the production of a cobalt concentrate, an upstream precursor material for battery cathode production, which may result in a material reduction of capital and operating costs at the Cobalt Production Facility ("CPF"). The Company has been working on a new Feasibility Study for the production of a cobalt concentrate, and has reported the following tasks related to this work:

- (a) **Metallurgical Testwork for Clean Cobalt Concentrate Product:** In response to changing battery market dynamics, market feedback, and in-depth discussions with potential off-takers 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. The Company has received Letters of Intent for off-take and project financing from multiple parties on this new strategy and intends to identify its partner(s) after thorough evaluation of the proposals.

The Company engaged Micon International Ltd. ("Micon"), SNC Lavalin Inc. ("SNC"), Dundee Sustainable Technologies ("DST"), Expert Processing Solutions ("XPS") and Hazen Research, Inc. ("Hazen") to conduct detailed metallurgical testing and engineering for the revised flowsheet with the intent to develop feasibility level designs and costs. Bench scale testing, conducted by XPS, demonstrated that arsenic removal from ICP ore concentrates by conventional roasting methods was successful. Pilot scale testing, conducted by Hazen, was successfully completed during the third quarter and has confirmed the arsenic removal process to produce a clean cobalt concentrate from ICP ore concentrates using rotary kiln roasting methods, as reported in a news release dated September 11, 2018.

- (b) **Evaluation of Other Cobalt Concentrate Types:** Since completion of this testwork, payables for clean cobalt concentrate have declined, leading the Company to evaluate the potential of producing other forms of cobalt concentrate, which may in turn further reduce capital and operating costs for the CPF. With the objective to produce a concentrate with the lowest processing cost to be sold at attractive terms, samples have been sent to a list of potential off-take partners. As there is no equivalent or benchmark concentrate in the market, thorough testing by refineries is required to obtain final concentrate specifications and commercial terms. Testing and analysis of ICP cobalt concentrate samples is currently underway by these parties. As final concentrate specifications may affect downstream processing and requirements for the CPF, an agreement on final indicative terms is needed in order to finalize the new Feasibility Study.
- (c) **Updated Resource Model:** The Company completed a three-hole, 5,000-foot drill program in 2017. On February 7, 2018 the Company announced an updated resource model that incorporated results from the 2017 drill program, as well as a review and inclusion of past drill results not included in the model previously and the creation of a new three-dimensional resource model using current state of practice software and geostatistical tools. The updated resource model delineated a total resource as follows:

**Table 1. 2018 Updated Mineral Resource Estimate for the Idaho Cobalt Project<sup>(3)(4)</sup>**

Category	Resource	Co (%)	Co	Cu (%)	Cu	Au (oz/t)	Au
	(M tons)		(M lbs)		(M lbs)		(oz)
Measured <sup>(1)</sup>	1.50	0.66	19.9	0.78	23.6	0.017	26,000
Indicated <sup>(1)</sup>	2.37	0.54	25.8	0.89	42.2	0.018	42,000
M+I	3.87	0.59	45.7	0.85	65.8	0.017	68,000
Inferred <sup>(2)</sup>	1.82	0.46	16.7	0.81	29.4	0.015	27,000

1. *Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The Mineral Resources in this news release were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.*
2. *The quantity and grade of reported Inferred resources in this estimation are uncertain in nature. There has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.*
3. *The Cobalt cut-off grade for inclusion in the resource is 0.20%, no consideration of copper or gold content was used in determination of cut-off grade.*
4. *Contained metal figures and totals may differ due to rounding of figures*

- (d) **Increase to Targeted Production Rate:** Following an extensive internal review and in response to volatility in the price for cobalt, the Company identified the potential to increase the targeted production rate to 1,200 tonnes per day ("tpd") from 800 tpd, an increase of 50% compared to the previous mine plan. This 1,200 tpd mine plan with improved economies of scale should create an economic plan for the project to be able to better withstand low price environments while capitalizing on high price environments as well. The change in targeted production rate will not require any adjustments to the planned surface disturbance of the mine and mill, therefore changes to the Company's permits which comprise the approved Plan of Operations are not expected.

Pre-construction activities at the ICP mine and mill site continued through 2018 with the procurement of the water treatment plant (“WTP”), 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 resumption of waste pad construction was completed. The existing pre-purchased building was transported to a site in Blackfoot, ID where the CPF is proposed to be built. Pre-construction activities allow the Company to advance the project on the ground as it completes a new technical report. Once the project is fully financed, underground development can begin with environmental systems and supporting infrastructure already in place.

The Company’s main objective with pre-construction activities was to ensure that all environmental systems are in place to manage mine water and waste rock prior to commencing underground development. These systems include the ground water protection wells, the WTP to be located adjacent to the concentrator facility, piping and instrumentation, installation of the liners on the Tailings Waste Storage Facility (“TWSF”) and Water Storage Ponds, and the completion of all access and maintenance roads. These activities are part of the use of proceeds from the February 2018 public offering and were approximately 80% complete prior to work being halted for the winter season.

On February 20, 2019, the Company announced that in response to current cobalt market conditions it is imposing cost control measures throughout the organization to preserve its treasury while it focuses on critical path items needed to bring the ICP into production. Non-essential operating and corporate expenses will be reduced or eliminated. Further work at the ICP will focus on activities required to maintain the site and comply with the approved Plan of Operations, with the objective of re-commencing project development when full project financing is secured. The Company’s workforce will be reduced to only those employees essential for completing all critical path items and ongoing activities at site, which will include continuation of the water monitoring program, monitoring of the storm water plan and environmental compliance.

### **Impairment Assessment**

For the year ended December 31, 2018, the Company examined economic indicators to determine the likelihood of impairment of its assets. These economic indicators include the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company’s market capitalization during the fiscal year. These indicators compared to those from the 2017 fiscal year indicate the likelihood of impairment. In order to assess the impairment of the non-current assets recorded for the ICP at December 31, 2018, management had reviewed and identified specific assets acquired and costs incurred that were capitalized prior to 2013 which have become redundant or obsolete. Accordingly, an impairment charge to property plant and equipment of \$16,820,451 has been recognized to fully impair these assets in accordance with IAS 36.

#### **(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 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 surface right holders.

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

The Kernaghan/Bell Project is a joint venture among the Company, through its wholly owned subsidiary, Coronation Mines Ltd. (20%), Orano Canada Inc. (“Orano”) (40%) and Cameco Corporation (“Cameco”) (40%), with Orano acting as operator. The Company granted an option whereby the optionees earned an 80% interest in certain mineral claims by making certain payments (received) and completing exploration work totaling \$1,000,000 (deemed completed). The Company is participating at the 20% level and has the option to dilute to a 7% participation level which then becomes a net profit interest. The optionee has the right to purchase all or part of the net profit interest during the first year of commercial production by paying \$700,000 per percentage point which increases to \$800,000 per percentage point during the second year of production. The project area is located near the northeast rim of the Athabasca Basin approximately 42 km north of Points North Landing. The Kernaghan/Bell project currently consists of 13 mineral claims totaling 4,342 hectares. The target unconformity depth ranges from 160m to 290m. Orano did not conduct any exploration work during the year ended February 28, 2017. In 2018, all of the claims required an assessment filing totalling \$103,845. The cost of the 2018 exploration program including overhead was \$902,000, with the Company’s share being \$180,000 (20%). Seven diamond drill holes totaling 3,000 metres were planned to further evaluate three distinct under or untested geophysical conductor strike lengths in the western portion of the property. This program has brought the claims into good standing until 2025.

As at the date of this MD&A, Orano reported the completion of five of the seven planned holes on the Kernaghan Lake project totaling 2,180 metres. Assays returned moderately anomalous uranium cps count levels that were not considered significantly mineralized material. No further drilling is planned for 2019.

During the year ended December 31, 2018, the Company fully impaired the Kernaghan / Bell Project by \$697,980 (December 31, 2017 – \$Nil) resulting in a carrying cost of \$Nil. The impairment was the result of the operator not having any plan or budget to explore the property further, and the Company having no basis with which to value the property. The impairment was determined in accordance with IFRS 6.

#### **(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 and Orano each own 49% in the joint exploration agreement, with Cameco acting as the operator of the project. The Company also has the first right of offer to acquire up to 10% of the project and has been carried through to \$10,000,000 worth of exploration and development. This right could be exercised in the event that one of the joint venture partners wishes to sell all or a portion of their interest to a third party, in which case they must first offer Coronation Mines an additional 8% of the project. As at December 31, 2018, approximately \$36,630,000 has been spent on the project, with \$2,345,000 spend in 2018 and the Company's share being 2%. The claims are in good standing until 2035.

As at the date of this MD&A, Cameco reported that work on the 2018 exploration program consisted of 9 diamond drill holes totaling 7,767 meters, focused on the Dufferin Lake Fault ("DLF") where the conductive trend was interpreted to merge with the fault. The combined results of the three fences tested demonstrated that the DLF is graphitic in this area and is associated with weak uranium mineralization in the sandstone. The program was highlighted by a widespread geochemical halo where anomalous uranium values extend ~650 meters above the unconformity intersected in a previous drill hole. A budget of \$2,200,000 has been proposed for 2019 to further evaluate the Dufferin Lake Fault through electromagnetic geophysical surveys and six diamond drill holes expected to total approximately 6,000 meters.

### **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**

The cobalt price has fallen more than 50% since mid 2018 due to a current oversupply of product on the market resulting from excess cobalt production coming out of the DRC and refined supply from China. While the long-term fundamentals for cobalt remain very strong, forecast prices for the near term have dropped as a result of this oversupply.

Cobalt demand can be broken down into two main categories, Metallurgical end-uses and Chemical end-uses. Currently, nearly 34% of refined cobalt globally is consumed in metallurgical applications, with the remaining 66% consumed in non-metallurgical (chemical) end-uses. Driven by growing demand for electric vehicles and the cobalt-containing lithium-ion batteries needed to power them, this trend is expected to continue reaching 73% in chemical uses by 2025 and 85% by 2035.<sup>3</sup>

CRU forecasts strong demand for cobalt from the battery industry over the forecast period, as the uptake in electric vehicles and the pursuit of higher performing batteries increases the demand for cobalt. It is forecasted that demand for all forms of cobalt will increase from 118,000 tonnes in 2018 to 191,000 tonnes in 2025 and 488,000 tonnes by 2035. This demand growth will be driven by the rapid increase in EVs that will take place over this period.

Cobalt supply is forecasted to increase from around 150,000 tonnes in 2018 to over 396,000 tonnes in 2035. It is estimated that enough supply will be produced from existing producers until 2021.<sup>4</sup> Thereafter, a combination of expansions by existing producers, new projects, and increased levels of cobalt recycling will be required if supply is to meet demand.

Cobalt mine supply is consolidated in a small number of countries and dominated by the Democratic Republic of the Congo ("DRC"). Cobalt reserves in 2018 are estimated by the USGS to be just over 7 million tonnes of cobalt of which 50% are found in 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. The DRC government signed a new mining code in Q1 2018 ("2018 DRC Mining Code") which resulted in increased taxes and royalties on all minerals produced in the DRC. Further, cobalt is categorized as a strategic substance under the 2018 DRC Mining Code, resulting in royalties on the metal being raised from 2% to 10%. 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.

<sup>3</sup> CRU Long Term Cobalt Market Outlook – October 17, 2018

<sup>4</sup> Roskill Consulting Group Cobalt Price Outlook to 2037 – October 2018

## 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 Ram Deposit, which holds 100% of the identified resources and reserves of the ICP, represents only 7% of the Company's 5,990 acre land holdings. The Sunshine and East Sunshine targets have historic resources and past exploration drilling with intercepts above ICP cut-off grade. In addition, the Company completed a three-hole, 5,000 foot drill program in 2017 which resulted in an updated resource estimate to be incorporated into a new, updated FS. The update is also based on a review and inclusion of past drill results not included previously and the creation of a new three-dimensional resource model. The Company engaged Micon to update the FS resource model 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 cobalt concentrate product and by-product of copper/gold concentrate. Since clean cobalt concentrate is a less refined product compared to cobalt sulfate, investment in a CPF can be reduced significantly compared to the capital identified in the FS. This option is being evaluated in response to the changing battery market dynamics and in-depth discussions with potential off-takers during Management's recent marketing campaigns in North America, Asia, Australia and Europe.

The Company has also identified the potential to increase the targeted production rate to 1,200 tonnes per day ("tpd") from 800 tpd, an increase of 50% compared to the previous mine plan. This 1,200 tpd mine plan could improve economies of scale, providing robust project economics and resilience to lower cobalt prices.

There is an opportunity for the mine to produce more tonnes for short durations on the high tonnage levels of the mine through an update 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 be applied to the updated resource model and evaluated using Micon's FS cost model. It may also be possible to obtain better shipping and handling terms through formal negotiations in the future and to incorporate off-take 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. Incorporating copper and gold values back into the cut-off calculation with modifications to the processing design would realize an increase in tonnage within the resource. 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 Company's share price performance has exhibited a similar pattern of change to that of other comparable cobalt companies since the beginning of this fiscal year. The Company's share price has decreased by 78% compared to an average decrease of 79% amongst its peer group during the period. This stock performance is similar across comparable cobalt related companies due to a 27% reduction in cobalt metal price during the period. The Company believes that long term fundamentals of a robust demand for cobalt remain unchanged.



### 1.3 Selected Annual Information

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

- Capital Allocation – Capital spending was directed toward pre-construction activities to advance the ICP.
- Raising Capital – The financial statements reflect the emphasis of management on sourcing the cash resources to fund the Company's operating and investing activities.

The following table is a summary of the results of the Company's operations and activities from its year ended December 31, 2018, ten-month period ended December 31, 2017 and year ended February 28, 2017.

	Year ended December 31, 2018		Period ended December 31, 2017		Year ended February 28, 2017
	\$	%	\$	%	\$
Share-based payments	(2,248,181)	127%	(992,309)	22%	(812,125)
Foreign exchange (loss) gain	(371,826)	-311%	176,095	1119%	14,445
Depreciation	(223,886)	293%	(57,034)	12%	(51,121)
Accretion expense on site reclamation and closure	(248,049)	115%	(115,329)	10%	(105,149)
Impairment of mineral properties	(697,980)	-100%	-	0%	-
Impairment of property, plant and equipment	(16,820,451)	-100%	-	0%	-
All other expenses	(4,894,651)	85%	(2,639,678)	110%	(1,256,201)
Net loss before taxes	(25,505,024)	603%	(3,628,255)	64%	(2,210,151)
Income tax (expense) recovery	(9,717)	-7351%	134	-70%	451
Total comprehensive loss for the year	(25,514,741)	603%	(3,628,121)	64%	(2,209,700)
Basic and diluted loss per share	(0.16)	433%	(0.03)	50%	(0.02)

	Year ended December 31, 2018	Period ended December 31, 2017	Year ended February 28, 2017
	\$	\$	\$
Total assets	101,727,186	87,237,111	84,891,939
Total long term liabilities	10,385,552	6,148,860	4,697,123

## 1.4 Results of Operations

### Financial Results of Operations for the Year Ended December 31, 2018 and the Ten Months Ended December 31, 2017

Effective October 18, 2017, the Company changed its financial year end from February 28 to December 31. Accordingly, the Company is reporting audited financial results for the year ended December 31, 2018 with comparative results for the 10-month period ended December 31, 2017. Management has used the 10 months ended December 31, 2017 as the basis for its comparative analysis as this provides for the most directly comparable period to the current fiscal year. The amounts for the periods may not be directly comparable due to the different periods and due to the increased level of corporate activity during the current period. While seasonality has an impact at the ICP site, the major differences are due to the significantly increased level of pre-construction activities to develop the ICP and equity financings completed to enable the Company to finance those activities.

Comprehensive loss for the Company's year ended December 31, 2018 was \$25,514,741 or \$0.16 per share (December 31, 2017 - \$3,628,121 or \$0.03 per share). As at December 31, 2018, the Company had working capital of \$4,637,856 (December 31, 2017 - \$10,435,691). Changes to net loss in the year ended December 31, 2018 compared to the ten months ended December 31, 2017 were mainly the result of changes to the following items.

- (a) Accretion expense on site reclamation and closure, a non-cash expense, for the year ended December 31, 2018 was \$248,049 (ten-month period ended December 31, 2017 - \$115,329). The increase in accretion expense is due mainly to additions of \$4,828,960 to the surface reclamation liability during the second quarter of the current fiscal year.
- (b) Directors' fees and expenses for the year ended December 31, 2018 was \$187,849 (ten-month period ended December 31, 2017 - \$123,006). The Company appointed a new director in April 2018, resulting in one additional director relative to the comparative period. An increase in directors' expenses during the period also relates to costs associated with the 2018 Annual General Meeting and the search for, and appointment of, a new director.
- (c) Foreign exchange loss, a non-cash adjustment, for the year ended December 31, 2018 was \$371,826 (ten-month period ended December 31, 2017 - gain of \$176,095). The US dollar appreciated against the Canadian dollar during this period from \$1.2545 on December 31, 2017 (February 28, 2017 - \$1.3281) to \$1.3642 on December 31, 2018 (December 31, 2017 - \$1.2545). The foreign exchange loss is mainly due to an increased amount of US dollar denominated accounts payable and accrued liabilities outstanding at year end. The Company's provision for site reclamation and closure costs is also originated in US dollars, which contributed to the loss. The Company keeps a portion of its cash and its reclamation bond in US dollars, which offset a portion of the foreign exchange loss. 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.
- (d) Legal and advisory fees for the year ended December 31, 2018 was \$242,945 (ten-month period ended December 31, 2017 - \$129,652). Higher legal and advisory fees were the result of increased corporate activity related to the advancement of the ICP and increased advisory services related to assessment of off-take and project financing alternatives.
- (e) Listing and filings fees for the year ended December 31, 2018 was \$148,254 (ten-month period ended December 31, 2017 - \$53,398). The increase is due to higher TSX listing fees associated with increased market capitalization and higher fees related to the Company's move to the OTCQX in December 2017.
- (f) Office expense for the year ended December 31, 2018 was \$726,683 (ten-month period ended December 31, 2017 - \$420,091). Increased office expense was a result of insurance premiums, travel expenses, hiring and relocation costs, IT related costs and general overhead as a result of increased corporate activities due to advancement of the ICP.
- (g) Retirement allowance for the year ended December 31, 2018 was \$975,000 (ten-month period ended December 31, 2017 - \$Nil). Retirement allowance during the year was due to the departure of two members of senior management as stipulated in their employment agreements. Senior management employment agreements are consistent with the compensation policy adopted by the Board of Directors based on an independent compensation review that benchmarked the Company's compensation policies against its peer group.
- (h) Salary and wages for the year ended December 31, 2018 was \$1,531,036 (ten-month period ended December 31, 2017 - \$1,452,402). Higher salaries during the year were due to twelve months of salary being compared to ten months. Salaries were otherwise lower than the comparative period due to the deferral of senior management bonuses in the current period.
- (i) Shareholder relations for the year ended December 31, 2018 was \$1,351,676 (ten-month period ended December 31, 2017 - \$494,299). Higher shareholder relations fees incurred during the current year was a result of investor relations and marketing activities of the Annual General Meeting, FS, off-take, project financing and to enhance shareholder awareness of the ICP. These activities include administrative costs, travelling, conferences and marketing roadshow fees.

- (j) Share-based payments, a non-cash expense, for the year ended December 31, 2018 was \$2,248,181 (ten-month period ended December 31, 2017 - \$992,309). During the year ended December 31, 2018, 4,810,000 stock options were granted to directors, officers, employees and/or consultants of the Company (ten-month period ended December 31, 2017 - 2,625,000). Using the Black-Scholes option pricing model, the fair value of stock options vested during the year ended December 31, 2018 was \$2,248,181 (ten-month period ended December 31, 2017 - \$992,309).
- (k) Interest income for the year ended December 31, 2018 was \$433,151 (ten-month period ended December 31, 2017 - \$179,901). Higher interest income during the year was due to a higher average cash balance throughout fiscal 2018 compared to the prior year.
- (l) Impairment of mineral properties, a non-cash expense, for the year ended December 31, 2018 was \$697,980 (ten-month period ended December 31, 2017 - \$Nil). Impairment on mineral properties was recognized on the Kernaghan/Bell Joint Venture Project. The 2018 exploration program brought the project claims into good standing until 2025. Accordingly, there is no requirement to complete further work on the project until this date. As the operator has neither budgeted nor planned for further exploration work, the Company has recognized an impairment on this project in accordance with IFRS 6.
- (m) Impairment of property, plant and equipment, a non-cash expense, for the year ended December 31, 2018 was \$16,820,451 (ten-month period ended December 31, 2017 - \$Nil). For the year ended December 31, 2018, the Company examined economic indicators to determine the likelihood of impairment of its assets. These economic indicators include the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. These indicators compared to those from the 2017 fiscal year indicate the likelihood of impairment. In order to assess the impairment of the non-current assets recorded for the ICP at December 31, 2018, management had reviewed and identified specific assets acquired and costs incurred that were capitalized prior to 2013 which have become redundant or obsolete. Accordingly, these assets have been written down to their estimated recoverable values.

**Financial Results of Operations for the Three Months Ended December 31, 2018 and the Four Months Ended December 31, 2017**

Effective October 18, 2017, the Company changed its financial year end from February 28 to December 31. Accordingly, the Company is reporting audited financial results for the three-month period ended December 31, 2018 with comparative results for the four-month period ended December 31, 2017. Management has used the four months ended December 31, 2017 as the basis for its comparative analysis as this provides for the most directly comparable period to the fourth quarter of the current fiscal year. The amounts for the periods may not be directly comparable due to the different periods and due to the increased level of corporate activity during the current period. While seasonality has an impact at the ICP site, the major differences are due to the significantly increased level of construction activities to develop the ICP and equity financings completed to enable the Company to finance those activities.

Comprehensive loss for the Company's three months ended December 31, 2018 was \$20,624,886 or \$0.13 per share (four months ended December 31, 2017 - \$1,638,892 or \$0.01 per share). As at December 31, 2018, the Company had working capital of \$4,637,856 (December 31, 2017 - \$10,435,691). Changes to net loss in the three months ended December 31, 2018 compared to the four months ended December 31, 2017 were mainly the result of changes to the following items.

- (a) Retirement allowance for the three months ended December 31, 2018 was \$975,000 (four months ended December 31, 2017 - \$Nil). Retirement allowance during the period was due to the departure of two members of senior management as stipulated in their employment agreements. Senior management employment agreements are consistent with the compensation policy adopted by the Board of Directors based on an independent compensation review that benchmarked the Company's compensation policies against its peer group.
- (b) Salary and wages for the three months ended December 31, 2018 was \$503,776 (four months ended December 31, 2017 - \$781,599). Lower salaries during the period were due to three months of salary being compared to four months as well as deferral of senior management bonuses in the current period.
- (c) Shareholder relations for the three months ended December 31, 2018 was \$376,229 (four months ended December 31, 2017 - \$228,786). Higher shareholder relations fees incurred during the current period was a result of investor relations and marketing activities related to the FS, off-take, project financing and enhancing shareholder awareness of the ICP. These activities include administrative costs, travelling, conferences and marketing roadshow fees.

- (d) Foreign exchange loss, a non-cash adjustment, for the three months ended December 31, 2018 was \$500,089 (four months ended December 31, 2017 – gain of \$236,763). The US dollar appreciated against the Canadian dollar during this period from \$1.2945 on September 30, 2018 (August 31, 2017 - \$1.2536) to \$1.3642 on December 31, 2018 (December 31, 2017 - \$1.2545). The foreign exchange loss is mainly due to an increased amount of US dollar denominated accounts payable and accrued liabilities outstanding at period end. The Company's provision for site reclamation and closure costs is also originated in US dollars, which contributed to the loss. The Company keeps a portion of its cash and its reclamation bond in US dollars, which offset a portion of the foreign exchange loss. 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) Share-based payments, a non-cash expense, for the three months ended December 31, 2018 was \$586,806 (four months ended December 31, 2017 - \$380,812). During the three months ended December 31, 2018, 1,300,000 stock options were granted to directors, officers, employees and consultants of the Company (four months ended December 31, 2017 – 175,000). Using the Black-Scholes option pricing model, the fair value of stock options vested during the three months ended December 31, 2018 was \$586,806 (December 31, 2017 - \$380,812).
- (f) Impairment of mineral properties, a non-cash expense, for the three months ended December 31, 2018 was \$697,980 (four months ended December 31, 2017 - \$Nil). Impairment on mineral properties was recognized on the Kernaghan/Bell Joint Venture Project. The 2018 exploration program brought the project claims into good standing until 2025. Accordingly, there is no requirement to complete further work on the project until this date. As the operator has neither budgeted nor planned for further exploration work, the Company has recognized an impairment on this project in accordance with IFRS 6.
- (g) Impairment of property, plant and equipment, a non-cash expense, for the three months ended December 31, 2018 was \$16,820,451 (four months ended December 31, 2017 - \$Nil). For the year ended December 31, 2018, the Company examined economic indicators to determine the likelihood of impairment of its assets. These economic indicators include the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. These indicators compared to those from the 2017 fiscal year indicate the likelihood of impairment. In order to assess the impairment of the non-current assets recorded for the ICP at December 31, 2018, management had reviewed and identified specific assets acquired and costs incurred that were capitalized prior to 2013 which have become redundant or obsolete. Accordingly, these assets have been written down to their estimated recoverable values.

#### **1.4.1 Summary of Quarterly Results**

Financial Information in thousands (except per share information)

	Three Months ended December 31, 2018 \$	Three Months ended September 30, 2018 \$	Three Months ended June 30, 2018 \$	Three Months ended March 31, 2018 \$	One Month ended December 31, 2017 \$	Three Months ended November 30, 2017 \$	Three Months ended August 31, 2017 \$	Three Months ended May 31, 2017 \$
Net loss from continued operations	(20,625)	(1,342)	(2,169)	(1,378)	(525)	(996)	(1,322)	(785)
Basic and diluted loss per share	(0.13)	(0.01)	(0.01)	(0.01)	(0.004)	(0.01)	(0.01)	(0.01)

Net loss from operations for the three months ended December 31, 2018 was \$20,624,886 compared to a net loss of \$524,625 for the one month ended December 31, 2017. The main differences were due to the items discussed in section 1.3 above.

## 1.5 Liquidity

### December 31, 2018

- (a) **Cash and cash equivalents** as at December 31, 2018 were \$7,693,536 (December 31, 2017 - \$11,740,992).
- (b) **Working capital** as at December 31, 2018 was \$4,637,856 (December 31, 2017 - \$10,435,691).
- (c) **Mineral property expenditures** of \$7,165,817 were incurred during the year ended December 31, 2018 (December 31, 2017 - \$3,621,265). Accruals of \$775,166 (December 31, 2017 - \$175,466) and a non-cash adjustment of \$3,305,960 (December 31, 2017 - \$1,721,025) for site reclamation and closure cost were also made, resulting in a total addition of \$11,246,943 (December 31, 2017 - \$5,517,756) for the period.
- (d) **Property, Plant and Equipment expenditures** for the year ended December 31, 2018 was \$21,685,649 (December 31, 2017 - \$3,569,836). Accruals of \$2,689,761 (December 31, 2017 - \$866,722) were also made, resulting in a total addition of \$24,375,410 (December 31, 2017 - \$4,436,558) for the period.

The Company's cash equivalents are held in Canadian dollars and are invested in short term GICs that are redeemable in 30 days from the date of purchase and earn interest rates of up to 1.70%. 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 spring, summer and fall months due to development activities at the ICP.

The ability of the Company to continue as a going concern over a longer term is dependent on the Company's ability to raise the financing necessary to complete development of the ICP and ultimate production. 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 and additional gross proceeds of \$29,900,000 through a bought deal financing on February 23, 2018. 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. The Company also continues to market the ICP and pursue product off-take arrangements to facilitate financing of capital costs for project development. Raising further capital sufficient to establish profitable operations is a material uncertainty that casts 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 implement cost control measures by reducing overhead costs 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 December 31, 2018:

	Note	2019	2020	2021
		\$	\$	\$
Mineral property expenditure	(a)	44,000	-	-
Office operating leases	(b)	105,077	8,591	-
Construction and professional service contracts	(c)	2,215,873	-	-
		2,364,950	8,591	-

- (a) The Company has committed \$44,000 towards the 2019 exploration program for the Virgin River joint venture, which represents the Company's 2% interest.
- (b) The Company has office lease commitments totaling \$113,668 with various end dates up to January 31, 2020.
- (c) The Company has committed \$2,215,873 towards constructions activities to advance environmental systems at the ICP and professional services related to metallurgical testing and commissioning of an updated FS.
- (d) Pursuant to employment agreements, the Company may be obligated to pay up to \$1,990,000 in the event that certain senior management is terminated without cause and up to \$2,600,000 in the event of a change in control as defined in the agreements.

## 1.6 Capital Resources

The Company's working capital as at December 31, 2018 was \$4,637,856 (December 31, 2017 - \$10,435,691). On February 23, 2018, the Company completed a bought deal financing for gross proceeds of \$29,900,000 by issuing 23,000,000 units at \$1.30 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. The Company also continues to market the ICP, pursue product off-take arrangements to facilitate financing of capital costs for project development and seek further equity and debt funding in the capital markets. The Company continues to look at opportunities to reduce capital and operating costs at the CPF and improve construction timelines by pursuing a cobalt concentrate product, which is a more desirable product to potential off-take partners, and a by-product of copper/gold concentrate. This change to a more upstream product has the potential to result in a significant improvement in economics for the ICP.

## 1.7 Off-Balance Sheet Arrangements

None.

## 1.8 Transactions with Related Parties

### (a) Subsidiaries

	Ownership interest	
	December 31, 2018	December 31, 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%

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 year ended December 31, 2018 and the ten-month period ended December 31, 2017 were as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Salaries and short-term employee benefits including bonuses	967,783	1,222,659
Retirement allowance (i)	975,000	-
Share-based payments (ii)	1,514,538	646,550
Directors' fees (iii)	174,000	109,750
	<b>3,631,321</b>	<b>1,978,959</b>

(i) During the year ended December 31, 2018, the Company paid or accrued retirement allowance of \$975,000 (December 31, 2017 - \$Nil) due to the retirement of two members of senior management in accordance with their employment agreements.

(ii) Share-based payments (non-cash expense) are based on the fair value of stock options granted to directors and officers of the Company. During the year ended December 31, 2018, 3,350,000 stock options were granted to directors and officers who are considered key management of the Company (December 31, 2017 - 2,025,000). Using the Black-Scholes option pricing model, the Company recognized share-based payments of \$1,514,538 related to stock options held by directors and officers which vested during the year (December 31, 2017 - \$646,550).

- (iii) During the year ended December 31, 2018, the Company paid or accrued directors fees of \$174,000 (December 31, 2017 - \$109,750). The Company also reimbursed directors for business related expenses in the amount of \$13,849 (December 31, 2017 - \$13,256). Outstanding balances owed to directors and officers at December 31, 2018 were \$45,000 (December 31, 2017 - \$52,000).

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 \$1,990,000 in the event that certain senior management is terminated without cause and up to \$2,600,000 in the event of a change in control as defined in the agreements.

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

		For the period ended December 31, 2018					For the period ended December 31, 2017			
		Non cash	Salary, Bonus	Retirement	Directors	Total	Non cash	Salary,	Directors	Total
		share based	and Benefits	and	Fees	Compensation	share based	Bonus and	Fees	Compensation
		compensation		severance			compensation	benefits		
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Mike Callahan	President & CEO	242,868	125,533	-	-	368,401	-	-	-	-
David Christie	Director	73,882	-	-	28,000	101,882	39,910	-	19,458	59,368
Paul Farquharson	President & CEO	295,825	200,000	675,000	-	1,170,825	159,642	471,666	-	631,308
Gregory Hahn	Director	73,882	-	-	30,000	103,882	39,910	-	20,414	60,324
Scott Hean	Director	88,658	-	-	44,000	132,658	47,893	-	32,503	80,396
Rick Honsinger	Vice President	113,444	150,000	300,000	-	563,444	79,821	246,667	-	326,488
Robert Metka	Director	73,882	-	-	26,000	99,882	39,910	-	17,125	57,035
Robert Quinn	Director	-	-	-	-	-	-	-	3,125	3,125
Monique Rabideau	Director	117,385	-	-	20,000	137,385	-	-	-	-
David Smith	Director	73,882	-	-	26,000	99,882	39,910	-	14,000	53,910
David Stone	Director	-	-	-	-	-	-	-	3,125	3,125
Marc Tran	CFO	164,924	205,000	-	-	369,924	79,821	324,998	-	404,819
Floyd Varley	COO	195,906	287,250	-	-	483,156	119,731	179,328	-	299,059
		1,514,538	967,783	975,000	174,000	3,631,321	646,550	1,222,659	109,750	1,978,958

## 1.9 Proposed Transactions

None.

## 1.10 Critical Accounting Estimates

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

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

### *Judgments*

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

With respect to impairment of property, plant and equipment recognized in 2018, management judgement was used to determine whether or not those assets will be used in future development of the ICP and the estimated net realizable value of those assets.

- (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 the 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 is 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 expenditures 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.

**1.11 Financial Instruments and Other Instruments**

Financial assets and liabilities are recognized on the balance sheet when the Company becomes party to the contractual provisions of the instrument. The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the Company's consolidated financial statements.

The Company adopted the new accounting standard IFRS 9, Financial Instruments effective January 1, 2018. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 as there were no changes to the Company's assets or liabilities classifications as a result of this new accounting standard.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018:

<b>Financial assets</b>	<b>Previous classification under IAS 39</b>	<b>New classification under IFRS 9</b>
Cash and cash equivalents	Fair value through profit or loss	Fair value through profit or loss
Trade and other receivables	Loans and receivables - amortized cost	Amortized cost
Reclamation bond	Loans and receivables - amortized cost	Amortized cost
<b>Financial liabilities</b>	<b>Previous classification under IAS 39</b>	<b>New classification under IFRS 9</b>
Accounts payable and accrued liabilities	Other financial liabilities - amortized cost	Amortized cost

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; Fair Value through Other Comprehensive Income ("FVOCI"); or Fair Value through Profit or Loss ("FVPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and (iii) it is not designated as FVPL. This category of financial assets is subsequently measured at amortized cost using the effective interest method, and reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. Equity investments measured at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset as FVPL if doing so significantly reduces an accounting mismatch that would otherwise arise. Financial assets classified as FVPL are subsequently measured at fair value, with net gains and losses, including any interest or dividend income, recognized in profit or loss.

#### *Financial assets at amortized cost*

Loans and receivables with fixed or determinable payments that are not quoted in an active market are designated as amortized cost. Subsequent to initial recognition, these financial assets are recorded at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial. Accounts receivable are assessed for evidence of impairment at each reporting date, with any impairment recognized in earnings for the period. Financial assets in this category include trade and other receivables and reclamation bond.

#### *Financial assets at fair value through other comprehensive income ("FVOCI")*

Marketable securities, investment in subscription receipts and reclamation deposits are designated as FVOCI and recorded at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. The Company does not have any financial assets classified as FVOCI.

#### *Financial instruments at fair value through profit or loss ("FVPL")*

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. Derivative financial instruments that are not designated and effective as hedging instruments are classified as FVPL. The Company has no derivative financial instruments or designated hedges. Financial instruments classified as FVPL are stated at fair value with any changes in fair value recognized in earnings for the period. Financial assets in this category include cash and cash equivalents.

#### *Financial liabilities*

Financial liabilities are initially recorded at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Company has accounted for accounts payable and accrued liabilities under this method.

#### *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 1.12 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:

	<b>December 31, 2018</b>	December 31, 2017
	\$	\$
Cash and cash equivalents	<b>7,693,536</b>	11,740,992
Reclamation bond	<b>2,610,922</b>	2,400,969
<b>Total</b>	<b>10,304,458</b>	14,141,961

### *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:

	<b>December 31, 2018</b>			December 31, 2017	
	<b>Within 1 year</b>	<b>2-5 years</b>	<b>Over 5 years</b>	<b>Total</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Accounts payable	<b>1,489,608</b>	-	-	<b>1,489,608</b>	1,247,024
Accrued liabilities	<b>2,671,084</b>	-	-	<b>2,671,084</b>	715,747
	<b>4,160,692</b>	-	-	<b>4,160,692</b>	1,962,771

### *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 December 31, 2018, the Company's cash equivalents of \$5,042,058 (December 31, 2017 - \$2,601,467) are comprised of short-term GIC's that are redeemable in 30 days from the date of purchase and earn an interest rate of up to 1.70% (December 31, 2017 - 1.10%). The Company is not subject to material interest rate risk.

### *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 December 31, 2018, a 10% strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately \$35,000 (December 31, 2017 - \$457,000).

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

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

As at March 29, 2019, there were 160,047,386 outstanding common shares, 10,736,500 outstanding stock options with a weighted average exercise price of \$0.85 and weighted average life of 3.25 years. The Company has 11,500,000 share purchase warrants outstanding with a weighted average price of \$1.95 and average life of 0.44 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 December 31, 2018.

#### **Internal Controls over Financial Reporting**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the year ended December 31, 2018.

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 2013. The Company confirms that the design and operation effectiveness of the Company's internal control over financial reporting is effective.

## **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 year ended December 31, 2018 and the 10-month period ended December 31, 2017. Information Circulars and Annual Information Forms of the Company are also available at [www.sedar.com](http://www.sedar.com).