



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

***Condensed Interim Consolidated Financial Statements  
(Unaudited)***

***For the Six Months Ended***

***August 31, 2017***

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

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**eCobalt Solutions Inc.**  
(Formerly Formation Metals Inc.)  
August 31, 2017

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# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

## Condensed interim consolidated statements of financial position

(Stated in Canadian dollars)

(Unaudited)

|  | Note | August 31,<br>2017 | February 28,<br>2017 |
|--|------|--------------------|----------------------|
|  |      | \$                 | \$                   |
| <b>Assets</b>                                    |      |                    |                      |
| Current assets                                   |      |                    |                      |
| Cash and cash equivalents                        |      | 16,141,802         | 19,221,353           |
| Trade and other receivables                      |      | 21,630             | 58,883               |
| Prepaid expenses and deposits                    |      | 92,944             | 97,864               |
| Total current assets                             |      | 16,256,376         | 19,378,100           |
| Reclamation bond                                 | 3    | 2,403,301          | 2,973,439            |
| Mineral properties                               | 4    | 26,169,550         | 21,881,931           |
| Property, plant and equipment                    | 5    | 41,397,768         | 40,658,469           |
| Total assets                                     |      | 86,226,995         | 84,891,939           |
| <b>Liabilities</b>                               |      |                    |                      |
| Current liabilities                              |      |                    |                      |
| Accounts payable                                 |      | 218,061            | 945,254              |
| Accrued liabilities                              | 8    | 105,155            | 289,992              |
| Total current liabilities                        |      | 323,216            | 1,235,246            |
| Provision for site reclamation and closure costs | 6    | 6,671,069          | 4,671,199            |
| Deferred tax liabilities                         |      | 25,924             | 25,924               |
| Total liabilities                                |      | 7,020,209          | 5,932,369            |
| <b>Shareholders' Equity</b>                      |      |                    |                      |
| Common shares                                    | 7    | 180,289,811        | 178,430,193          |
| Share purchase warrants reserve                  |      | 11,167,756         | 11,504,324           |
| Share-based payments reserve                     |      | 9,964,336          | 9,532,117            |
| Foreign currency translation reserve             |      | 951,754            | 552,769              |
| Deficit  |      | (123,166,871)      | (121,059,833)        |
| Total shareholders' equity                       |      | 79,206,786         | 78,959,570           |
| Total liabilities and shareholders' equity       |      | 86,226,995         | 84,891,939           |

Nature of business and going concern (Note 1)

Commitments (Note 13)

Subsequent event (Note 14)

**"Scott B. Hean"**

Director

**"J. Paul Farquharson"**

Director

# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

## Condensed interim consolidated statements of operations and comprehensive loss

(Stated in Canadian dollars)

(Unaudited)

|   |           | Three months ending |                    | Six months ending  |                    |
|---|-----------|---------------------|--------------------|--------------------|--------------------|
|   | Note      | August 31,<br>2017  | August 31,<br>2016 | August 31,<br>2017 | August 31,<br>2016 |
|   |           | \$                  | \$                 | \$                 | \$                 |
| Expenses  |           |                     |                    |                    |                    |
| Accounting and audit                              |           | 14,000              | 11,231             | 31,265             | 29,231             |
| Accretion expense on site reclamation and closure | 6         | 35,909              | 50,106             | 73,293             | 50,106             |
| Bank charges and interest expense                 |           | 16,465              | 1,258              | 17,546             | 1,888              |
| Depreciation                                      | 5         | 11,849              | 12,654             | 24,157             | 25,154             |
| Directors' fees and expenses                      | 8(b)      | 27,178              | 27,175             | 47,631             | 55,050             |
| Foreign exchange loss (gain)                      |           | 182,754             | (9,313)            | 178,477            | 30,193             |
| Legal and advisory fees                           |           | 26,464              | 20,552             | 66,090             | 37,328             |
| Listing and filing fees                           |           | 3,313               | 7,196              | 30,377             | 32,896             |
| Office  |           | 105,928             | 89,241             | 196,506            | 168,362            |
| Salary and wages                                  |           | 230,544             | 99,136             | 670,803            | 199,037            |
| Shareholder relations                             |           | 116,232             | 65,018             | 265,513            | 93,085             |
| Share-based compensation                          | 7(b)(iii) | 611,497             | 66,436             | 611,497            | 66,436             |
| Loss from operating activities                    |           | (1,382,133)         | (440,690)          | (2,213,155)        | (788,766)          |
| Interest income                                   |           | 60,122              | 9,575              | 106,117            | 10,533             |
| Net loss  |           | (1,322,011)         | (431,115)          | (2,107,038)        | (778,233)          |
| Other comprehensive income (loss):                |           |                     |                    |                    |                    |
| Currency translation adjustment                   |           | 427,803             | (8,519)            | 398,985            | 78,457             |
| <b>Total comprehensive loss for the period</b>    |           | <b>(894,208)</b>    | <b>(439,634)</b>   | <b>(1,708,053)</b> | <b>(699,776)</b>   |
| Basic and diluted loss per share                  | 7(d)      | <b>(0.01)</b>       | (0.00)             | <b>(0.02)</b>      | (0.01)             |
| Weighted average number of shares outstanding     |           | 130,268,799         | 105,736,218        | 129,978,253        | 98,324,429         |

# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

## Condensed interim consolidated statements of changes in shareholders' equity

(Stated in Canadian dollars)

(Unaudited)

|  | Note      | Common shares without<br>par value |                    | Share<br>purchase<br>warrants<br>reserve | Share-based<br>payments<br>reserve | Foreign<br>currency<br>translation<br>reserve | Deficit              | Total<br>shareholders'<br>equity |
|--|-----------|------------------------------------|--------------------|--|------------------------------------|---|----------------------|----------------------------------|
|  |           | Shares                             | Amount             |  |                                    |   |                      |                                  |
|  |           |                                    | \$                 | \$                                       | \$                                 | \$  | \$                   | \$                               |
| Balance, February 29, 2016   |           | 90,887,205                         | 160,945,419        | 7,343,318                                | 9,031,102                          | 552,769                                       | (118,850,133)        | 59,022,475                       |
| Issuance of common shares on exercise<br>of stock options                    |           | 404,000                            | 130,079            | -  | (44,979)                           | -   | -                    | 85,100                           |
| Issuance of common shares and warrants<br>for cash, net of share issue costs |           | 14,755,200                         | 3,041,772          | 1,068,706                                | -                                  | -   | -                    | 4,110,478                        |
| Share-based compensation   |           | -                                  | -                  | -  | 66,436                             | -   | -                    | 66,436                           |
| Net loss and comprehensive loss  |           | -                                  | -                  | -  | -                                  | 78,457  | (778,233)            | (699,776)                        |
| <b>Balance, August 31, 2016</b>  |           | <b>106,046,405</b>                 | <b>164,117,270</b> | <b>8,412,024</b>                         | <b>9,052,559</b>                   | <b>631,226</b>                                | <b>(119,628,366)</b> | <b>62,584,713</b>                |
| Issuance of common shares on exercise<br>of stock options                    |           | 2,134,500                          | 793,031            | -  | (266,131)                          | -   | -                    | 526,900                          |
| Issuance of common shares on exercise<br>of share purchase warrants          |           | 1,879,051                          | 1,014,005          | (274,026)                                | -                                  | -   | -                    | 739,979                          |
| Issuance of common shares and warrants<br>for cash, net of share issue costs |           | 17,250,000                         | 12,505,887         | 3,366,326                                | -                                  | -   | -                    | 15,872,213                       |
| Share-based compensation   |           | -                                  | -                  | -  | 745,689                            | -   | -                    | 745,689                          |
| Net loss and comprehensive loss  |           | -                                  | -                  | -  | -                                  | (78,457)                                      | (1,431,467)          | (1,509,924)                      |
| <b>Balance, February 28, 2017</b>  |           | <b>127,309,956</b>                 | <b>178,430,193</b> | <b>11,504,324</b>                        | <b>9,532,117</b>                   | <b>552,769</b>                                | <b>(121,059,833)</b> | <b>78,959,570</b>                |
| Issuance of common shares on exercise<br>of stock options                    | 7(a)(i)   | 852,182                            | 495,283            | -  | (179,278)                          | -   | -                    | 316,005                          |
| Issuance of common shares on exercise<br>of share purchase warrants          | 7(a)(ii)  | 2,576,313                          | 1,364,335          | (336,568)                                | -                                  | -   | -                    | 1,027,767                        |
| Share-based compensation   | 7(b)(iii) | -                                  | -                  | -  | 611,497                            | -   | -                    | 611,497                          |
| Net loss and comprehensive loss  |           | -                                  | -                  | -  | -                                  | 398,985                                       | (2,107,038)          | (1,708,053)                      |
| <b>Balance, August 31, 2017</b>  |           | <b>130,738,451</b>                 | <b>180,289,811</b> | <b>11,167,756</b>                        | <b>9,964,336</b>                   | <b>951,754</b>                                | <b>(123,166,871)</b> | <b>79,206,786</b>                |

# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

## Condensed interim consolidated statements of cash flows

(Stated in Canadian dollars)

(Unaudited)

|   | Note      | Six months ending<br>August 31,<br>2017<br>\$ | August 31,<br>2016<br>\$ |
|---|-----------|---|--------------------------|
| <b>Operating activities</b>   |           |   |                          |
| Net loss for the period   |           | (2,107,038)                                   | (778,233)                |
| Items not involving cash  |           |   |                          |
| Accretion expense on site reclamation and closure                                     | 6         | 73,293  | 50,106                   |
| Depreciation  |           | 24,157  | 25,154                   |
| Shared-based compensation   | 7(b)(iii) | 611,497                                       | 66,436                   |
| Unrealized foreign exchange (gain) loss   |           | 129,030                                       | (18,905)                 |
| Change in working capital items   | 9         | (982,570)                                     | 134,659                  |
| Net cash used by operating activities   |           | (2,251,631)                                   | (520,783)                |
| <b>Investing activities</b>   |           |   |                          |
| Reclamation bond  |           | 403,343                                       | -                        |
| Mineral property expenditures   | 9         | (1,840,430)                                   | (575,581)                |
| Purchase of property, plant and equipment, net of deposits                            | 5         | (763,456)                                     | (300,209)                |
| Net cash used by investing activities   |           | (2,200,543)                                   | (875,790)                |
| <b>Financing activities</b>   |           |   |                          |
| Issuance of common shares and warrants  |           | -   | 4,426,560                |
| Share issue costs   |           | -   | (316,082)                |
| Share purchase warrants   | 7(a)(ii)  | 1,027,767                                     | -                        |
| Exercise of stock options   | 7(a)(i)   | 316,005                                       | 85,100                   |
| Net cash provided by financing activities   |           | 1,343,772                                     | 4,195,578                |
| Effects of exchange rate changes on the balance<br>of cash held in foreign currencies |           | 28,851  | 15,837                   |
| Net cash inflows (outflows) during the period   |           | (3,079,551)                                   | 2,814,842                |
| Cash and cash equivalents, beginning of period  |           | 19,221,353                                    | 1,095,357                |
| <b>Cash and cash equivalents, end of period</b>                                       |           | <b>16,141,802</b>                             | <b>3,910,199</b>         |
| Financial position as at  |           | August 31,<br>2017                            | August 31,<br>2016       |
| Cash and cash equivalents are comprised of:   |           |   |                          |
| Cash  |           | 13,549,946                                    | 91,149                   |
| Short-term investments  |           | 2,591,856                                     | 3,819,050                |
|   |           | <b>16,141,802</b>                             | <b>3,910,199</b>         |

Supplemental cash flow information (Note 9)

# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2017 and 2016

(Stated in Canadian dollars, unless otherwise noted)

(Unaudited)

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## 1. Nature of business and going concern

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

The Company's primary project, located in the mining friendly state of Idaho, is the 100% owned and fully environmentally permitted, Idaho Cobalt Project (the “ICP”). The ICP is comprised of a mine and mill site located in Lemhi County outside of the town of Salmon, Idaho. A feasibility level study was completed on the ICP in 2007 to produce a high purity cobalt metal suitable for critical applications in the aerospace sector. In December 2009, the Company and the United States Department of Agriculture Forest Service signed the “Forest Service Evaluation” which approved and finalized the Company's Mine Plan of Operations (the “Mine Plan”) for the ICP. The approval and finalization of the Company's Mine Plan allowed the Company to commence construction on the ICP Mine Site. By November 2012, the Company had completed two of three stages of construction at the mine and mill site. The Company had spent US\$65.3 million completing two phases of the ICP mine and mill construction that commenced in June 2011 and completed in December 2012. This work was comprised of extensive earthworks including access and haul road, portal bench, mill and concentrator pads and tailing waste storage facility construction. In addition, pre-purchased mining and milling equipment, including the ball mill, flotation circuits, grizzlies, hoppers, conveyors, etc., totaling approximately US\$16.0 million has been delivered to a staging area outside the town of Salmon, Idaho, proximal to the mine and mill site. The final Phase III of construction will involve underground development and the construction of the mill and concentrator and other ancillary facilities at the ICP mine site and at the cobalt processing facility.

A National Instrument 43-101 compliant Revised Technical Report on the Preliminary Economic Assessment (“PEA”) on the ICP to produce cobalt sulfate crystals from the ICP suitable for the rechargeable batteries and electric vehicles market was filed on SEDAR on January 10, 2017. The Company announced successful metallurgical test work results on bench test production of cobalt sulfate crystals on March 3, 2016 and the Feasibility Study (“FS”) results on September 27, 2017 (Note 14).

All obligations, commitments, and permits related to the ICP remain in good standing.

### *Going concern*

At August 31, 2017, the Company had working capital of \$15,933,160 (February 28, 2017 - \$18,142,854). For the six month period ended August 31, 2017, the Company reported a comprehensive loss of \$1,708,053 (August 31, 2016 – loss of \$699,776) and an accumulated deficit of \$123,166,871 (February 28, 2017 - \$121,059,833).

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 filed a short form base shelf prospectus (the “Shelf Prospectus”) on January 12, 2017 and this subject to securities regulatory requirements, 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. Under the Shelf Prospectus, the Company completed a bought deal financing on February 28, 2017 for gross proceeds of \$17,250,000 and issued 17,250,000 units at a purchase price of \$1.00 per unit.

# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2017 and 2016

(Stated in Canadian dollars, unless otherwise noted)

(Unaudited)

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## 1. Nature of business and going concern (continued)

Raising capital sufficient to complete planned development costs is dependent on continued discussions with off-takers, senior debt providers, alternative lenders, potential streamers and investors and is a material uncertainty. Raising further capital sufficient to establishing profitable operations is also a material uncertainty. The need to raise external financing and lack of established profitable operations are material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern. However, with cash on hand at August 31, 2017 and the ability to scale back on the timing of planned pre-development costs, the Company has sufficient financial resources to continue its operations for at least the next 12 months.

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

## 2. Basis of preparation

Statement of compliance

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

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company's most recent annual audited financial statements for the year ended February 28, 2017. These condensed interim consolidated financial statements should be read in conjunction with the Company's February 28, 2017 audited consolidated financial statements. The Board of Directors authorized these condensed interim consolidated financial statements for issue on October 5, 2017.

## 3. Reclamation bond

In connection with the ICP, the U.S. Forest Service required the Company to place a Reclamation Performance Bond in the amount of US\$6,379,617. There has been no change in the Reclamation Performance Bond since February 29, 2012. Earthworks and Tailing Waste Storage construction on the ICP was partially completed and subsequent disturbances to date has been minimal. The Reclamation Performance Bond will be released upon meeting the reclamation requirement of the U.S. Forest Service at the end of the Life of Mine of the Idaho Cobalt Project.

On June 21, 2011, the Company entered into an agreement with an insurance company to issue a surety bond in the amount required by the Reclamation Performance Bond. As part of the insurance agreement, the Company is required to deposit US\$1,913,885 (February 28, 2017 – US\$2,232,000) in trust as collateral for potential liability, as surety, incurred by the insurance company. The Safekeeping Agreement with the trustee requires the trust proceeds to be invested in any securities backed by the US Treasury, including US Treasury Bills and US Treasury Notes. The trustee can only release the trust proceeds under the following conditions:

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



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(Stated in Canadian dollars, unless otherwise noted)

(Unaudited)

## 3. Reclamation bond (continued)

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

|                          | \$    | August 31,<br>2017 | February 28,<br>2017 |
|--------------------------|-------|--------------------|----------------------|
|                          |       | \$                 | \$                   |
| Reclamation Performance  |       |                    |                      |
| Bond Requirement         | US\$  | 6,379,617          | 6,379,617            |
| Insured                  | US\$  | 6,379,617          | 6,379,617            |
| In Trust:                |       |                    |                      |
| U.S. Treasury Securities | US\$  | 1,913,885          | 2,239,196            |
|                          |       | 1,913,885          | 2,239,196            |
| Reclamation bond         | CDN\$ | 2,403,301          | 2,973,439            |

## 4. Mineral properties

Mineral properties at August 31, 2017 consist of:

|                          | August 31,<br>2017 | Additions | February 28,<br>2017 |
|--------------------------|--------------------|-----------|----------------------|
|                          | \$                 | \$        | \$                   |
| <b>Idaho Cobalt Belt</b> |                    |           |                      |
| Idaho Cobalt Project     | 24,679,443         | 4,260,304 | 20,419,139           |
| <b>Other Projects</b>    |                    |           |                      |
| Kernaghan                | 496,125            | 7,525     | 488,600              |
| Virgin River             | 961,206            | 19,790    | 941,416              |
| Other                    | 32,776             | -         | 32,776               |
|                          | 1,490,107          | 27,315    | 1,462,792            |
|                          | 26,169,550         | 4,287,619 | 21,881,931           |

During the six month period ended August 31, 2017, the Company spent \$1,840,430 (August 31, 2016 - \$586,550) and accrued \$115,160 (August 31, 2016 - \$Nil) on mineral properties. A non-cash adjustment of \$2,332,029 (August 31, 2016 - \$1,155,742) for site reclamation and closure cost was also made (Note 6), resulting in a total addition of \$4,287,619 (August 31, 2016 - \$1,742,292) for the period.

### Idaho Cobalt Project

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

All critical environmental permits are in place with an approved mine Plan of Operations. The ICP is comprised of the primary high grade cobalt deposit and the partially completed mine and mill located in Lemhi County outside of the town of Salmon, Idaho.

The Company announced the FS results of the ICP on September 27, 2017 (Note 14).

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## 5. Property, plant and equipment

|                                 | Land           | Buildings        | Equipment        | Furniture<br>and fixtures | Project<br>construction<br>and maintenance | Total              |
|---------------------------------|----------------|------------------|------------------|---------------------------|--|--------------------|
|                                 | \$             | \$               | \$               | \$                        | \$   | \$                 |
| <b>Cost</b>                     |                |                  |                  |                           |  |                    |
| As at February 29, 2016         | 181,545        | 525,905          | 494,489          | 401,304                   | 39,851,910                                 | 41,455,153         |
| Additions for the year          | 19,390         | -                | 1,827            | 7,320                     | 292,863                                    | 321,400            |
| As at February 28, 2017         | 200,935        | 525,905          | 496,316          | 408,624                   | 40,144,773                                 | 41,776,553         |
| Additions for the period        | 357,004        | -                | 67,856           | 69,904                    | 268,692                                    | 763,456            |
| <b>As at August 31, 2017</b>    | <b>557,939</b> | <b>525,905</b>   | <b>564,172</b>   | <b>478,528</b>            | <b>40,413,465</b>                          | <b>42,540,009</b>  |
| <b>Accumulated Depreciation</b> |                |                  |                  |                           |  |                    |
| As at February 29, 2016         | -              | (224,050)        | (471,206)        | (371,706)                 | -  | (1,066,962)        |
| Additions for the year          | -              | (21,516)         | (20,541)         | (9,065)                   | -  | (51,122)           |
| As at February 28, 2017         | -              | (245,566)        | (491,747)        | (380,771)                 | -  | (1,118,084)        |
| Additions for the period        | -              | (10,806)         | (9,070)          | (4,281)                   | -  | (24,157)           |
| <b>As at August 31, 2017</b>    | <b>-</b>       | <b>(256,372)</b> | <b>(500,817)</b> | <b>(385,052)</b>          | <b>-</b>                                   | <b>(1,142,241)</b> |
| <b>Carrying Value</b>           |                |                  |                  |                           |  |                    |
| As at February 28, 2017         | 200,935        | 280,339          | 4,569            | 27,853                    | 40,144,773                                 | 40,658,469         |
| <b>As at August 31, 2017</b>    | <b>557,939</b> | <b>269,533</b>   | <b>63,355</b>    | <b>93,476</b>             | <b>40,413,465</b>                          | <b>41,397,768</b>  |

The Company capitalizes the cost associated with construction and maintenance of the mine and mill and will depreciate those assets when they are put into use.

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For the six months ended August 31, 2017 and 2016

(Stated in Canadian dollars, unless otherwise noted)

(Unaudited)

## 6. Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure relates to the ICP and is based on the Company's legal obligations for environmental remediation, reclamation, and decommissioning at the end of the mine life. The undiscounted cash flows of the obligation as at August 31, 2017 were \$4,782,524 or US\$3,815,030 (February 28, 2017 - \$5,066,741 or US\$3,815,030). The discount rate used to determine the present value of the obligation was based on US Treasury Bond rate of 2.25% and rate of inflation of 4.00% (February 28, 2017 - US Treasury Bond rate of 2.25% and rate of inflation of 1.00%) resulting in a combined rate of 1.29% (February 28, 2017 - 0.83%), discounted by 15 years. The Company assumes that reclamation and decommissioning will take place over a three year period, commencing after the 12 year Mine Life.

|  | \$               |
|--|------------------|
| Reclamation and closure cost, February 29, 2016      | 5,972,114        |
| Additions  | -                |
| Accretion expense                                    | 105,149          |
| Change in discount rate                              | (1,314,283)      |
| Foreign exchange                                     | (91,781)         |
| Reclamation and closure cost, February 28, 2017      | 4,671,199        |
| Additions  | -                |
| Accretion expense                                    | 73,293           |
| Change in discount rate                              | 2,332,029        |
| Foreign exchange                                     | (405,452)        |
| <b>Reclamation and closure cost, August 31, 2017</b> | <b>6,671,069</b> |

## 7. Share capital

### a) Authorized and issued

The Company has 50,000,000 preferred shares without par value authorized for issue and an unlimited number of common shares without par value authorized for issue.

At August 31, 2017, the Company had no preferred shares outstanding and 130,738,451 (February 28, 2017 - 127,309,956) common shares issued and outstanding.

- (i) During the period ended August 31, 2017, 852,182 common shares were issued for stock options that were exercised and these include 259,000 options with an exercise price of \$0.20, 75,000 options with an exercise price of \$0.21, 150,000 options with an exercise price of \$0.30, 150,000 options with an exercise price of \$0.60 and 218,182 options with an exercise price of \$0.52 for total proceeds of \$316,005. Upon exercise, the Company transferred \$179,278 from share-based payments reserve to common shares.
- (ii) During the period ended August 31, 2017, 2,576,313 common shares were issued on exercise of share purchase warrants. These include 2,484,367 warrants with an exercise price of \$0.40 and 91,946 warrants were exercised with an exercise price of \$0.37 for total proceeds of \$1,027,767. Upon exercise, the Company transferred \$336,568 from share purchase warrants reserve to common shares.

# eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2017 and 2016

(Stated in Canadian dollars, unless otherwise noted)

(Unaudited)

## 7. Share capital (continued)

### b) Stock Options

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

All options are subject to vesting restrictions based on the Plan and at the discretion of the Board of Directors. Effective June 28, 2017, the Board of Directors have adopted the following vesting restrictions on all new options granted:

- 25% to be vested immediately;
- An additional 37.5% to be vested on the first anniversary; and
- An additional 37.5% to be vested on the second anniversary.

The exercise price is the fair value of the Company's common shares at the grant date. The maximum number of common shares to be issued under the Plan reserved for issuance as at August 31, 2017 was 13,083,166 (February 28, 2017 - 12,730,995). The maximum number of shares reserved for issuance to insiders may not exceed 10% of the outstanding shares issued. Under certain conditions, Option holders may elect to exercise their stock options on a cashless basis.

(i) As at August 31, 2017, the outstanding and exercisable stock options were as follows:

| Options<br>outstanding | Options<br>exercisable | Exercise<br>price<br>\$ | Weighted avg<br>remaining<br>contractual life | Expiry date       |
|------------------------|------------------------|-------------------------|---|-------------------|
| 160,000                | 160,000                | 0.30                    | 0.43 years                                    | February 1, 2018  |
| 440,000                | 440,000                | 0.21                    | 1.82 years                                    | June 24, 2019     |
| 1,610,500              | 1,610,500              | 0.20                    | 2.65 years                                    | April 27, 2020    |
| 1,860,000              | 1,860,000              | 0.60                    | 4.00 years                                    | September 6, 2021 |
| 2,055,000              | 513,750                | 1.17                    | 4.82 years                                    | June 28, 2022     |
| 375,000                | 93,750                 | 1.17                    | 4.85 years                                    | July 7, 2022      |
| 6,500,500              | 4,678,000              | 0.68                    |   |                   |

As at February 28, 2017, the outstanding and exercisable stock options were as follows:

| Options<br>outstanding | Exercise<br>price<br>\$ | Weighted avg<br>remaining<br>contractual life | Expiry date       |
|------------------------|-------------------------|---|-------------------|
| 290,000                | 0.30                    | 0.93 years                                    | February 1, 2018  |
| 515,000                | 0.21                    | 2.32 years                                    | June 24, 2019     |
| 1,869,500              | 0.20                    | 3.15 years                                    | April 27, 2020    |
| 218,182                | 0.52                    | 4.35 years                                    | July 8, 2021      |
| 2,010,000              | 0.60                    | 4.50 years                                    | September 6, 2021 |
| 4,902,682              | 0.39                    |   |                   |

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(Unaudited)

## 7. Share capital (continued)

### b) Stock Options (continued)

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

|   | August 31,<br>2017 | Weighted avg<br>exercise<br>price<br>\$ | February 28,<br>2017 | Weighted avg<br>exercise<br>price<br>\$ |
|---|--------------------|---|----------------------|---|
| Balance outstanding,<br>beginning of period | 4,902,682          | 0.39                                    | 6,863,000            | 0.38                                    |
| Activity during the period                  |                    |   |                      |   |
| Options granted                             | 2,450,000          | 1.17                                    | 2,228,182            | 0.59                                    |
| Options exercised                           | (852,182)          | 0.37                                    | (2,538,500)          | 0.24                                    |
| Options expired                             | -                  | -                                       | (1,390,000)          | 1.00                                    |
| Options cancelled                           | -                  | -                                       | (260,000)            | 0.26                                    |
| Balance outstanding<br>end of period        | 6,500,500          | 0.68                                    | 4,902,682            | 0.39                                    |

(iii) During the six month period ended August 31, 2017, 2,450,000 (August 31, 2016 – 218,182) stock options were granted to directors, officers, employees and consultants of the Company. Using the Black-Scholes option pricing model, the fair value of stock options vested was \$611,497 (August 31, 2016 - \$66,436).

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

|                       | August 31,<br>2017 | August 31,<br>2016 |
|-----------------------|--------------------|--------------------|
| Risk free interest    | 1.28%              | 0.52%              |
| Expected life (years) | 5                  | 5                  |
| Annualized volatility | 80%                | 77%                |
| Expected dividend     | \$Nil              | \$Nil              |
| Stock price           | \$1.14             | \$0.50             |
| Exercise price        | \$1.17             | \$0.52             |

### c) Warrants

(i) As at August 31, 2017, the outstanding and exercisable share purchase warrants were as follows:

| Warrants<br>outstanding | Exercise<br>price<br>\$ | Weighted avg<br>remaining<br>contractual life | Expiry date       |
|-------------------------|-------------------------|---|-------------------|
| 112,956                 | 0.37                    | 0.75 years                                    | June 1, 2018      |
| 3,402,233               | 0.40                    | 0.75 years                                    | June 1, 2018      |
| 948,750                 | 1.35                    | 1.50 years                                    | February 28, 2019 |
| 8,625,000               | 1.50                    | 1.50 years                                    | February 28, 2019 |
| 13,088,939              | 1.19                    |   |                   |

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## 7. Share capital (continued)

### c) Warrants (continued)

As at February 28, 2017, the outstanding and exercisable share purchase warrants were as follows:

| Warrants outstanding | Exercise price | Weighted avg remaining contractual life | Expiry date       |
|----------------------|----------------|---|-------------------|
|                      | \$             |   |                   |
| 204,902              | 0.37           | 1.50 years                              | June 1, 2018      |
| 5,886,600            | 0.40           | 1.50 years                              | June 1, 2018      |
| 948,750              | 1.35           | 2.00 years                              | February 28, 2019 |
| 8,625,000            | 1.50           | 2.00 years                              | February 28, 2019 |
| <b>15,665,252</b>    | <b>1.06</b>    |   |                   |

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

|  | Weighted avg August 31, 2017 | Weighted avg exercise price | February 28, 2017 | Weighted avg exercise price |
|--|------------------------------|-----------------------------|-------------------|-----------------------------|
|  |                              | \$                          |                   | \$                          |
| Balance outstanding, beginning of period | <b>15,665,252</b>            | <b>1.06</b>                 | -                 | -                           |
| Activity during the period               |                              |                             |                   |                             |
| Warrants issued                          | -                            | -                           | 17,544,303        | 0.99                        |
| Warrants exercised                       | <b>(2,576,313)</b>           | <b>0.40</b>                 | (1,879,051)       | 0.39                        |
| Balance outstanding end of period        | <b>13,088,939</b>            | <b>1.19</b>                 | 15,665,252        | 1.06                        |

### d) Loss per share

|  | Three months ending August 31, |              | Six months ending August 31, |              |
|--|--------------------------------|--------------|------------------------------|--------------|
|  | 2017                           | 2016         | 2017                         | 2016         |
| Net loss   | \$ (1,322,011)                 | \$ (431,115) | \$ (2,107,038)               | \$ (778,233) |
| Weighted average number of common shares outstanding | <b>130,268,799</b>             | 105,736,218  | <b>129,978,253</b>           | 98,324,429   |
| Loss per share                                       | \$ <b>(0.01)</b>               | \$ (0.00)    | \$ <b>(0.02)</b>             | \$ (0.01)    |

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding

|               |                   |           |                   |           |
|---------------|-------------------|-----------|-------------------|-----------|
| Stock options | <b>6,500,500</b>  | 6,417,182 | <b>6,500,500</b>  | 6,417,182 |
| Warrants      | <b>13,088,939</b> | 7,970,554 | <b>13,088,939</b> | 7,970,554 |

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## 8. Related party transactions

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

### a) Subsidiaries

|                                     | Ownership interest |                   |
|-------------------------------------|--------------------|-------------------|
|                                     | August 31, 2017    | February 28, 2017 |
| Formation Holdings Corp.            | 100%               | 100%              |
| Formation Holdings US, Inc.         | 100%               | 100%              |
| US Cobalt, Inc.                     | 100%               | 100%              |
| Formation Capital Corporation, U.S. | 100%               | 100%              |
| Essential Metals Corporation        | 100%               | 100%              |
| Coronation Mines Ltd.               | 100%               | 100%              |
| Minera Terranova S.A. de C.V.       | 100%               | 100%              |

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

### b) Compensation of key management personnel

The compensation to directors and officers of the Company during the six months ended August 31, 2017 and 2016 were as follows:

|  | August 31,<br>2017 | August 31,<br>2016 |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| Salaries and short-term employee benefits<br>including bonuses | 570,969            | 208,594            |
| Share-based compensation (i)                                   | 509,572            | -                  |
| Directors' fees (ii)   | 34,375             | 46,625             |
|  | <b>1,114,916</b>   | 255,219            |

Outstanding balances owed to directors and officers at August 31, 2017 were \$15,625 (August 31, 2016 - \$91,500).

- (i) During the period ended August 31, 2017, the Company granted 2,025,000 stock options to directors and officers who are considered key management of the Company, of which 25%, or 506,250 stock options, vested on the grant date.
- (ii) The Company paid or accrued directors fees of \$34,375 (August 31, 2016 - \$46,625). The Company also reimbursed directors for business related expenses in the amount of \$13,256 (August 31, 2016 - \$8,425).

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## 8. Related party transactions (continued)

### (b) Compensation of key management personnel (continued)

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

## 9. Supplementary cash flow information

Changes in working capital and mineral properties for the six month periods ended:

|  | Note | August 31,<br>2017 | August 31,<br>2016 |
|--|------|--------------------|--------------------|
|  |      | \$                 | \$                 |
| Accounts receivable  |      | 37,253             | (21,526)           |
| Prepaid expenses and deposits  |      | 4,920              | 25,533             |
| Accounts payable and accrued liabilities,<br>relating to operating items |      | (1,024,743)        | 130,652            |
| Change in working capital for the periods ended                          |      | (982,570)          | 134,659            |
| Gross addition to mineral properties                                     | 4    | (4,287,619)        | (1,742,292)        |
| Site reclamation and closure cost adjustment                             | 6    | 2,332,029          | 1,166,711          |
| Accounts payable   | 4    | 115,160            | -                  |
| Net addition to mineral properties for the periods ended                 |      | (1,840,430)        | (575,581)          |

## 10. Segmented information

The Company operated in two reportable segments, being exploration and development of mineral properties and corporate support. The Company's non-current assets by geographic location and total assets, liabilities and losses by operating segment are as follows:

|                                 | As at August 31, 2017   |                   |                   |
|---------------------------------|-------------------------|-------------------|-------------------|
|                                 | Canada                  | United States     | Total             |
|                                 | \$                      | \$                | \$                |
| <b>Non-current Assets</b>       |                         |                   |                   |
| Mineral properties              | 1,457,331               | 24,712,219        | 26,169,550        |
| Property, plant and equipment   | 24,926                  | 41,372,842        | 41,397,768        |
| Reclamation bond                | 2,403,301               | -                 | 2,403,301         |
| <b>Total non-current assets</b> | <b>3,885,558</b>        | <b>66,085,061</b> | <b>69,970,619</b> |
|                                 |                         |                   |                   |
|                                 | As at February 28, 2017 |                   |                   |
|                                 | Canada                  | United States     | Total             |
|                                 | \$                      | \$                | \$                |
| <b>Non-current Assets</b>       |                         |                   |                   |
| Mineral properties              | 1,430,016               | 20,451,915        | 21,881,931        |
| Property, plant and equipment   | 28,369                  | 40,630,100        | 40,658,469        |
| Reclamation bond                | -                       | 2,973,439         | 2,973,439         |
| <b>Total non-current assets</b> | <b>1,458,385</b>        | <b>64,055,454</b> | <b>65,513,839</b> |



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## 10. Segmented information (continued)

|                                | <b>For the six month period ended August 31, 2017</b> |                    |                    |
|--------------------------------|---|--------------------|--------------------|
|                                | Exploration and<br>development                        | Corporate          | Total              |
|                                | \$  | \$                 | \$                 |
| <b>Expenses</b>                |   |                    |                    |
| Accretion & interest expense   | (77,976)  | (12,863)           | (90,839)           |
| Depreciation                   | (19,758)  | (4,399)            | (24,157)           |
| Foreign exchange gain          | -   | (178,477)          | (178,477)          |
| General and administrative     | (42,266)  | (1,265,919)        | (1,308,185)        |
| Share based compensation       | -   | (611,497)          | (611,497)          |
| Other gain                     | 10,390  | 95,727             | 106,117            |
| Loss before income taxes       | (129,610)   | (1,977,428)        | (2,107,038)        |
| <b>Net loss for the period</b> | <b>(129,610)</b>                                      | <b>(1,977,428)</b> | <b>(2,107,038)</b> |

|                                | <b>For the six month period ended August 31, 2016</b> |                  |                  |
|--------------------------------|---|------------------|------------------|
|                                | Exploration and<br>development                        | Corporate        | Total            |
|                                | \$  | \$               | \$               |
| <b>Expenses</b>                |   |                  |                  |
| Accretion and interest expense | (50,163)  | (1,083)          | (51,246)         |
| Depreciation                   | (19,487)  | (5,667)          | (25,154)         |
| Foreign exchange gain          | -   | (30,941)         | (30,941)         |
| General and administrative     | (19,842)  | (595,147)        | (614,989)        |
| Share based compensation       | -   | (66,436)         | (66,436)         |
| Other gain                     | -   | 10,533           | 10,533           |
| Loss before income taxes       | (89,492)  | (688,741)        | (778,233)        |
| <b>Net loss for the period</b> | <b>(89,492)</b>                                       | <b>(688,741)</b> | <b>(778,233)</b> |

|                          | <b>As at August 31, 2017</b>   |            |            |
|--------------------------|--------------------------------|------------|------------|
|                          | Exploration and<br>development | Corporate  | Total      |
|                          | \$                             | \$         | \$         |
| <b>Total Assets</b>      | 67,576,054                     | 18,650,941 | 86,226,995 |
| <b>Total Liabilities</b> | 6,745,207                      | 275,002    | 7,020,209  |

|                   | <b>As at February 28, 2017</b> |            |            |
|-------------------|--------------------------------|------------|------------|
|                   | Exploration and<br>development | Corporate  | Total      |
|                   | \$                             | \$         | \$         |
| Total Assets      | 65,504,467                     | 19,387,472 | 84,891,939 |
| Total Liabilities | 4,702,902                      | 1,229,467  | 5,932,369  |

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## 11. Financial instruments

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

The Company's financial assets consist of assets classified as fair value through profit and loss which includes cash and cash equivalents, and loans and receivables consisting of the reclamation bond. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments except for the reclamation bond whereby its fair value will not be realized until the bond is released from the trustee (Note 3). At August 31, 2017, the fair value of the reclamation bond is \$2,397,913 (February 28, 2017 - \$2,966,773) and is calculated in accordance with level 1 of the fair value hierarchy.

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

## 12. Fair values and financial risk management

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

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash, 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>August 31, 2017</b> | February 28, 2017 |
|---------------------------|------------------------|-------------------|
|                           | \$                     | \$                |
| Cash and cash equivalents | <b>16,141,802</b>      | 19,221,353        |
| Reclamation bond          | <b>2,403,301</b>       | 2,973,439         |
| <b>Total</b>              | <b>18,545,103</b>      | 22,194,792        |

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## 12. Fair values and financial risk management (continued)

### *Liquidity risk*

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

The following summarizes the financial assets and their maturity that are held to manage liquidity risk:

|                       | August 31, 2017   |           |                 | February 28, 2017 |            |
|-----------------------|-------------------|-----------|-----------------|-------------------|------------|
|                       | Within<br>1 year  | 2-5 years | Over<br>5 years | Total             | Total      |
|                       | \$                | \$        | \$              | \$                | \$         |
| Cash                  | 13,549,946        | -         | -               | 13,549,946        | 16,644,849 |
| Short term investment | 2,591,856         | -         | -               | 2,591,856         | 2,576,504  |
|                       | <b>16,141,802</b> | -         | -               | <b>16,141,802</b> | 19,221,353 |
| Accounts payable      | 218,061           | -         | -               | 218,061           | 945,254    |
| Accrued liabilities   | 105,155           | -         | -               | 105,155           | 289,992    |
|                       | <b>323,216</b>    | -         | -               | <b>323,216</b>    | 1,235,246  |

### *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 August 31, 2017, the Company's Canadian savings account of \$2,591,856 (February 28, 2017 - \$2,576,504) earns an interest rate of up to 1.10% (February 28, 2017 - 1.00%). The Company has interests in equity instruments of other corporations which are not material.

### *Foreign exchange rate risk*

The Company reports its consolidated financial statements in Canadian dollars; however, the Company has extensive operations in the US. As 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.

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## 12. Fair values and financial risk management (continued)

### *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.

A 10% strengthening (weakening) of the Canadian dollar against the US\$ dollar would have increased (decreased) the Company's net loss before taxes of approximately \$302,600 (August 31, 2016 - \$344,400).

## 13. Commitments

The following is a schedule of the Company's commitments as at August 31, 2017:

|                                       | Note | 2017    | 2018    | 2019   |
|---------------------------------------|------|---------|---------|--------|
|                                       |      | \$      | \$      | \$     |
| Mineral property expenditure          | (a)  | 11,150  | -       | -      |
| General liability insurance           | (b)  | 11,820  | -       | -      |
| Office operating leases               | (c)  | 50,456  | 100,811 | 92,319 |
| Professional fees - Feasibility Study | (d)  | 39,139  | -       | -      |
|                                       |      | 112,565 | 100,811 | 92,319 |

- (a) As per the February 28, 1999 Virgin River joint venture exploration agreement whereby the Company has 2% interest, the Company's remaining commitment to the 2017 exploration program budget is \$984. The Company has committed to spend \$11,000 for Kernaghan project representing 20% of its budget and has \$10,166 remaining to spend.
- (b) The Company has a total liability of \$11,820 on premiums for its commercial general and umbrella liability insurance policies payable monthly until October 12, 2017.
- (c) The Company has an office lease commitment totalling \$243,586 ending January 31, 2020.
- (d) The Company has a total remaining commitment of \$39,139 as a result of commissioning a Feasibility Study on the ICP with Micon Engineering Ltd., metallurgical testing program with SGS.
- (e) Pursuant to employment agreements, the Company may be obligated to pay up to \$744,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

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## 14. Subsequent event

On September 27, 2017, the Company announced results from the FS based on an underground mine with a target production rate of 800 short tons per day and a weighted average annual production of 2.4M lbs of cobalt, 3.3M lbs of copper and 3,000 oz of gold over a 12.5 year mine life with an estimated pre-production period of 24 months utilizing a 0.25% cobalt cut-off grade. The economic model uses a 34% corporate tax rate and a 7.5% discount rate, resulting in an after-tax NPV of \$135.8M and an IRR of 21.3% using an average base case price of \$26.65/lb for contained cobalt in cobalt sulphate. The FS has been compiled in accordance with NI 43-101 guidelines and a Technical Report will be made available on SEDAR and on the Company's website within 45 days of this date.

The positive results of the FS have given Management and the Board of Directors a clear mandate to move the ICP towards project financing and development. Management's immediate goal is to evaluate a variety of opportunities for the ICP. The Company is also considering securing offtake arrangements for cobalt sulphate heptahydrate. Independent of the FS, the Company has produced cobalt sulphate crystals from recent metallurgical test work which were shipped to potential off-takers for evaluation.