



eCobalt Solutions Inc.
(Formerly Formation Metals Inc.)

Management's Discussion and Analysis

For the Six Months Ended August 31, 2017

Date of Report: October 5, 2017

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Symbol: Toronto Stock Exchange – ECS

Table of Contents

1.1	Date	3
1.2	Overview	3
1.2.1	Summary.....	3
1.2.2	Highlights for the six months ended August 31, 2017 and subsequent events	4
1.2.3	Risk Management	4
1.2.4	Basis of Analysis	4
1.2.5	Property Activities	5
(a)	Idaho Cobalt Project – Idaho, USA	5
(b)	Other Mineral Assets	8
(c)	El Milagro – Mexico	8
(d)	Kernaghan Lake – Saskatchewan, Canada	8
(e)	Virgin River – Saskatchewan, Canada	9
1.2.6	Market Outlook.....	9
1.3	Results of Operations	12
1.3.1	Summary of Quarterly Results	13
1.4	Liquidity	14
1.5	Capital Resources	14
1.6	Off-Balance Sheet Arrangements	15
1.7	Transactions with Related Parties	15
1.8	Proposed Transactions	16
1.9	Critical Accounting Estimates	16
1.10	Financial Instruments and Other Instruments	17
1.11	Fair Values and Financial Risk Management	17
1.13	Other MD&A Requirements	18
(a)	Disclosure of Outstanding Share Data.....	18
(b)	Internal Controls over Financial Reporting and Disclosure Controls	19
(c)	Additional Information	19

Quarterly Snapshot and Short Term Outlook

Idaho Cobalt Project Update

On September 27, 2017, the Company announced results from the Feasibility Study (“FS”) on the Idaho Cobalt Project (the “ICP”) based on an underground mine with a target production rate of 800 short tons per day and a weighted average annual production of 2.4M lbs of cobalt, 3.3M lbs of copper and 3,000 oz of gold over a 12.5 year mine life with an estimated pre-production period of 24 months utilizing a 0.25% cobalt cut-off grade. The economic model uses a 34% corporate tax rate and a 7.5% discount rate, resulting in an after-tax NPV of \$135.8M and an IRR of 21.3% using an average base case price of \$26.65/lb for contained cobalt in cobalt sulphate. The FS has been compiled in accordance with NI 43-101 guidelines and a Technical Report is expected to 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 offtakers for evaluation.

Preparation of the ICP mine and mill site for construction activities, expected to commence in earnest next year with successful mine financing in place, continues with access road upgrades, existing facilities maintenance, preparation of temporary power for construction, and approved water discharge line maintenance. The existing pre-purchased building has been transported to a site in Blackfoot, ID where the Cobalt Production Facility (“CPF”) is proposed to be built. Senior and Support staff capacity ramp up continues with the recent additions of Mr. Floyd Varley, COO, Mr. Llee Chapman, Operations Administrator, and Mr. Mandeek Manhas, Controller. Hiring of key employees in various functional areas is being implemented to support preconstruction and project development goals.

Cobalt Market – Growing Demand and Supply Deficit Forecasted

Cobalt has been trading for as high as \$28.35/lb (99.3%) and as low as \$22.90/lb over the past six months, a 120% year to year increase in price from 2016 average.¹ Cobalt consumption has remained strong over the past six years because of stable demand in alloys, established chemical markets and rapid uptake in lithium ion batteries. Global refined cobalt demand is expected to approach 166,210 tonnes by 2026 (2016 - 96,000 tonnes). Demand is forecasted to grow at 6% CAGR in the mid-term spurred on by growing demand for lithium ion batteries.² Demand is forecasted to increase at CAGR 4.1% in the long-term (2021-2026) as the EV sector matures and the metals sector continues to grow robustly.

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

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

Summary of Current Quarter Financial Results

Comprehensive loss for the Company’s three month period ended August 31, 2017 was \$894,208 or \$0.01 per share (2016 - \$439,634 or \$0.01 per share). As at August 31, 2017, the Company had working capital of \$15,933,160 (February 28, 2017 - \$18,142,854). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the following items.

- (a) Shareholder relations for the three month period ended August 31, 2017 was \$116,232 (2016 - \$65,018). Higher shareholder relations fees incurred during the current period was a result of investor relations and promotional activities related to financing and to enhance shareholder awareness of the ICP. These activities include travelling for project financing, attending conferences and marketing road shows.

¹ www.infomine.com price quote

² CRU Cobalt Market Outlook- August 2017

- (b) Salary and wages for the three month period ended August 31, 2017 was \$230,544 (2016 - \$99,136). The Company recently commissioned and completed an independent compensation review that benchmarked the Company's compensation policies against its peer group. The results of this independent review and recommendations were recently adopted by the Board of Directors and were reflected in report salary and wages. Higher salaries during the period were also due to the addition of new employees.
- (c) Share-based compensation, a non-cash expense, for the three month period ended August 31, 2017 was \$611,497 (2016 - \$66,436). During the three 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 - \$66,435).
- (d) Foreign exchange loss, a non-cash adjustment, for the three month period ended August 31, 2017 was \$182,754 (2016 – gain of \$9,313). The US dollar depreciated against the Canadian dollar during this period from \$1.35 on May 31, 2017 (May 31, 2016 - \$1.311) to \$1.2536 on August 31, 2017 (August 31, 2016 - \$1.3116). The Company keeps a portion of its cash in US dollars and reports foreign exchange gains or losses as a result of changes in valuation from foreign exchange rates at the end of the period.
- (e) Interest income for the three month period ended August 31, 2017 was \$60,122 (2016 - \$9,575). Higher interest income during the period was due to higher current cash balance compared to the same period last year.

This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes thereto of eCobalt Solutions Inc. (formerly Formation Metals Inc.) (the "Company") for the six months ended August 31, 2017 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are available on SEDAR at www.sedar.com. All dollar amounts herein are expressed in Canadian Dollars unless stated otherwise.

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

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

1.1 Date

This MD&A is prepared as of October 5, 2017.

1.2 Overview

1.2.1 Summary

The Company is a mineral exploration and mine development company listed on the Toronto Stock Exchange under the symbol ECS. The Company is engaged in the business of exploring mineral properties in Canada, the United States and Mexico.

The Company's primary project, located in the mining friendly state of Idaho, is the 100% owned 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 site and mill located in Lemhi County outside of the town of Salmon, Idaho, and a Cobalt Production Facility ("CPF") to be constructed in Southern Idaho.

The Company SEDAR filed a Revised National Instrument 43-101 ("NI 43-101") compliant March 10, 2015 Preliminary Economic Assessment ("PEA") on the ICP on January 10, 2017. The original NI 43-101 compliant Preliminary Economic Assessment with an effective date of March 10, 2015 was originally filed on May 8, 2015.

On June 21, 2016, the Company announced that it has commissioned a Feasibility Study ("FS") on the ICP with Micon International Limited ("Micon") and Micon has subcontracted aspects of the study concerning the processing, infrastructural engineering, risk assessment, project scheduling, and cost estimating to SNC-Lavalin Inc. ("SNC-Lavalin").

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 is expected to be made available on SEDAR and on the Company's website within 45 days of this date.

The Company filed a final short form base shelf prospectus (the "Shelf Prospectus") on January 12, 2017. The Shelf Prospectus, subject to regulatory requirements, may allow the Company to make offerings up to \$100,000,000 by issuing securities during the 25 month period that the Shelf Prospectus is effective. As the FS progresses to completion and subject to final results, the Shelf Prospectus is expected to provide efficiency, flexibility, and opportunities to finance the ICP to complete development and advance the project into commercial production.

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

1.2.2 Highlights for the six months ended August 31, 2017 and subsequent events

Corporate:

- (a) During the six months ended August 31, 2017, the Company reported a comprehensive loss of \$1,708,053 (2016 - \$699,776) and accumulated deficit of \$123,166,871 (February 29, 2017 - 121,059,833);
- (b) As at August 31, 2017, the Company had working capital of \$15,933,160 (February 28, 2017 - \$18,142,854);
- (c) On June 21, 2017, the Company replaced its Reclamation Performance Bond ("Bond"). The new Bond was brokered by Aon Risks Solutions and was placed with Trisura Guarantee Insurance Company. Collateral on the Bond was reduced from US\$2,232,000 to US\$1,913,885. The Company also saved 7% in annual premiums to put the Bond in place;
- (d) The Company held its Annual and Special Meeting on June 28, 2017 and all resolutions were passed including:
 - i. Election of Directors;
 - ii. Number of Directors set at 6;
 - iii. Appointment of Smythe LLP, Chartered Professional Accountants, as the Company's auditor; and
 - iv. Ratification and approval of all unallocated options, rights or other entitlements under the Company's Stock Option Plan.
- (e) At the Company's Annual and Special Meeting on June 28, 2017, Director and Chairman of the Board, Mr. Robert J. Quinn, and Director, Dr. David Stone, after years of dedicated service to the Company, did not stand for re-election. The Company thanks Mr. Quinn and Dr. Stone for their valued contributions over the years and wishes them well in their future endeavours. The Company welcomed Mr. David Smith, Senior Vice President of Finance and Chief Financial Officer of Agnico Eagle Mines Limited, as Director to the Board. The Board of Directors also elected Scott Hean, Director, as Chairman of the Board;
- (f) The Company granted 2,055,000 and 375,000 stock options on June 28 and July 7, 2017 respectively at a price of \$1.17 and a term of five years to directors, employees and consultants of the Company. The options are subject to vesting provisions and will be fully vested on their second anniversary;
- (g) On July 11, 2017, the Company announced the appointment of Floyd D. Varley, B.Sc. as COO and Robert L. (Llee) Chapman, CPA, B.A. as VP Administration of US operations effectively immediately; and
- (h) On September 27, 2017, the Company announced results from the FS of the ICP. The FS has been compiled in accordance with NI 43-101 guidelines and a Technical Report is expected to be made available on SEDAR and on the Company's website within 45 days of this announcement. Further, preparation of the ICP mine and mill site for construction activities continues with access road upgrades, existing facilities maintenance, preparation of temporary power for construction and approved water discharge line maintenance. The existing pre-purchased building has been transported to a site in Blackfoot, ID where the CPF is proposed to be built.

1.2.3 Risk Management

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

1.2.4 Basis of Analysis

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

The content and organization of the financial and non-financial data presented in these sections is consistent with information used by the Company for, among other purposes, evaluating performance and allocating resources. The following discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the for the six months ended August 31, 2017 and related notes thereto.

While most economic indicators impact the Company's operations to some degree, the Company's operations are especially sensitive to capital spending in cobalt intensive industries such as the re-chargeable battery sector, aerospace, high-tech, medical prosthetics, industrial, high-temperature steels and environmental applications such as gas and coal to liquids processes, oil

desulphurization, wind turbine generators and electric and hybrid-electric vehicles. Management also monitors cobalt-related consumption expenditures on such items as computers, cell phones, paints and cutting steels.

1.2.5 Property Activities

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

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

(a) Idaho Cobalt Project – Idaho, USA

Background

The Company's principal property is the 100% owned ICP Mine Site, a primary high grade cobalt deposit located in Lemhi County, Idaho, acquired through staking in 1994 and 1995. The property is held by the Company's 100% owned subsidiary, Formation Capital and is comprised of 163 contiguous unpatented mining claims covering an area of approximately 2,520 acres. All required environmental permits have been received from the various permitting agencies and remain in good standing. A Reclamation Performance Bond in the amount of US\$6.38 million was placed to cover the estimated reclamation cost of actual and planned surface disturbance and US\$1.91 million was placed in trust to secure the bond. The ICP is not subject to any royalty payments.

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

2015 Preliminary Economic Assessment on the ICP

The PEA was commissioned in January 2015 to re-evaluate the ICP to produce cobalt chemicals in response to improving financial markets and the projected bullish long-term demand for cobalt. The PEA with an effective date of March 10, 2015 was originally filed on May 8, 2015. The Company subsequently filed a revised PEA on SEDAR with an effective date of March 10, 2015 on January 10, 2017.

The PEA's economic model uses a 35% corporate tax rate and an 8.5% discount rate, resulting in an after tax NPV of \$113 million and an IRR of 24.07%. Base case price used for cobalt sulfate heptahydrate was US\$19.50 per lb. A pro forma cash flow was developed using conventional methodology utilizing the base case 8.5% discount rate, before and after tax determination of project economics, annual cash flows discounted on an end of year basis with costs estimated in first quarter 2015 U.S. Dollars. The total LOM capital cost per the PEA is estimated at \$201.41 million, including \$146.76 million for initial capital, and \$54.65 million in sustaining capital and mine development capital during production over the LOM. The total LOM cash production cost is estimated at \$468.73 million or \$13.26/lb of processed cobalt contained in cobalt sulfate heptahydrate and \$175.58 million or \$4.94/lb of processed cobalt sulfate heptahydrate net of by-product credits.

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

Based on the feasibility level metallurgical test work completed over the past fiscal year and recent evaluations of the mine schedule and review of the expected mill feed, the Company plans to produce a bulk cobalt/copper/gold concentrate utilizing standard froth flotation circuits for further hydrometallurgical processing at the CPF. This further processing to separate the cobalt from copper at the CPF is expected to produce a clean copper concentrate suitable for direct sale to a copper smelter. Hydrometallurgical processing of the cobalt rich, copper bearing sulfide concentrate is proposed to be conducted at the CPF to produce cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector. Marketable by-products include copper concentrate, copper sulfate, magnesium sulfate and gold. The substitution of magnesium oxide

for lime as a neutralizing agent at the CPF results in the production of agricultural grade magnesium sulfate. Free gold is planned to be recovered through a carbon-in-leach cyanidation circuit producing gold-loaded carbon.

The PEA reported overall recoveries to products (copper concentrate, sulfate crystals and gold loaded carbon) with respect to mill feed and internal recoveries at the CPF are 90.99% for cobalt, 92.76% for copper and 78.46% for gold. Overall recoveries for copper and gold includes metals contained in the copper concentrate as well as leached products. All magnesium that is input as MgO is recovered in the MgSO₄ product in the current model for this study.

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

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

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

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

Metallurgical Test Work

On March 3, 2016 the Company announced metallurgical test work results on bench test production of cobalt sulfate heptahydrate crystals produced from ore samples from the ICP. SE was the Company's lead engineer coordinating the metallurgical test work. SE previously reported that based on the extensive metallurgical test work results to date, successful modifications to the Mill and CPF flowsheets, and the recent successful results and commitments from Cytec Industries Inc. ("Cytec") and General Electric's Water and Process Technologies Group ("GE"), it is expected that the final end product should meet the quality standards for high purity cobalt sulfate chemicals.

The development of the modified flow sheets outlines a critical path forward for the Company. SE had previously recommended that the project development activities be advanced to support and produce a FS. The finalization of the modified flow sheets allows for such advancement.

In November 2016, Company completed a 2,600 foot metallurgical drill program on the Ram deposit of the ICP to obtain samples of mineralized material for further evaluation and bench testing. Mineralized core from the drill program is being used in metallurgical test work designed to provide additional data on concentrate recoveries, hydrometallurgical processing and cobalt sulfate heptahydrate crystal production. SGS Lakefield was the winning bidder to conduct this metallurgical testwork, under the direction of SNC and Micon. The results of this test work have complimented the results from the metallurgical program that was completed in March 2016. The final products produced from this metallurgical drill program are expected to provide potential offtake clients with samples for due diligence to pursue offtake arrangements.

2017 Feasibility Study on the ICP

On June 21, 2016, the Company announced that it has commissioned a FS on the ICP with Micon and Micon has subcontracted aspects of the study concerning the processing, infrastructural engineering, risk assessment, project scheduling, and cost estimating to SNC-Lavalin. On September 27, 2017, the Company announced the initial 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. 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\$.

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

The total LOM capital and reclamation cost is estimated at \$288.1 million, including \$186.7 million for initial capital, \$5.8 million for long term water treatment bond collateral, and \$95.6 million in sustaining capital and mine development capital during production over the LOM, reclamation and closure cost. Prior to the deferral of the ICP to care and maintenance status in May 2013 due to depressed market conditions, the Company spent \$65.3 million on the ICP for earthworks, engineering and milling equipment including the crushing, ball mill, flotation and filtration circuits, pumps, grizzlies, hoppers, conveyers, etc. These are sunk costs and not included in the remaining initial capital costs.

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

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

Ram Deposit Mineral Resources at 0.2% Co Cut-off

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

For a more detailed description of the results of the FS and the ICP, the reader is referred to the Company’s news release dated September 29, 2017. 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 the announcement date.

There are significant opportunities that could improve the economics of the ICP. Including those opportunities typical to all mining projects, such as changes in metal prices, exchange rates, etc., there are additional opportunities that exist. The mineral resource has not been fully delineated and there is an excellent opportunity to expand this resource. As a result, the

Company has initiated a targeted drilling program, in consultation with Micon, which has the potential to immediately increase the indicated mineral resource. In addition, over a dozen potential targets have been identified in the immediate area within the claim block of the ICP. Four of these have been drill tested with several intercepts exceeding the current cut-off grade. There is also potential to add additional resources from the nearby Black Pine property owned by the Company which potentially could provide additional feed for the ICP mill.

There is an opportunity for the mine to process higher grade material for short durations through the optimization of the mine plan and sequence production to capitalize on market conditions. Opportunities for CPF capital and operating cost improvements exist through optimization studies during detailed design. There is potential to increase overall recoveries and obtain better shipping and handling terms through formal negotiations in the future and to incorporate offtake and/or streaming agreements on some or all of the products to be produced.

Micon and SNC-Lavalin 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.

Preconstruction Work and Operational Expansion

The positive results of the FS have given Management and the Board of Directors a clear mandate to move the ICP towards project financing and development, although no production decision has been made at this time. 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 offtakers for evaluation.

Preparation of the ICP mine and mill site for construction activities, expected to commence in earnest next year with successful mine financing in place, continues with access road upgrades, existing facilities maintenance, preparation of temporary power for construction, and approved water discharge line maintenance. At the CPF located in Blackfoot, ID, the existing pre-purchased building has been transported to the site. Senior and Support staff capacity ramp up continues with the recent additions of Mr. Floyd Varley, COO, Mr. Llee Chapman, Operations Administrator, and Mr. Mandeek Manhas, Controller. Hiring of key employees in various functional areas is being implemented to support preconstruction and project development goals.

(b) Other Mineral Assets

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

(c) El Milagro – Mexico

The Company has a 100% interest in the El Milagro property in Tamaulipas, Mexico.

All mineral claims related to the El Milagro are in good standing.

(d) Kernaghan Lake – Saskatchewan, Canada

The Company granted an option whereby the optionee earned an 80% interest in certain mineral claims by making certain payments (received), and completing exploration work totaling \$1,000,000 (deemed completed). The project area is located near the northeast rim of the Athabasca Basin approximately 42 km north of Points North Landing. The Kernaghan project currently consists of 13 mineral claims totaling 4,342 hectares. The target unconformity depth ranges from 160m to 290m. To date 38 diamond drill holes within the property outline totaling 10,051.4m have been drilled targeting the unconformity. Anomalous uranium intersections were returned from two drill holes with a maximum partial uranium value returned in drill hole KB-11 of 160 ppm and a maximum partial uranium value returned in drill hole KB-07 of 34.2 ppm.

A Geochemical Compilation Report completed in 2012 was sent to joint venture partners and filed for assessment credit. The operator, Areva Resources Canada Inc. (Areva), of the project did not conduct any exploration work during the year ended February 28, 2017 and it remains in good standing until December 2017.

(e) Virgin River – Saskatchewan, Canada

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

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 1 regarding forward looking statements.

Cobalt Market Overview

Demand

Refined cobalt consumption has been steadily increasing over the past couple of years with 83,000³ tonnes in 2013, 89,000⁴ tonnes in 2014, 90,150⁵ tonnes in 2015 and 98,000 tonnes in 2016⁶. Global cobalt demand is expected to exceed 100,000 tonnes for the first time in 2017 as the market begins to face supply deficit⁷. Demand for cobalt used in metallurgical applications is forecasted to grow steadily from 36,690 tonnes in 2016 to 50,000 tonnes in 2025, driven by the aerospace industry. Demand for cobalt used in non-metallurgical applications is forecasted to grow at a faster rate, at 7.2% compounded annual growth rate (“CAGR”) in the mid-term and 4.1% CAGR long-term⁸. Non-metallurgical demand is expected to reach over 110,000 tonnes by 2026, driven by the rechargeable battery sector.

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

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

The main three types of batteries in the rechargeable lithium ion batteries market is comprised of the lithium cobalt oxide (“LCO”), nickel manganese cobalt (“NMC”) and lithium nickel cobalt aluminum (“NCA”) cells. These three types of batteries made up 75% of the rechargeable batteries market share in 2015. LCO cathode contains the highest cobalt by weight in the form of cobalt oxide followed by NMC and NCA batteries which contains cobalt in the form of cobalt sulfate. LCO batteries are the largest consumer of cobalt and accounts for 28% of global consumption. NMC and NCA batteries, used in EVs, is expected to have the highest demand growth in the mid and long term range forecast¹⁰. The growth in the EVs market is forecasted to increase consumption of cobalt sulfate to 45,529 tonnes by 2026, accounting for greater than 40% of chemical cobalt consumption¹¹.

Energy requirement in MWh for EVs are expected to grow at 16% per annum until 2025¹². Battery supply is one of the key hurdles to EV growth, especially to meet demand requirements beyond 2019 and 2020¹³. In addition to Tesla Motors, Inc.’s US\$5.0 billion EV “Gigafactory”, LG Chem has confirmed a plant in Poland and Daimler has commenced a €500 million battery assembly plant. Recently, the following companies have also announced investments in EVs including¹⁴:

³ CRU Cobalt Market Outlook 2015

⁴ CRU Cobalt Market Outlook 2015

⁵ CRU Cobalt Market Outlook 2015

⁶ CRU Cobalt Market Outlook 2016

⁷ CRU Cobalt Market Outlook 2016

⁸ CRU Cobalt Market Outlook 2017

⁹ CRU Cobalt Market Outlook 2016

¹⁰ CRU Cobalt Market Outlook 2016

¹¹ CRU Cobalt Market Outlook 2017

¹² CRU Cobalt Market Outlook 2015

¹³ BNP Paribas Plugged- In- November 22, 2016

¹⁴ BNP Paribas Plugged- In- November 22, 2016

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

The EV market continues to rise in popularity and importance and there are several other EV manufacturers which have announced plans for new vehicle production. It has been forecasted that strong forecast demand from the EV market can potentially double current cobalt demand by 2022¹⁵. Stationary storage cells utilized to store energy from sources such as wind and solar powered generators and off peak grid charging are also contributing to this significant growth in the markets.

Supply

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

Approximately 62.5% of the world cobalt supply is mined from the Democratic Republic of Congo (“DRC”) with 64,364 tonnes produced in 2016¹⁶. Artisanal mining accounts for approximately 6,100 tonnes of cobalt production from the DRC. Supply from artisanal production is expected to taper off as easily accessible high grade reserves get depleted. Current low cobalt prices make artisanal mining less profitable and this may also impact artisanal mining output. In addition, Amnesty International published a report in January 2016 titled “This Is What We Die For” which exposes abuses of the human rights, safety and environmental issues related to artisanal mining. The article also made allegations against global technology companies for using cobalt sourced from artisanal mining supply, highlighting the importance of supply chain management and traceability of the sourcing raw materials. This may also result in regulation changes relating to artisanal mining activities in the DRC.

China is the largest importer of cobalt raw materials estimated at 65% or 59,223 tonnes¹⁷ of world supply in 2015. Approximately 94%¹⁸ of Chinese import comes from cobalt contained in intermediates such as crude hydroxide produced in the DRC. In turn, China is also the largest producer of refined cobalt with a 9.3% growth in production in 2016 representing 78% or 48,910 tonnes of world production¹⁹. This growth is predominately driven by demand from downstream markets. This growth forces China’s biggest refiners and producers to expand and aggressively acquire cobalt assets.

Supply Demand Balance

The following illustrates supply and demand balance forecast for the 2015-2020 period²⁰:

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

Forecasted compounded annual growth rate for cobalt supply is 2.4%²¹. As a result of increase in demand and reduction in supply of cobalt, overall supply demand balance is forecasted to progressively tighten over the medium and long term with minimal prospects of new cobalt projects coming into production within the next decade²². Demand for metallurgical cobalt is forecasted to continue to grow against supply even though there is a small surplus in metallurgical cobalt supply. Significant

¹⁵ BNP Paribas Plugged- In- November 22, 2016

¹⁶ CRU Cobalt Market Outlook 2017

¹⁷ Darton Commodities Limited Cobalt Market Review 2015-16

¹⁸ Darton Commodities Limited Cobalt Market Review 2015-16

¹⁹ CRU Cobalt Market Outlook 2016

²⁰ CRU Cobalt Market Outlook 2016

²¹ CRU Cobalt Market Outlook 2015

²² CRU Cobalt Market Outlook 2015

increase in demand of non-metallurgical or cobalt chemicals used in rechargeable batteries may cause a deep deficit. The combined effect is expected to result in a projected deficit of 10,000 tonnes annually by 2020²³.

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

Cobalt prices have increased significantly since the beginning of 2017 as end users and hedge funds secure supply of cobalt metal and sulfate in anticipation of further supply and demand deficits. Cobalt 99.3% metal has reached a six year high of over \$24 per lb and is forecasted to reach as high as \$27 per lb in the near term²⁴. Cobalt sulfate prices have attracted an average of \$2.00 per lb premium over 99.3% due to stronger demand.

Cobalt and the ICP

Cobalt metal, powders and chemicals remain critical in the production of rechargeable batteries and the ICP is the only primary cobalt deposit located in the United States that is environmentally permitted with the potential for near term production. These are key positive attributes of the ICP that can address some of the risks and issues faced by the world cobalt market today. As the ICP is a primary cobalt deposit (less than 2% of current world production of cobalt comes from primary deposits), it is not directly influenced by copper and nickel markets. Being located in the United States eliminates the geopolitical and human rights issues that seem to be attached to cobalt that comes from the DRC. The ICP offers a unique opportunity for North American consumers to secure an ethically sourced, environmentally sound supply of high purity cobalt chemicals, mined safely and responsibly. The Company believes that the ICP could be well positioned to capitalize on the growing demand for cobalt, in particular battery grade cobalt chemicals. 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 recognized in the PEA that could improve the economics of the ICP. Excluding those opportunities typical to all mining projects, such as changes in metal prices, exchange rates, etc., there are additional opportunities that exist. For example, the mineral resource has not been fully delineated and there is an excellent opportunity to expand this resource. The addition of marginal mineralized zones that were excluded from the resource and mine plan could also add to resources. In addition, over a dozen potential targets have been identified in the immediate area within the claim block of the ICP. Four of these have been drill tested with several intercepts exceeding the current cut-off grade. There is also potential to add additional resources from the nearby Black Pine property optioned by the Company which potentially could provide additional feed for the mill. 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.

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

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

Share Price Performance

The price of cobalt remains strong as the EV and ESS markets are expected to continue to ramp up. The positive Feasibility Study was released while financing efforts are progressing well as well as pre-construction for the mine and mill and optimization of the overall project. With continued effort and de-risking of the project the upward trend the Company's share price has enjoyed most of the year should continue. The Volume Weighted Average Price (VWAP) for the first 6 months of the fiscal year was \$1.197 and the closing price on October 5 was \$1.17. The Company's one year share price continues to significantly outperform the TSX and TSX Base Metals Index's.

²³ CRU Cobalt Market Outlook 2015

²⁴ CRU Cobalt Market Outlook- February 2017



1.3 Results of Operations

Financial Results of Operations for the Six Months Ended August 31, 2017 and 2016

The following are highlights from the Company's results from operations for the six months ended August 31, 2017 and 2016:

- (a) **Comprehensive loss** for the six month period ended August 31, 2017 was \$1,708,053 or \$0.02 per share (2016 - \$699,776 or \$0.01 per share). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the items discussed below.
- (b) **Shareholder relations** for the six month period ended August 31, 2017 was \$265,513 (2016 - \$93,085). Higher shareholder relations fees incurred during the current period was a result of investor relations and promotional activities related to financing and to enhance shareholder awareness of the ICP. These activities include travelling for project financing, attending conferences and marketing road shows.
- (c) **Salary and wages** for the six month period ended August 31, 2017 was \$670,803 (2016 - \$199,037). Higher salaries and short term benefits in the current period were due to bonuses granted to executive management and employees, and the addition of new employees. The Company recently commissioned and completed an independent compensation review that benchmarked the Company's compensation policies against its peer group. The results of this independent review and recommendations were recently adopted by the Board of Directors and were reflected in report salary and wages. Higher salaries during the period were also due to the addition of new employees. In addition, executive management and employees took salary reductions during the first two quarters of 2016, resulting in lower salaries and short term employee benefits during that period.
- (d) **Legal and advisory fees** for the six month period ended August 31, 2017 was \$66,090 (2016 - \$37,328). Higher legal and advisory fees were the result of increased legal advisory activities related to project financing.
- (e) **Share-based compensation, a non-cash expense**, for the six month period ended August 31, 2017 was \$611,497 (2016 - \$66,436). 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).

- (f) **Foreign exchange loss, a non-cash adjustment**, for the six month period ended August 31, 2017 was \$178,477 (2016 – \$30,193). The US dollar depreciated against the Canadian dollar during this period from \$1.3281 on February 28, 2017 (February 29, 2016 - \$1.3531) to \$1.2536 on August 31, 2017 (August 31, 2016 - \$1.3116). The Company keeps a portion of its cash and its reclamation bond in US dollars. The Company's provision for site reclamation and closure costs is also originated in US dollars. The Company reports foreign exchange gains or losses as a result of changes in valuation from foreign exchange rates at the end of the period.
- (g) **Interest income** for the six month period ended August 31, 2017 was \$106,117 (2016 - \$10,533). Higher interest income during the period was due to higher current cash balance compared to the same period last year.

Financial Results of Operations for the Three Months Ended August 31, 2017 and 2016

The following are highlights from the Company's results from operations for the three months ended August 31, 2017 and 2016:

- (a) **Comprehensive loss** for the three month period ended August 31, 2017 was \$894,208 or \$0.01 per share (2016 - \$439,634 or \$0.01 per share). Changes to net loss in the current period compared to the same period last year were mainly the result of changes to the items discussed below.
- (b) **Shareholder relations** for the three month period ended August 31, 2017 was \$116,232 (2016 - \$65,018). Higher shareholder relations fees incurred during the current period was a result of investor relations and promotional activities related to financing and to enhance shareholder awareness of the ICP. These activities include travelling for project financing, attending conferences and marketing road shows.
- (c) **Salary and wages** for the three month period ended August 31, 2017 was \$230,544 (2016 - \$99,136). The Company recently commissioned and completed an independent compensation review that benchmarked the Company's compensation policies against its peer group. The results of this independent review and recommendations were recently adopted by the Board of Directors and were reflected in report salary and wages. Higher salaries during the period were also due to the addition of new employees.
- (d) **Share-based compensation, a non-cash expense**, for the three month period ended August 31, 2017 was \$611,497 (2016 - \$66,436). During the three 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).
- (e) **Foreign exchange loss, a non-cash adjustment**, for the three month period ended August 31, 2017 was \$182,754 (2016 – gain of \$9,313). The US dollar depreciated against the Canadian dollar during this period from \$1.35 on May 31, 2017 (May 31, 2016 - \$1.311) to \$1.2536 on August 31, 2017 (August 31, 2016 - \$1.3116). The Company keeps a portion of its cash and its reclamation bond in US dollars. The Company's provision for site reclamation and closure costs is also originated in US dollars. The Company reports foreign exchange gains or losses as a result of changes in valuation from foreign exchange rates at the end of the period.
- (f) **Interest income** for the three month period ended August 31, 2017 was \$60,122 (2016 - \$9,575). Higher interest income during the period was due to higher current cash balance compared to the same period last year.

1.3.1 Summary of Quarterly Results

Financial Information in thousands (except per share information)

	Three Months ended August 31, 2017	Three Months ended May 31, 2017	Three Months ended February 28, 2017	Three Months ended November 30, 2016	Three Months ended August 31, 2016	Three Months ended May 31, 2016	Three Months ended February 29, 2016	Three Months ended November 30, 2015
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss from continued operations	(1,322)	(785)	(345)	(1,087)	(431)	(347)	(51,762)	(299)
Basic and diluted loss per share	(0.01)	(0.01)	(0.002)	(0.01)	(0.005)	(0.002)	(0.57)	(0.003)

Net loss from operations for the three months ended August 31, 2017 was \$1,322,011 compared to a net loss of \$431,115 from the same period last year. The main difference was due to higher salary and wages, shareholder relations expense, share-based compensation expense, foreign exchange loss and interest income as discussed in section 1.3.

1.4 Liquidity

August 31, 2017 and 2016

- (a) **Cash and cash equivalents** as at August 31, 2017 were \$16,141,802 (February 28, 2017 - \$19,221,353).
- (b) **Working capital** as at August 31, 2017 was \$15,933,160 (February 28, 2017 - \$18,142,854).
- (c) **Mineral property expenditures** of \$1,840,430 (2016 - \$586,550) was incurred during the period ended August 31, 2017. Expense accruals of \$115,160 (2016 - \$Nil) and a non-cash adjustment of \$2,332,029 (2016 - \$1,155,742) for site reclamation and closure cost was also made, resulting a total addition of \$4,287,619 (2016 - \$1,742,292).
- (d) **Net Purchase of Property, Plant and Equipment expenditures** for the period ended August 31, 2017 was \$763,456 (2016 - \$300,209).

The Company's cash and cash equivalents are held in Canadian dollars and are invested in highly rated securities at fixed interest rates of up to 1.10% with varying terms maturing in less than three months from the date of purchase. All cash and cash equivalents are maintained by the parent company with cash distribution to fund the Company's subsidiaries' operations on an as needed basis. There are no uncertainties in liquidity but cash flow is cyclical as more cash outflows happen during the summer months due to maintenance of the ICP.

To finance operations and development of the ICP, the Company financed total gross proceeds of \$21,676,560 during the year ended February 28, 2017 including a private placement on June 1, 2016 and a bought deal financing on February 28, 2017. Proceeds from financing are used for general working capital to expand the Company's operations for project development and to strengthen the Company's financial position for project financing. As the FS is nearing completion, the Company also continues to market the ICP and pursue product off-take arrangements to facilitate Capex financing for project development. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company has sufficient working capital to sustain overhead, administrative, and property maintenance expenses over the next twelve months after the completion of the bought deal financing. The Company also has the ability to scale back on pre-construction 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 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	-	-
		<u>112,565</u>	<u>100,811</u>	<u>92,319</u>

- (a) As per the February 28, 1999 Virgin River joint venture exploration agreement whereby the Company has 2% interest, the Company's commitment to the 2017 exploration program budget is \$984. The Company is also 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.

1.5 Capital Resources

The Company's working capital as at August 31, 2017 was \$15,933,160 (February 28, 2017 - \$18,142,854). The Company expects working capital to increase with proceeds from the exercise of stock options and warrants that are currently in the

money. The Company continues to market the ICP, pursue product off-take arrangements to facilitate Capex financing for project development and seek further equity and debt funding in the capital markets. While the Company continues to look for opportunities to significantly reduce operating and overhead costs and defer capital expenditures.

1.6 Off-Balance Sheet Arrangements

None.

1.7 Transactions with Related Parties

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

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

- (i) Total salaries and short term benefits for the period ended August 31, 2017 was \$670,803 (2016 - \$199,037). Higher salaries and short term benefits in the current period were due to bonuses granted to executive management and employees of the Company. In addition, executive management and employees took salary reductions during the first two quarters of 2016, resulting in lower salaries and short term employee benefits during that period.
- (ii) Share-based payments (non-cash expense) are based on fair value of stock options granted to directors and officers of the Company. During the period ended 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.
- (iii) The Company paid or accrued directors fees of \$34,375 (2016 - \$46,625). The Company also reimbursed directors for business related expenses in the amount of \$13,256 (2016 - \$8,425).

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

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

		For the period ended August 31, 2017				For the period ended August 31, 2016			
		Non cash share based compensation	Salary, Bonus and Benefits	Directors Fees	Total Compensation	Non cash share based compensation	Salary, Bonus and benefits	Directors Fees	Total Compensation
		\$	\$	\$	\$	\$	\$	\$	\$
David Christie	Director	31,455	-	6,250	37,705	-	-	7,250	7,250
James Engdahl	Director	-	-	-	-	-	-	4,125	4,125
Paul Farquharson	President & CEO	125,821	229,168	-	354,989	-	93,750	-	93,750
Gregory Hahn	Director	31,455	-	6,250	37,705	-	-	7,250	7,250
Scott Hearn	Director	37,746	-	6,250	43,996	-	-	7,250	7,250
Rick Honsinger	Vice President	62,910	139,583	-	202,493	-	58,594	-	58,594
Robert Metka	Director	31,455	-	6,250	37,705	-	-	7,250	7,250
Robert Quinn	Director	-	-	3,125	3,125	-	-	6,750	6,750
David Smith	Director	31,455	-	3,125	34,580	-	-	-	-
David Stone	Director	-	-	3,125	3,125	-	-	6,750	6,750
Marc Tran	CFO	62,910	165,833	-	228,743	-	56,250	-	56,250
Floyd Varley	COO	94,365	36,385	-	130,750	-	-	-	-
		509,572	570,969	34,375	1,114,916	-	208,594	46,625	255,219

1.8 Proposed Transactions

None.

1.9 Critical Accounting Estimates

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

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

Judgments

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

Estimates

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

A change in estimate could result in the carrying amount of capitalized assets being materially different from their presented carrying costs.

- (ii) The provision for site reclamation and closure costs requires the Company to examine its site reclamation and closure cost obligations annually. Significant estimates and assumptions are made to determine provision for site reclamation and closure cost due to various factors that will affect the ultimate liability. These factors include estimates of extent and cost of reclamation activities, technological and regulatory changes, cost increases and changes in discount rates. Uncertainty of these factors may result in future actual reclamation expenditure being materially different from current estimates.
- (iii) The provision for income and mining taxes including expected recovery and periods of reversals of timing differences and composition of deferred income taxes and liabilities requires significant estimates about the future profitability, ability to utilize deferred tax assets and future income tax rates, among others. Should the Company's performance differ from management's estimates, or should future tax rates change, the Company's estimate of income and mining taxes could differ materially from current estimates.
- (iv) The fair value of stock options and warrants are subject to measurement by the Black-Scholes option pricing model, which requires market data and estimates made by the Company as inputs to the calculation. These inputs are subjective assumptions and changes in these inputs could materially affect the fair value estimated.

1.10 Financial Instruments and Other Instruments

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

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

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

At August 31, 2017, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	August 31, 2017		February 28, 2017	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	16,141,802	16,141,802	19,221,353	19,221,353
Reclamation bond	2,403,301	2,397,913	2,973,439	2,966,773
Financial liabilities				
Accounts payable	218,061	218,061	945,254	945,254
Accrued liabilities	105,155	105,155	289,992	289,992

1.11 Fair Values and Financial Risk Management

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

Credit risk

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

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

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

	August 31, 2017	February 28, 2017
	\$	\$
Cash and cash equivalents	16,141,802	19,221,353
Reclamation bond	2,403,301	2,973,439
Total	18,545,103	22,194,792

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:

	August 31, 2017			February 28, 2017	
	Within 1 year	2-5 years	Over 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
	16,141,802	-	-	16,141,802	19,221,353
Accounts payable	218,061	-	-	218,061	945,254
Accrued liabilities	105,155	-	-	105,155	289,992
	323,216	-	-	323,216	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%. The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

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

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

Translation exposure

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

At August 31, 2017, a 10% strengthening (weakening) of the Canadian dollar against the US\$ dollar would have increased (decreased) the Company's net loss before taxes of approximately \$302,600 (2016 - \$344,400).

1.13 Other MD&A Requirements

(a) Disclosure of Outstanding Share Data

As at October 5, 2017, there were 131,621,951 outstanding common shares, 6,550,500 outstanding stock options with a weighted average exercise price of \$0.69 and weighted average life of 3.67 years. The Company has 12,255,439 share purchase warrants outstanding with a weighted average price of \$1.25 and average life of 1.24 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 August 31, 2017.

Internal Controls over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the period ended August 31, 2017.

The Company's controls include policies and procedures that:

- (i) Relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- (iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the design and operational effectiveness of the Company's internal control over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework* (the "Framework"), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2002. The Company confirms that the design and operation effectiveness of the Company's internal control over financial reporting is effective.

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

Limitation of Controls and Procedures

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

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

(c) **Additional Information**

More information can be found on the Company's website at www.eCobalt.com. Additional information is provided in the Company's audited annual consolidated financial statements for the years ended February 28, 2017 and 2016. Information Circulars and Annual Information Forms are also available at www.sedar.com.