Formation Metals Inc.

Management's Discussion and Analysis

For the Three Months Ended May 31, 2016

Date of Report: July 11, 2016

Suite 1810 – 999 West Hastings Street
Vancouver, BC, Canada
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Symbol: Toronto Stock Exchange – FCO

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This Management's Discussion and Analysis ("MD&A") has been prepared by management and should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes thereto of Formation Metals Inc. (the "Company") for the three months ended May 31, 2016 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 July 11, 2016.

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 FCO. The Company is engaged in the business of exploring mineral properties in Canada and the United States.

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 and mill located in Lemhi County outside of the town of Salmon, Idaho, and a to be constructed cobalt production refining facility ("CPF"). Should the project proceed, the CPF will likely be located along a railhead in an industrial hub in southern Idaho.

The Company SEDAR filed a National Instrument 43-101 compliant Preliminary Economic Assessment ("PEA") on the ICP on May 8, 2015. The PEA demonstrated positive economics for the ICP including an after tax NPV of US$113M discounted at 8.5%, an IRR of 24.07% and a 12.5 year life of mine after pre-production. The PEA included the production of a combined cobalt/copper/gold concentrate from the mine and mill to be shipped to the CPF for hydrometallurgical processing of cobalt and copper bearing sulfides to produce cobalt sulfate heptahydrate utilized in the production of cathodes for the rechargeable battery sector.

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

To finance the BFS and working capital, the Company closed a private placement on June 1, 2016 for gross proceeds of $4,426,560 by issuing 14,755,200 units ("Units") at $0.30 per Unit. Each Unit purchased in the Offering consisted of one common share of the Company and one-half of one common share purchase warrant (each full warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one Share at a price of $0.40 for a period of 24 months following the Closing Date.

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

1.2.2 Highlights for the three month period ended May 31, 2016 and subsequent events

Corporate:

(a) During the three month period ended May 31, 2016, the Company reported a comprehensive loss of $260,142 (May 31, 2015 - $774,279) and accumulated deficit of $119,197,251 (February 29, 2016- 118,850,133);

(b) As at May 31, 2016, the Company had working capital of $1,303,638 (February 29, 2016 - $954,638). Working capital includes $812,720 of subscription advances received during the period related to the private placement that was completed on June 1, 2016;

(c) On June 1, 2016, the Company completed its previously announced (May 4 and May 9, 2016) offering with the majority of the over-allotment option exercised pursuant to which it has issued and sold 14,755,200 Units at a price of $0.30 per Unit for total gross proceeds of $4,426,560. On a fully diluted basis, the Units sold represents 24.99% of pre-closing issued and outstanding common shares. Each Unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each Warrant entitles the holder thereof to acquire one Share at a price of $0.40 for a period of 24 months following the Closing Date. The Offering was completed on a private placement basis by Dundee Securities Ltd. ("Dundee"). The Company paid a total commission fee of $177,886 and issued 592,954 warrants ("Compensation Warrants") to Dundee and other agents. The Compensation Warrants have an exercise price of $0.37 and each Compensation Warrant entitles the holder thereof to acquire one Share for a period of 24 months following the Closing Date; and

(d) On June 21, 2016, the Company announced that it has signed an agreement with Micon for technical services to conduct a BFS on the ICP. Micon will be subcontracting aspects of the study concerning the processing, infrastructural engineering, risk assessment, project scheduling, and cost estimating to SNC-Lavalin.

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 three months ended May 31, 2016 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 and the United States.

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

2015 Preliminary Economic Assessment on the ICP

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

- Pre-Tax NPV8.5%: $148 million, IRR 27.7%
- Post-Tax NPV8.5%: $113 million, IRR 24.07%
- Initial Capital Costs: $147 million

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

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

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

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

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

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

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

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

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

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.

<u>Metallurgical Test Work</u>

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 will 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 has previously recommended that the project development activities be advanced to support and produce a BFS. The finalization of the modified flow sheets allows for such advancement.

Bankable Feasibility Study

On June 21, 2016, the Company announced that it has signed an agreement with Micon for technical services to conduct a BFS on the ICP. Micon will be subcontracting aspects of the study concerning the processing, infrastructural engineering, risk assessment, project scheduling, and cost estimating to SNC-Lavalin.

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 by Darton Commodities Ltd., January, 2016 and CRU, May 2016. 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 83,000[1] tonnes in 2013, 89,000[2] tonnes in 2014, and 90,150[3] tonnes in 2015. Demand from rechargeable battery sector grew by 11.7% in 2015 taking up 49% of total cobalt demand followed by supperalloys at 18% and hard metals at 8%[4]. The remaining 25% were used in other applications such as ceramics/pigments, catalysts, hard facing, paint driers, magnets and others[5]. Compounded annual growth rate for cobalt consumption is expected to reach 5.1% within the medium term to 124,000 tonnes by 2020 and 153,000 tonnes by 2025[6]. Most of this growth is due to consumption of cobalt used in rechargeable battery applications with the strongest forecast demand growth coming from Electric Vehicles ("EVs") market at 16% per annum, portable electronics such as tablets, laptops and household devices at 10% per annum, and portable phones at 6% per annum[7].

Energy requirement in MWh for EVs are expected to grow at 16% per annum until 2025[8]. To produce this energy requirement, the battery sector is forecasted to consume 75% to 78% of total cobalt production[9]. In 2014, Tesla Motors, Inc. confirmed its plans to build its US$5.0 billion EV "Gigafactory" in Reno, Nevada of which construction is well underway and ahead of schedule. At its peak, the Gigafactory is expected to have the capacity to produce 500,000 electric vehicles annually and this can potentially increase the annual global demand for cobalt by approximately 20% once the Gigafactory reaches full commercial production capacity planned for 2020. Recently, the following companies have also announced investments in EVs including:

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

The EV market continues to rise in popularity and importance and there are several other EV manufacturers which have announced plans for new vehicle production. 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 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.

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[1] CRU Cobalt Market Outlook 2015
[2] CRU Cobalt Market Outlook 2015
[3] CRU Cobalt Market Outlook 2015
[4] Darton Commodities Limited Cobalt Market Review 2015-16
[5] Darton Commodities Limited Cobalt Market Review 2015-16
[6] CRU Cobalt Market Outlook 2015
[7] CRU Cobalt Market Outlook 2015
[8] CRU Cobalt Market Outlook 2015
[9] CRU Cobalt Market Outlook 2015

Approximately 65% of the world cobalt supply is mined from the Democratic Republic of Congo ("DRC") with 69,200 tonnes produced in 2015[10]. Despite the reduction in cobalt production related to nickel and copper projects, total cobalt output from the DRC increased by 9% in 2015 and this was due to increase in cobalt production from artisanal mining[11]. Artisanal mining accounts for approximately 22% of total 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 tonnes[12] of world supply in 2015. Approximately 94%[13] 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% growth in production in 2015 representing 52% or 48,500 tonnes of world production[14]. This growth is predominately driven by demand from downstream markets. This growth forces Chinese biggest refiners and producers to expand and aggressively acquire cobalt assets. This was demonstrated by China Molybdenum's acquisition of Freeport McMoRan Inc.'s Tenke Fungurume flagship copper-cobalt asset in the DRC for US$2.65 billion in April 2016. In addition to this acquisition, China Molybdenum also has the option to acquire Freeport's Kisanfu project in the DRC and its interest in the Kokkola Cobalt Refinery in Finland for US$100 million.

Supply Demand Balance

Forecasted compounded annual growth rate for cobalt supply is 2.4%. As a result of increase in demand and reduction in supply of cobalt, overall supply demand balance is forecasted to progressively tighten over the medium and long term with minimal prospects of new cobalt projects coming into production within the next decade[15]. Demand for metallurgical cobalt will continues to grow against supply even though there is a small surplus in metallurgical cobalt supply. Significant increase in demand of non-metallurgical or cobalt chemicals used in rechargeable batteries will cause deep deficit. The combined effect is expected to result in a projected deficit of 10,000 tonnes annually by 2020[16].

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 supply deficit, especially metal, drives prices higher and it is forecasted that price of cobalt metal at 99.3% and 99.8% grades will reach $20.00 and $21.00 per lb. respectively by 2020[17]. For the impairment assessment of the ICP for the year ended February 29, 2016, management used a price of $17.00 per lb. for the price of cobalt sulfate to arrive at a recoverable value (see disclosure in Idaho Cobalt Project- Impairment section).

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 near term and environmentally permitted. 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 influenced by copper and nickel markets. Being located in the United States eliminates the geopolitical and human rights issues that are 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.

[10] Darton Commodities Limited Cobalt Market Review 2015-16
[11] Darton Commodities Limited Cobalt Market Review 2015-16
[12] Darton Commodities Limited Cobalt Market Review 2015-16
[13] Darton Commodities Limited Cobalt Market Review 2015-16
[14] Darton Commodities Limited Cobalt Market Review 2015-16
[15] CRU Cobalt Market Outlook 2015
[16] CRU Cobalt Market Outlook 2015
[17] CRU Cobalt Market Outlook 2015

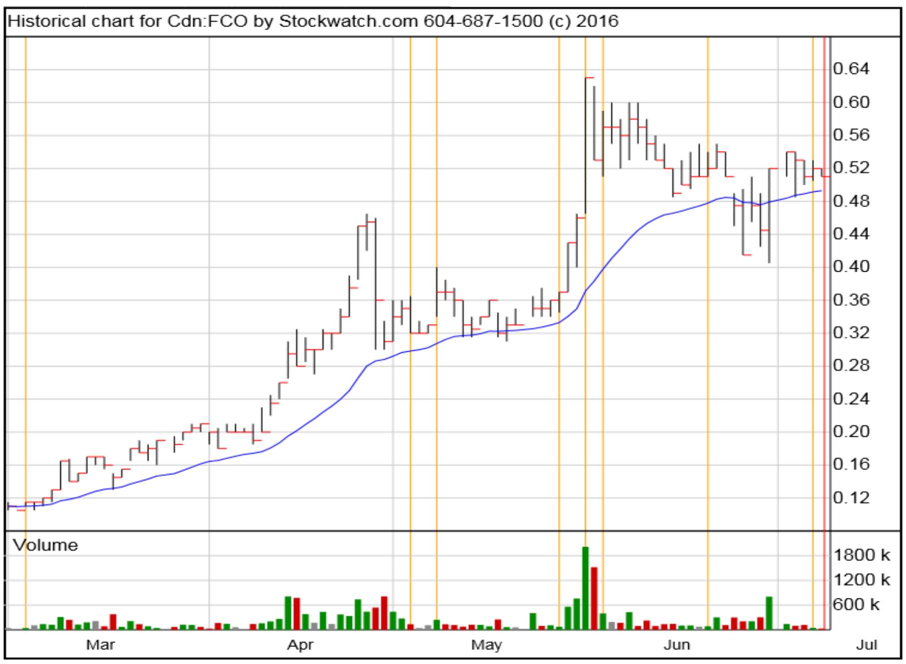
There is an opportunity for the mine to produce more tons for short durations on the high tonnage levels of the mine through the optimization of the mine plan and sequence. There also exists the possibility of increasing overall recoveries at the CPF and obtain better shipping and handling terms through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

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

Share Price Performance

The Company's share prices reacted strongly during the quarter in response to increased marketing, media, analyst and newsletter coverage of the rapidly expanding EV sector, the ethical issues associated with artisanal mining in the DRC and the predicted supply deficits. The Company's share price at the beginning of the quarter was $0.11 rising to $0.46 by the end of the quarter. Immediately subsequent to the end of the quarter the share price reached a high of $0.63, with subsequent corrections stabilizing in the lower 50 cent range.

Figure 1: Formation Metals' Share Price, March 1, 2016 – June 8, 2016 (Stockwatch.com, 2016)



1.3 Selected Annual Information

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

(a) Capital Allocation – Capital spending was directed toward the creation of an integrated mining, producing, and refining of the ICP.

(b) Raising Capital – The financial statements reflect the emphasis of management on sourcing the cash resources to fund the Company's operating and investing activities and to eliminate debt.

Given the nature of the Company's business and stage of development, the most meaningful financial information concerning the Company relates to its current liquidity and capital resources. The following table is a summary of the results of the Company's operations and activities from its last three audited fiscal years.

	Year ended February 29, 2016		Year ended February 28, 2015		Year ended February 29, 2014
	$	%	$	%	$
Share-based payments	(333,981)	196%	(112,746)	0%	-
Foreign exchange (loss) gain	222,005	-59%	535,476	-40%	889,881
Depreciation	(51,248)	9%	(47,211)	-26%	(63,615)
Impairment of property, plant and equipment	-	-100%	(5,386,920)	-51%	(10,897,811)
Impairment of mineral properties	(51,434,713)	1113%	(4,240,426)	3288%	(125,162)
Retirement and severance pay	-	0%	-	-100%	(2,451,663)
Write-off deferred financing cost	-	0%	-	-100%	(2,681,116)
All other expenses	(1,405,180)	0%	(1,411,718)	-64%	(3,868,431)
Net loss before taxes from continued operations	(53,003,117)	397%	(10,663,545)	-44%	(19,197,917)
Income tax (expense) recovery	1,989	-100%	1,717,062	-66%	5,043,214
Net loss after taxes from continued operations	(53,001,128)	492%	(8,946,483)	-37%	(14,154,703)
Gain (loss) from discontinued operations	-	-100%	(358,955)	-205%	340,673
Other comprehensive income: currency translation		0			
adjustment	(170,924)	-288%	91,136	-81%	487,476
Total comprehensive loss for the year	(53,172,052)	477%	(9,214,302)	-31%	(13,326,554)
Basic and diluted loss per share	(0.58)	480%	(0.10)	-38%	(0.16)

	(IFRS) Year ended February 29, 2016	(IFRS) Year ended February 28, 2015	(IFRS) Year ended February 29, 2014
	$	$	$
Total assets	65,235,535	118,008,882	126,133,907
Total long term liabilities	5,998,489	5,703,288	2,904,898

1.4 Results of Operations

Financial Results of Operations for the Three Month Period Ended May 31, 2016 and 2015

The following are highlights from the Company's results from operations for the three month periods ended May 31, 2016 and 2015:

(a) **Comprehensive loss** for the three month period ended May 31, 2016 was $260,142 or $0.002 per share (2015 - $774,279 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) **Share-based compensation, a non-cash expense,** for the three month period ended May 31, 2016 was $nil (2015 - $333,981). On April 27, 2015 the Company granted 3,103,000 options to directors, officers and employees exercisable at $0.20 per share and expiring on April 27, 2020. The fair value of the options was determined using the Black-Scholes option pricing model utilizing the following assumptions: risk free interest of 0.94%, expected life of 5 years, annualized volatility of 73% and share price of $0.185.

(c) **Shareholder relations** for the three months period ended May 31, 2016 was $28,067 (2015- $57,832). Shareholder relations expenses related to the June 1, 2016 private placement was capitalized in finance expense and this lowered shareholder relations fees during the current period compared to the same time last year.

(d) **Office expense** for the period ended May 31, 2016 was $79,121 (2015- $103,363). To conserve working capital, the Company has made material reductions to overhead, office, and non-essential expenses. These reductions include travel expenses, postage, rent, and professional membership and dues. The Company continues to assess its overhead expenses to conserve working capital.

(e) **Salary and wages** for the period ended May 31, 2016 was $99,901 (2015- $143,093). The Company reduced all salaries and wages effective January 1, 2016 to conserve working capital resulting in lower salary expenses during the current period.

Summary of Quarterly Results

Financial Information in thousands (except per share information)

	Three Months ended May 31, 2016	Three Months ended February 29, 2016	Three Months ended November 30, 2015	Three Months ended August 31, 2015	Three Months ended May 31, 2015	Three Months ended February 28, 2015	Three Months ended November 30, 2014	Three Months ended August 31, 2014
	$	$	$	$	$	$	$	$
Net gain (loss) from continued operations	(347)	(51,764)	(299)	(151)	(789)	(14,166)	2,884	(71)
Net gain (loss) from discontinued operations	nil	nil	nil	nil	nil	(183)	(35)	(261)
Basic and diluted income (loss) per share	(0.002)	(0.57)	(0.003)	(0.002)	(0.01)	(0.16)	0.03	(0.001)

Net loss from operations for Q1 ended May 31, 2016 was $347,076 compared to a net loss of $788,996 from the period last year. The main difference was due to a non-cash share compensation expense of $333,981 that was recognized in Q1-2015 for stock options that was granted on April 27, 2015.

1.5 Liquidity

May 31, 2016 and 2015

(a) **Cash and cash equivalents** as at May 31, 2016 were $1,440,197 (February 29, 2016 - $1,095,357).

(b) **Working capital** as at May 31, 2016 was $1,303,638 (February 29, 2016 - $954,504).

(c) **Mineral property expenditures** of $131,111(2015 - $346,248) were spent and capitalized during the period ended May 31, 2016.

(d) **Net Purchase of Property, Plant and Equipment expenditures** for the period ended May 31, 2016 was $5,000 (2016 - $nil).

The Company's cash and cash equivalent are held mostly in US dollars and are invested in highly rated securities at fixed interest rates of 0.46% with varying terms maturing in less than three months from the date of purchase. All cash and cash equivalents are maintained by the parent company with cash distribution to fund the Company's subsidiaries' operations on an as needed basis. Since the ICP is on care and maintenance, the Company does not have significant commitments (see Contractual Commitments). 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.

The Company closed a private placement on June 1, 2016 for gross proceeds of $4,426,560 by issuing 14,755,200 Units at $0.30 per Unit. The proceeds of the private placement will be used to finance the BFS on the ICP and general working capital. In conjunction with commissioning the BFS, the Company also intends to continue marketing the ICP and pursue product off-take arrangements to facilitate Capex financing for project development. While the Company continues to look for opportunities to significantly reduce operating and overhead costs and defer capital expenditures, these material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company has sufficient working capital to sustain overhead, administrative, and property maintenance expenses over the next twelve months after the completion of the private placement.

Contractual Commitments

The following is a schedule of the Company's commitments as at May 31, 2016:

	Note	2017	2018 and later
		$	$
Mineral property expenditure	(a)	20,000	-
General liability insurance	(b)	24,572	-
Office operating leases		44,844	286
		89,416	286

(a) As per the February 28, 1999 Virgin River joint venture exploration agreement whereby the Company has 2% interest, the Company's commitment to the 2016 exploration program budget is $18,000. The Company is also committed to spend $2,000 for Kernaghan project representing 20% of its budget.

(b) The Company has a total liability of $24,572 on premiums for its commercial general and umbrella liability insurance policies payable monthly until October 12, 2016.

(c) The Company has operating lease commitments totalling $45,130.

(d) Pursuant to employment agreements, the Company may be obligated to pay up to $744,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

1.6 Capital Resources

The Company's working capital as at May 31, 2016 was $1,303,638 (February 29, 2016 - $954,504). On June 1, 2016, the Company closed a private placement on June 1, 2016 for gross proceeds of $4,426,560. The proceeds of the private placement will be used to finance the BFS on the ICP and general working capital.

1.7 Off-Balance Sheet Arrangements

None.

1.8 Transactions with Related Parties

(a) Subsidiaries

	Ownership interest	
	May 31, 2016	February 29, 2016
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 three months ended May 31, 2016 and 2015 were as follows:

		May 31, 2016	May 31, 2015
		$	$
Salaries and short-term employee benefits including bonuses		**97,344**	111,250
Share-based compensation	(i)	**-**	262,867
Directors' fees		**27,875**	31,875
		125,219	405,992

Outstanding balances owed to directors and officers at May 31, 2016 was $85,625 (May 31, 2015 - $31,875).

(i) Share-based payments (non-cash expense) are based on fair value of stock options granted to directors and officers of the Company. The Company issued no stock options during the period ended May 31, 2016 (2015 – 2,418,000l) to directors and officers with weighted average exercise price of $nil (2015 - $0.20) per share, expiring five years from the issue date. Using the Black-Scholes option pricing model, the fair value of stock options granted was $nil (2015- $262,867). Refer to section 7 (b) (iii) of the unaudited condensed interim consolidated financial statements for the period ended May 31, 2016 for pricing assumptions.

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

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

		For the period ended May 31, 2016				For the period ended May 31, 2015			
		Non cash share based compensation	**Salary and benefits**	**Directors Fees**	**Total Compensation**	Non cash share based compensation	Salary and benefits	Directors Fees	Total Compensation
		$	**$**	**$**	**$**	$	$	$	$
Cecil Andurs	Director Emeritus	**-**	**-**	**-**	**-**	2,690	-	-	2,690
David Christie	Director	**-**	**-**	**4,125**	**4,125**	25,178	-	4,625	29,803
James Engdahl	Director	**-**	**-**	**4,125**	**4,125**	25,178	-	4,625	29,803
Paul Farquharson	President & CEO	**-**	**43,750**	**-**	**43,750**	32,280	50,000	-	82,280
Gregory Hahn	Director	**-**	**-**	**4,125**	**4,125**	25,178	-	5,125	30,303
Scott Hean	Director	**-**	**-**	**4,125**	**4,125**	25,178	-	4,625	29,803
Rick Honsinger	Vice President	**-**	**27,344**	**-**	**27,344**	25,824	31,250	-	57,074
Robert Metka	Director	**-**	**-**	**4,125**	**4,125**	25,178	-	4,125	29,303
Robert Quinn	Director	**-**	**-**	**3,625**	**3,625**	25,178	-	4,125	29,303
David Stone	Director	**-**	**-**	**3,625**	**3,625**	25,178	-	4,625	29,803
Marc Tran	CFO	**-**	**26,250**	**-**	**26,250**	25,824	30,000	-	55,824
		-	**97,344**	**27,875**	**125,219**	262,867	111,250	31,875	405,992

1.9 Proposed Transactions

None.

1.10 Critical Accounting Estimates

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

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

Judgments

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

(ii) The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

(iii) Judgments by management with respect to the useful lives of property, plant and equipment, and related rates of depreciation, could result in carrying values of the underlying assets being over or understated, should those judgments be determined to be incorrect.

(iv) The functional and presentation currencies of the Company are the Canadian dollar. The functional currencies of the Company's subsidiaries are either the Canadian dollar or the U.S. dollar, depending on management's assessment of whether the specific subsidiary is a standalone operation or integrated with the operations of the parent company. Should management's judgment about the nature of a subsidiary differ from its actual nature, a material difference in the cumulative translation adjustment and or foreign exchange gain could result.

Estimates

(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 (Note 9) 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 the calculation by the Black-Scholes option pricing model, which requires market data and estimates used by the Company in the determination of the fair value. These inputs are subjective assumptions and changes in these inputs could materially affect the fair value estimated.

1.11 Financial Instruments and Other Instruments

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

The Company's financial assets consist of fair value through profit and loss which includes cash and cash equivalents and restricted cash, loans and receivables which includes reclamation bond and trade and other receivables. The fair value of these instruments approximate their carrying value because of the short term nature of these instruments except for the reclamation bond whereby its fair value will not be realized until the bond is released from the trustee (Note 3). The reclamation bond's fair value is calculated in accordance with level 1 of the fair value hierarchy.

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

At May 31, 2016 and 2015, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

		May 31, 2016		May 31, 2015
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash and cash equivalents	**1,440,197**	**1,440,197**	3,569,180	3,569,180
Reclamation bond	**2,935,155**	**2,881,798**	2,784,479	2,733,861
Financial liabilities				-
Accounts payable	**87,054**	**87,054**	107,964	107,964
Accrued liabilities	**108,937**	**108,937**	131,236	131,236

1.12 Fair Values and Financial Risk Management

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

Credit risk

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

	May 31, 2016	May 31, 2015
	$	$
Cash and cash equivalents	**1,440,197**	3,569,180
Reclamation bond	**2,935,155**	2,784,479

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:

	May 31, 2016				May 31, 2015
	Within 1 year	**2-5 years**	**Over 5 years**	**Total**	Total
	$	$	$	$	$
Cash	743,647	-	-	743,647	122,242
Short term savings	696,550	-	-	696,550	3,446,938
	1,440,197	-	-	1,440,197	3,569,180

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 May 31, 2016, US short term savings account of US$531,312 (February 29, 2016- $769,994) earns an interest rate of up to 0.45%. The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

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

A 10% strengthening (weakening) of the Canadian dollar against the US$ dollar would have increased (decreased) the Company's net income (loss) before taxes of approximately $362,900 (May 31, 2015 - $612,500).

1.13 Other MD&A Requirements

(a) Disclosure of Outstanding Share Data

As at July 8, 2016, there were 105,892,405 outstanding common shares, 6,353,000 outstanding stock options with a weighted average exercise price of $0.40 and weighted average life of 2.51 years. The Company has 7,970,554 common share purchase warrants outstanding at weighted average exercise price of $0.40 expiring on June 1, 2018.

(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 February 29, 2016.

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 May 31, 2016.

The Company's controls include policies and procedures that:

(i) Relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

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

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

Limitation of Controls and Procedures

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

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

(c) **Additional Information**

More information can be found on the Company's website at www.FormationMetals.com. Additional information is provided in the Company's audited annual consolidated financial statements for the years ended February 29, 2016 and 2015. Information Circulars and Annual Information Forms are also available at www.sedar.com.