



(Formerly Formation Metals Inc.)

Consolidated financial statements of

eCobalt Solutions Inc.

February 28, 2017 and February 29, 2016

(Stated in Canadian dollars)

eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

February 28, 2017 and February 29, 2016

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INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF eCOBALT SOLUTIONS INC.
(formerly Formation Metals Inc.)**

We have audited the accompanying consolidated financial statements of eCobalt Solutions Inc., which comprise the consolidated statements of financial position as at February 28, 2017 and February 29, 2016 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of eCobalt Solutions Inc. as at February 28, 2017 and February 29, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

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May 23, 2017

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eCobalt Solutions Inc.
 (Formerly Formation Metals Inc.)
 Consolidated Statements of Financial Position
 (Stated in Canadian dollars)

	Note	February 28, 2017	February 29, 2016
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		19,221,353	1,095,357
Trade and other receivables		58,883	4,944
Prepaid expenses and deposits		97,864	68,774
Total current assets		19,378,100	1,169,075
Reclamation bond	4	2,973,439	3,029,411
Mineral properties	5	21,881,931	20,648,858
Property, plant and equipment	6	40,658,469	40,388,191
Total assets		84,891,939	65,235,535
Liabilities			
Current liabilities			
Accounts payable		945,254	74,669
Accrued liabilities	10	289,992	139,902
Total current liabilities		1,235,246	214,571
Provision for site reclamation and closure costs	7	4,671,199	5,972,114
Deferred tax liabilities	8	25,924	26,375
Total liabilities		5,932,369	6,213,060
Shareholders' Equity			
Common shares	9	178,430,193	160,945,419
Share purchase warrants reserve		11,504,324	7,343,318
Share-based payments reserve		9,532,117	9,031,102
Foreign currency translation reserve		552,769	552,769
Deficit		(121,059,833)	(118,850,133)
Total shareholders' equity		78,959,570	59,022,475
Total liabilities and shareholders' equity		84,891,939	65,235,535

Approved by the Board and authorized for issue on May 23, 2017

"Scott B. Hean"
 Director

"J. Paul Farquharson"
 Director

eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Consolidated Statements of Operations and Comprehensive Loss

(Stated in Canadian dollars)

	Note	Year ended February 28, 2017 \$	Year ended February 29, 2016 \$
Expenses			
Accounting and audit		103,058	114,156
Accretion expense on site reclamation and closure	7	105,149	102,498
Bank charges and interest expense		3,617	3,087
Depreciation	6	51,122	51,248
Directors' fees and expenses	10(b)	93,555	124,460
Foreign exchange loss (gain)		(14,445)	(222,005)
Legal fees		82,830	50,719
Listing and filing fees		61,617	53,912
Office		319,104	306,087
Salaries and wages		449,922	538,055
Shareholder relations		171,089	125,138
Share-based compensation	9(b)(iii)	812,125	333,981
Loss from operating activities		(2,238,743)	(1,581,336)
Impairment of mineral property		-	(51,434,713)
Interest income		28,592	12,932
Loss before taxes		(2,210,151)	(53,003,117)
Income tax recovery	8	451	1,989
Net loss		(2,209,700)	(53,001,128)
Other comprehensive income (loss):			
Currency translation adjustment		-	(170,924)
Total comprehensive loss for the year		(2,209,700)	(53,172,052)
Basic and diluted (loss) per share	9(d)	(0.02)	(0.58)
Weighted average number of shares outstanding			
Basic and diluted		102,861,869	90,887,205

eCobalt Solutions Inc.

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Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars)

	Note	Common shares without par value		Share purchase warrants	Share-based payments reserve	Foreign currency translation reserve	Deficit	Total shareholders' equity
		Shares	Amount					
			\$	\$	\$	\$	\$	\$
Balance, February 28, 2015		90,887,205	160,945,419	7,343,318	8,697,121	723,693	(65,849,005)	111,860,546
Share-based compensation		-	-	-	333,981	-	-	333,981
Net loss and comprehensive loss		-	-	-	-	(170,924)	(53,001,128)	(53,172,052)
Balance, February 29, 2016		90,887,205	160,945,419	7,343,318	9,031,102	552,769	(118,850,133)	59,022,475
Issuance of common shares on exercise of stock options	9(a)(iii)	2,538,500	923,110		(311,110)	-	-	612,000
Issuance of common shares and warrants for cash, net of share issue costs	9(a)(iv)	14,755,200	3,041,772	1,068,706	-	-	-	4,110,478
Issuance of common shares on exercise of share purchase warrants	9(a)(ii)	1,879,051	1,014,005	(274,026)		-	-	739,979
Issuance of common shares and warrants for cash, net of share issue costs	9(a)(i)	17,250,000	12,505,887	3,366,326	-	-	-	15,872,213
Share-based compensation	9(b)(iii)	-	-	-	812,125	-	-	812,125
Net loss and comprehensive loss		-	-	-	-	-	(2,209,700)	(2,209,700)
Balance, February 28, 2017		127,309,956	178,430,193	11,504,324	9,532,117	552,769	(121,059,833)	78,959,570

See accompanying notes to the consolidated financial statements.

eCobalt Solutions Inc.
(Formerly Formation Metals Inc.)
Consolidated Statements of Cash Flows
(Stated in Canadian dollars)

	Note	Year ended February 28, 2017	Year ended February 29, 2016
		\$	\$
Operating activities			
Net loss for the year		(2,209,700)	(53,001,128)
Items not involving cash			
Accretion expense on site reclamation and closure	7	105,149	102,498
Depreciation		51,122	51,248
Deferred income tax recovery	8	(451)	(1,989)
Unrealized foreign exchange (gain) loss		(15,004)	(305,904)
Shared-based compensation	9(b)(iii)	812,125	333,981
Impairment of mineral property		-	51,434,713
Change in working capital items	12	241,702	(206,295)
Net cash used by operating activities		(1,015,057)	(1,592,876)
Investing activities			
Mineral property expenditures	5	(1,957,166)	(1,548,254)
Purchase of property, plant and equipment, net of deposits	6	(321,400)	(591,735)
Net cash used by investing activities		(2,278,566)	(2,139,989)
Financing activities			
Issuance of common shares and warrants, net of issue costs	9(a)(iv)	4,110,478	-
Issuance of common shares and warrants, net of issue costs	9(a)(i)	15,972,742	-
Share purchase warrants	9(a)(ii)	739,979	-
Exercise of stock options	9(a)(iii)	612,000	-
Net cash provided by financing activities		21,435,199	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		(15,579)	305,772
Net cash inflows (outflows) during the year		18,125,998	(3,427,093)
Cash and cash equivalents, beginning of year		1,095,357	4,522,450
Cash and cash equivalents, end of year		19,221,355	1,095,357
Financial position as at			
		February 28, 2017	February 29, 2016
Cash and cash equivalents are comprised of:			
Cash		16,644,851	62,949
Short-term investments		2,576,504	1,032,408
		19,221,355	1,095,357

Supplemental cash flow information (note 12)

eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

1. Nature of business and going concern

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

The Company’s primary project, located in the mining friendly state of Idaho, is the 100% owned and fully environmentally permitted, Idaho Cobalt Project (the “ICP”). The ICP is comprised of the mine and mill located in Lemhi County outside of the town of Salmon, Idaho. A feasibility level study was completed on the ICP in 2007 to produce a high purity cobalt metal suitable for critical applications in the aerospace sector. In December 2009, the Company and the United States Department of Agriculture Forest Service signed the “Forest Service Evaluation” which approved and finalized the Company’s Mine Plan of Operations (the “Mine Plan”) for the ICP. The approval and finalization of the Company’s Mine Plan allowed the Company to commence construction on the ICP Mine Site. By November 2012, the Company had completed two of three stages of construction at the mine and mill site 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.

A National Instrument 43-101 compliant Revised Technical Report on the Preliminary Economic Assessment (“PEA”) on the ICP to produce cobalt sulfate crystals from the ICP suitable for the rechargeable batteries and electric vehicles market was filed on SEDAR on January 10, 2017. The Company announced successful metallurgical test work results on bench test production of cobalt sulfate crystals on March 3, 2016. Following these successful results, the Company completed a private placement on June 1, 2016 and commissioned a Feasibility Study (“FS”) on the ICP on June 21, 2016.

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

Going concern

At February 28, 2017, the Company had working capital of \$18,142,854 (February 29, 2016 - \$954,504). For the year ended February 28, 2017, the Company reported a comprehensive loss of \$2,209,700 (February 29, 2016 - \$53,172,052) and accumulated deficit of \$121,059,833 (February 29, 2016 - \$118,850,133).

The ability of the Company to continue as a going concern over a longer term is dependent on the Company’s ability to raise the financing necessary to complete development of the ICP and ultimate production. The Company recently filed a short form base shelf prospectus (the “Shelf Prospectus”) on January 12, 2017 and this will, subject to securities regulatory requirements, allow the Company to make offerings of up to \$100,000,000 of common shares, preference shares, debt securities, warrants, subscription receipts, units, or any combination of such securities during the 25-month period that the Shelf Prospectus is effective.

To finance operations and development of the ICP, the Company raised 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 CAPEX financing.

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Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

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1. Nature of business and going concern (continued)

The Company also continues to market the ICP, pursue product off-take arrangements to facilitate financing for project development and seek further equity and debt funding in the capital markets.

Raising capital sufficient to complete planned development costs is based upon favourable FS results and this is a material uncertainty. Raising further capital sufficient to establishing profitable operations is also a material uncertainty. The need to raise external financing and lack of established profitable operations are material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern.

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

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Significant accounting policies are described in Note 3.

(b) Basis of measurement

The annual consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Significant judgments and 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:

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2. Basis of preparation (continued)

(c) Significant judgments and estimates (continued)

Judgments

- (i) Annually, the Company assesses whether indicators of impairment exist with respect to 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, 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 currency of the Company's subsidiaries are also the Canadian dollar. Activities of the subsidiaries are integrated with the operations of the parent company. Should management's judgment about the nature of a subsidiary differ from its actual nature, a material difference in the cumulative translation adjustment and/or foreign exchange gain (loss) could result.

Estimates

- (i) The carrying value of mineral properties, exploration and development expenditures incurred, and property, plant and equipment, and the likelihood of future economic recoverability of these carrying values is subject to significant management estimates and judgments. 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.

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Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

2. Basis of preparation (continued)

(c) Significant judgments and estimates (continued)

- (ii) The provision for site reclamation and closure costs (Note 7) 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 tax assets and liabilities (Note 8) 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.

3. Significant accounting policies

(a) Basis of consolidation

These annual consolidated financial statements of the Company include the accounts of eCobalt Solutions Inc. and, either directly or indirectly, its wholly-owned subsidiaries: Formation Capital Corporation, U.S., a Nevada corporation; Essential Metals Corporation®, an Idaho corporation; Coronation Mines Ltd ("Coronation"), a Saskatchewan company; Minera Terranova S.A. de C.V., a Mexican company; Formations Holdings US, Inc., an Idaho corporation; US Cobalt, Inc. an Idaho corporation and Formations Holdings Corp., a British Columbia corporation. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

All inter-company transactions, balances, revenues and expenses have been eliminated.

eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

3. Significant accounting policies (continued)

(b) Functional and presentation currency and translation

Items included in the annual consolidated financial statements of the Company are measured using the currency of the primary economic environment in which eCobalt Solutions Inc. and each of its subsidiaries operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is eCobalt Solutions Inc.’s functional currency. All subsidiaries of the Company also have their functional currency in Canadian dollars.

Foreign exchange transactions are recorded at the rate of exchange on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the reporting period exchange rates for monetary assets and liabilities denominated in currencies other than the functional currency are recognized in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency are translated at their historic rates of exchange.

(c) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, deposits in banks and highly liquid short-term investments with original maturities of three months or less.

(d) Mineral properties

Acquisition costs of mineral properties together with direct exploration and development expenditures thereon are capitalized. These costs will be amortized using the unit-of-production method based on proven and probable reserves on the commencement of commercial production or written-down as the properties are sold, allowed to lapse, are abandoned, or, in the case of development properties, are determined to be impaired. Mineral property costs not directly attributable to specific properties are expensed during the year.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use.

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Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

3. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

Property, plant and equipment are depreciated to estimated residual value using the declining balance method. Management reviews the estimated useful lives, residual values and depreciation methods for the Company's property, plant and equipment annually and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Assets under construction or undergoing refurbishment will be depreciated when they are available for their intended use, over their estimated useful lives.

The significant classes of property, plant and equipment and their declining balance rate of depreciation are as follows:

• Buildings	5%
• Equipment	30%
• Furniture and fixtures	30%

(f) Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there are any indicators that its property, plant and equipment and mineral properties are impaired. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

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Notes to the consolidated financial statements

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3. Significant accounting policies (continued)

(g) Income taxes

Current taxes

Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the consolidated statement of financial position date, and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred taxes

Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and is derecognized to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the consolidated statement of financial position date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of operations and comprehensive loss.

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Notes to the consolidated financial statements

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3. Significant accounting policies (continued)

(h) Share capital

Common shares issued are classified as equity. Transaction costs directly attributable to the issuance of common shares and other equity instruments of the Company are recognized as a deduction from share capital or other equity.

The proceeds received on the issuance of units, comprised of common shares and warrants, are allocated using the relative fair value method. Under the relative fair value method, gross proceeds are proportionately allocated between common shares and share purchase warrants at the time of issuance, determined by reference to the quoted market price of the common shares on the issuance date.

(i) Share-based payments

Share-based payments made to employees are measured and recognized using the fair value based method. Stock-options are typically issued fully vested and are valued at the date of grant using the Black-Scholes option pricing model with a corresponding increase to the share-based payments reserve. When stock options are issued with a vesting period, each vesting tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model and compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing share-based payments reserve. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in share-based payments reserve is recorded as an increase to common shares.

(j) Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method. Common equivalent shares are omitted from diluted loss per share calculation as their effect is anti-dilutive.

(k) Site reclamation and closure cost obligations

The Company records a provision for the estimated future costs of site reclamation and closure of operating projects, which are discounted to net present value using the risk free interest rate applicable to the future cash outflows. Estimates of future costs represent management's best estimate which incorporate assumptions on the effects of inflation, movements in foreign exchange rates, other specific risks associated with the related liabilities. A provision for reclamation and closure is re-measured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining activities, changes to cost estimates and changes to the risk free interest rate. A provision for site reclamation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs. Reclamation and closure cost obligations relating to mine development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties.

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3. Significant accounting policies (continued)

(l) Financial instruments and fair value

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition and recorded on the consolidated statement of financial position. Measurement in subsequent periods depends on whether the financial instrument has been classified at fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

Financial assets and liabilities at fair value through profit or loss are measured at fair value with changes in fair values recognized in profit or loss. Derivative instruments, including bifurcated embedded derivatives, are classified at fair value through profit or loss, with the exception of derivatives designated as hedges. The Company has no designated hedges.

Financial assets classified as held-to-maturity and loans and receivables, and financial liabilities classified as other liabilities, are measured at amortized cost using the effective interest method.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income until realized or a loss in value is determined to be significant or prolonged.

Transaction costs that are directly attributed to the acquisition or issue of financial assets or liabilities (other than those designated as fair value through profit or loss, which are expensed) are included in the fair value of financial instruments on initial recognition.

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significant inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

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

Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

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3. Significant accounting policies (continued)

(m) Segment reporting

The Company reports segment results based on two operating segments (corporate, exploration and development), and three geographical locations of its assets (Canada, United States, Mexico).

(n) Adoption of new and amended accounting standards

Certain pronouncements were issued by the IASB that were mandatory for accounting periods beginning on or after January 1, 2016. The Company adopted the following new IFRS pronouncements effective March 1, 2016.

The adoption of these new or amended IFRS pronouncements did not have a material effect on the Company's consolidated financial statements or disclosures nor did these changes have a material effect on the Company's consolidated financial statements.

- (i) IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (amendment)
- (ii) IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization* (amendments)

The following standards will become effective in future periods:

IFRS 9 *Financial Instruments* (2014)

This is a finalized version of **IFRS 9**, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of **IFRS 9** introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under **IAS 39**; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of **IFRS 9** introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from **IAS 39**.

Applicable to annual periods beginning on or after January 1, 2018.

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3. Significant accounting policies (continued)

- (n) Adoption of new and amended accounting standards (continued)

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases.

Applicable to annual periods beginning on or after January 1, 2019.

4. Reclamation bond

In connection with the ICP, the U.S. Forest Service requires the Company to place a Reclamation Performance Bond in the amount of US\$6,379,617. There has not been any change in the Reclamation Performance Bond since February 29, 2012. Earthwork and Tailing Waste Storage construction on the ICP was completed during the year ended February 29, 2012 and disturbances during the years subsequent to that date have been minimal. The Reclamation Performance Bond will be released upon meeting the reclamation requirement of the U.S. Forest Service at the end of the Life of Mine of the ICP.

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

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

		February 28, 2017	February 29, 2016
		\$	\$
Reclamation Performance			
Bond Requirement	US\$	6,379,617	6,379,617
Insured	US\$	6,379,617	6,379,617
In Trust:			
US Treasury Securities	US\$	2,239,196	2,239,196
		<u>2,239,196</u>	<u>2,239,196</u>
Reclamation bond	CDN\$	<u>2,973,439</u>	<u>3,029,411</u>

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5. Mineral properties

Mineral properties consist of:

	February 28, 2017	Impairment	Additions	February 29, 2016
	\$	\$	\$	\$
Idaho Cobalt Belt (a)				
Idaho Cobalt Project (i)	20,419,139	-	1,189,538	19,229,601
Other Projects (b)				
Kernaghan Lake (ii)	488,600	-	6,509	482,091
Virgin River (iii)	941,416	-	37,026	904,390
Other	32,776	-	-	32,776
	1,462,792	-	43,535	1,419,257
	21,881,931	-	1,233,073	20,648,858
	February 29, 2016	Impairment	Additions	February 28, 2015
	\$	\$	\$	\$
Idaho Cobalt Belt (a)				
Idaho Cobalt Project (i)	19,229,601	(51,434,713)	1,280,409	69,383,905
Other Projects (b)				
Kernaghan Lake (ii)	482,091	-	6,941	475,150
Virgin River (iii)	904,390	-	34,397	869,993
Other	32,776	-	-	32,776
	1,419,257	-	41,338	1,377,919
	20,648,858	(51,434,713)	1,321,747	70,761,824

During the year ended February 28, 2017, the Company capitalized \$1,957,166 (2016 - \$1,548,254), and accrued \$590,190 (2016 - \$nil) on mineral properties. Gross additions to mineral properties was \$2,547,356 and a non-cash adjustment of \$1,314,283 (2016 - \$226,506) for site reclamation and closure cost was made (Note 7), resulting a net addition of \$1,233,073 (2016 - \$1,321,747).

(a) Idaho Cobalt Belt

(i) Idaho Cobalt Project

For the year ended February 28, 2017, the Company examined economic indicators to determine the likelihood of impairment on the ICP and concluded impairment indicators were not present. Impairment to the ICP was not recognized for the year ended February 28, 2017.

For the year ended February 29, 2016, impairment indicators examined included the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. In order to assess for impairment of the non-current assets recorded for ICP at February 29, 2016, management had made the following assessment to determine the recoverable amount and compared these results to the carrying value of the ICP for the purpose of impairment:

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5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

1) Recoverable Amount:

At February 29, 2016, the Company conducted an impairment assessment of the ICP, which is the Company's primary asset, and estimated recoverable amount based on the value in use method. The economic model for future cash flows was derived from the Company's April 29, 2015 Preliminary Economic Assessment ("PEA") which was SEDAR filed on May 8, 2015.

2) Cash Flow Period:

Cash flows used for the impairment assessment of the ICP were based on the Company's PEA. The PEA was an independent National Instrument 43-101 compliant technical report based on estimated resources and three-dimensional block modeling used for mine planning, design, and scheduling ("Mine Development").

The Life of Mine was estimated to be 12.5 years after the preproduction period. The preproduction period is 21 months, in which the initial capital expenditure investment would be made to bring the ICP into commercial production.

IAS 36 suggests that cash flow projections be 5 years unless there is justifiable evidence to support a longer period. A 5 year cash flow would have only captured the preproduction period and 3.25 years (39 months) of commercial production; resulting in an incomplete assessment of the project's cash flows and a negative net present value ("NPV") as 100% of initial capital expenditure is required during the preproduction period.

As such, the Company believes that the use of a greater than five year cash flow was justified, because the modeling was developed on a "life of mine basis", was external in nature, supportable, reliable and represents management's best estimate of the remaining useful life of the asset.

3) Discount Rate:

A pre-tax discount rate of 13.40% as at February 29, 2016 was used for impairment testing and derived based on the Company's weighted average cost of capital ("WACC") using the Capital Asset Pricing Model. A debt to equity ratio of 50:50 was estimated based on strategic financing arrangements that the Company anticipates. Factors such as the positive long term outlook for cobalt driven by increased demand in the rechargeable batteries industry and a shortfall of cobalt supply, off-take agreements to de-risk revenue and future cash flows, internal assessments on financing alternatives' effect on return to shareholders, and comparing the Company's discount rate amongst its peers, were considered in the determination of the debt to equity ratio. Management is of the position that the discount rate used for the impairment assessment

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5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

fairly reflects the pre-tax market assessment of time value of money for the ICP.

4) Impairment Assessment:

Prior to the impairment assessment, the carrying costs capitalized to the ICP were \$109,214,133, represented by mineral properties and property, plant and equipment.

The carrying value of the ICP at February 29, 2016 post impairment as discussed below was \$57,779,420, comprised of \$19,229,600 for mineral properties and \$38,549,820 for property, plant and equipment.

The recoverable amount of the ICP was derived using the pre-tax cash flow model of the PEA. Using a pre-tax discount rate of 13.40% as at February 29, 2016, the recoverable value of the ICP was \$57,779,420 or US\$43,184,965. The Company recorded an impairment of the ICP of \$51,434,713 as at February 29, 2016, which reduced the capitalized costs incurred on the ICP of \$102,214,133 to the recoverable amount of \$57,779,420. The changes in the forecast price of cobalt to \$17.00 per lb. and discount rate as a result of changes to the Company's capital expenditure financing assumptions lead to the reduction in the recoverable amount of the ICP.

5) Inclusion of Measured and Indicated Resources:

The Company included 100% of measured and indicated resources in deriving the value in use of the ICP. In measuring value in use, the Company made assumptions about the range of economic conditions that will exist over the life of mine. Some of the factors considered in determining the probability of conversion include:

- (i) The Company's history of converting resources into reserves;
- (ii) Closeness of the scheduled start of the work to convert resources into reserves; and
- (iii) Additional cost to access the resource.

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5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

Significant milestones have been achieved and the ICP is an advanced project with the following completed:

- (i) Fully permitted;
- (ii) Completed construction of earthworks at the mine and mill;
- (iii) Have purchased substantially all long lead equipment for the mine and mill; and
- (iv) Filing of the PEA in May 2015 to produce cobalt sulfate heptahydrate instead of high purity cobalt metal, in response to growth in the rechargeable batteries industry.

Positive initial results from in-house evaluations of the Company's ability to produce cobalt heptahydrate suitable for the rapidly growing rechargeable battery sector resulted in the decision to proceed with the commissioning and filing of the PEA. The Company continues to work to enhance the project life as outlined under cash flows in item 2 above, and intends to produce a FS (Note 1) by the end of June 2017. Construction of the CPF and mine could begin by March 1, 2017. As a result of the above activities, the Company is of the view that inclusion of 100% of measured and indicated resources in deriving the recoverable amount of the ICP was appropriate.

The Company expects the ICP to commence commercial production in 2 years post recommencement of construction, pending market conditions and the ability to finance initial capital expenditures. The additional initial capital expenditure is US\$147 million as per the information disclosed in the current PEA.

The above factors were estimated at February 29, 2016 and are subject to change upon completion of the FS.

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5. Mineral properties (continued)

(a) Idaho Cobalt Belt (continued)

(i) Idaho Cobalt Project (continued)

6) Sensitivity Analysis

Management anticipates that 70% of total revenues from the Life of Mine of the ICP will be from the sale of cobalt sulfate heptahydrate; therefore, changes in the price of cobalt would have the biggest impact on the recoverable amount of the ICP. This is followed by changes in operating cost, capital expenditure and discount rate. Below illustrates the sensitivity of changes in price of cobalt sulfate heptahydrate, operating cost, capital expenditure, and discount rate have on the recoverable value of the ICP.

Percentage Change of Inputs	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%
Recoverable Amount Sensitivity- in Canadian Dollars									
Price of Cobalt Sulfate Heptahydrate	\$ -	\$ -	\$ -	\$ 19,463,042	\$ 57,779,420	\$ 96,095,798	\$ 134,412,176	\$ 172,728,555	\$ 211,044,933
Operating Cost	\$ 133,167,447	\$ 114,636,118	\$ 95,894,337	\$ 76,942,105	\$ 57,779,420	\$ 38,406,283	\$ 18,822,715	\$ -	\$ -
Capex	\$ 123,836,855	\$ 107,322,496	\$ 90,808,137	\$ 74,293,779	\$ 57,779,420	\$ 41,265,061	\$ 24,750,703	\$ 8,236,344	\$ -
Discount Rate	\$ 124,316,837	\$ 104,919,142	\$ 87,522,259	\$ 71,879,591	\$ 57,779,420	\$ 45,039,436	\$ 33,502,194	\$ 23,031,341	\$ 13,508,458
Surplus (Short-fall) from Carrying Value- in Canadian Dollars									
Price of Cobalt Sulfate Heptahydrate	\$ (57,779,420)	\$ (57,779,420)	\$ (57,779,420)	\$ (38,316,378)	\$ -	\$ 38,316,378	\$ 76,632,756	\$ 114,949,135	\$ 153,265,513
Operating Cost	\$ 75,388,027	\$ 56,856,698	\$ 38,114,917	\$ 19,162,685	\$ -	\$ (19,373,137)	\$ (38,956,705)	\$ (57,779,420)	\$ (57,779,420)
Capex	\$ 66,057,435	\$ 49,543,076	\$ 33,028,717	\$ 16,514,359	\$ -	\$ (16,514,359)	\$ (33,028,717)	\$ (49,543,076)	\$ (57,779,420)
Discount Rate	\$ 66,537,417	\$ 47,139,722	\$ 29,742,839	\$ 14,100,171	\$ -	\$ (12,739,984)	\$ (24,277,226)	\$ (34,748,079)	\$ (44,270,962)

Included in the above are additional assumptions and estimates for production volumes, recoverable quantities, production profile, and contractual duration of mining rights, and financial, economic, political and technological risks external to the Company. As the Company continues evaluating the ICP for production of cobalt sulfate heptahydrate and refining processes, all parameters which could be incorporated into the impairment assessment as mentioned above, the resulting estimates, assumptions and outcomes are subject to changes which may impact future impairment evaluations.

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5. Mineral properties (continued)

(b) Other projects

(i) Wallace Creek

The Company has a 100% lease option on certain additional mineral claims located in the same area. During the year ended February 28, 2001, the terms of the lease option were amended from a required minimum annual advance royalty payment of US\$8,000 to annual payments based on the price of gold ranging from no payments to US\$8,000. The annual minimum advance royalty payment is applied against a 3% to 5% NSR. To exercise the option, the Company must pay a total purchase price of US\$1,000,000, of which US\$25,600 has been paid to date.

(ii) Kernaghan Lake

The Company granted an option whereby the optionee has earned 80% interest in certain mineral claims by making certain payments (received), and completing exploration work totaling \$1,000,000 (deemed completed).

The Company is participating at the 20% level, and has the option to dilute to a 7% participation level which then becomes a net profit interest. The optionee has the right to purchase all or part of the net profit interest during the first year of commercial production by paying \$700,000 per percentage point which increases to \$800,000 per percentage point during the second year of production.

The operator, Areva Resources Canada Inc. (Areva), of the project did not conduct any exploration work during the year ended February 29, 2016, it remains in good standing until 2017. The budget for 2017 calendar year expenditures is \$55,000 and the Company's share is \$11,000 representing 20%.

(iii) Virgin River

The Company owns 2% of the Virgin River project located in the Athabasca Basin of northern Saskatchewan. Cameco Corporation ("Cameco") and Areva each own 49% in the joint exploration agreement with Cameco as the operator of the project. The Company has the first right of offer to acquire up to 10% of the project; a right which has been carried through to \$10,000,000 of exploration and development.

During the year ended February 29, 2008, the Company was advised by its joint venture partners that the first \$10,000,000 of exploration expenditures has been met. An updated joint venture agreement and confirmation of expenditures were concluded. As at February 28, 2017, approximately \$33,800,000 has been spent on the project. The budget for 2017 calendar year expenditures is \$500,000 and the Company's share is \$10,000 representing 2%.

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6. Property, plant and equipment

	Land	Buildings	Equipment	Furniture and fixtures	Project construction and maintenance	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at February 28, 2015	181,545	525,905	489,646	381,802	39,284,520	40,863,418
Additions for the year	-	-	4,843	19,502	567,390	591,735
As at February 29, 2016	181,545	525,905	494,489	401,304	39,851,910	41,455,153
Additions for the period	19,390	-	1,827	7,320	292,863	321,400
As at February 28, 2017	200,935	525,905	496,316	408,624	40,144,773	41,776,553
Accumulated Depreciation						
As at February 28, 2015	-	(202,603)	(449,786)	(363,325)	-	(1,015,714)
Additions for the year	-	(21,447)	(21,420)	(8,381)	-	(51,248)
As at February 29, 2016	-	(224,050)	(471,206)	(371,706)	-	(1,066,962)
Additions for the period	-	(21,516)	(20,541)	(9,065)	-	(51,122)
As at February 28, 2017	-	(245,566)	(491,747)	(380,771)	-	(1,118,084)
Carrying Value						
As at February 29, 2016	181,545	301,855	23,283	29,598	39,851,910	40,388,191
As at February 28, 2017	200,935	280,339	4,569	27,853	40,144,773	40,658,469

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

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7. Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure relates to the ICP and is based on the Company's legal obligations for environmental remediation, reclamation, and decommissioning at the end of the mine life. The undiscounted cash flows of the obligation as at February 28, 2017 were \$5,066,741 or US\$3,815,030 (2016 - \$5,162,119 or US\$3,815,030). The discount rate used to determine the present value of the obligation was based on US Treasury Bond rate of 2.25% and rate of inflation of 1.00% (2016 - US Treasury Bond rate of 2.00% and rate of inflation of 2.90%) resulting in a net rate of 0.83% (2016 - 0.90%), discounted by 15 years. The Company assumes that reclamation and decommissioning will take place over a three year period, commencing after the 12 year Mine Life.

	\$
Site reclamation and closure cost, February 28, 2015	5,674,924
Additions	-
Accretion expense	102,498
Change in discount rate	(226,507)
Foreign exchange	421,199
Site reclamation and closure cost, February 29, 2016	5,972,114
Additions	-
Accretion expense	105,149
Change in discount rate	(1,314,283)
Foreign exchange	(91,781)
Site reclamation and closure cost, February 28, 2017	4,671,199

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8. Income taxes

Income tax expense differs from the amount that would result from applying Canadian federal and provincial income tax rates to loss before income taxes. These differences result from the following items:

	Year Ended February 28, 2017	Year Ended February 29, 2016
Loss before taxes	(2,210,151)	(53,003,117)
Canadian federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on the above rates	(574,639)	(13,780,810)
Increase (decrease) due to:		
Stock based compensation and other non-deductible expenses	143,165	86,835
Use of unrecognized tax losses and temporary differences	(166,241)	(262,507)
Losses and temporary differences for which no future income tax asset has been recognized	916,159	21,407,573
Effect of different tax rates in foreign jurisdictions	(318,895)	(7,453,080)
Income tax recovery	(451)	(1,989)
Deferred	(451)	(1,989)
Income tax expense (recovery) by country		
United States	-	-
Canada	(451)	(1,989)
	(451)	(1,989)

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8. Income taxes (continued)

The components of recognized deferred income tax liabilities (assets) are as follows:

	Year Ended February 28, 2017	Year Ended February 29, 2016
Non-capital losses	(3,126,434)	(5,274,615)
Asset retirement obligation	-	(2,385,262)
Property, plant and equipment	194,540	190,525
Unrealized foreign exchange gains	2,910,981	3,181,759
Mineral property	46,837	4,313,968
Deferred income tax liabilities, net	25,924	26,375

The components of unrecognized losses and temporary differences are as follows:

	Year Ended February 28, 2017	Year Ended February 29, 2016
Non-capital losses	59,680,691	52,270,608
Asset retirement obligation	4,671,199	-
Financing fees	1,355,094	7,616
Property, plant and equipment	10,196,092	378,538
Mineral property and other	9,799,272	312,200
	85,702,348	52,968,962

The Company has \$59,582,029 of net operating losses in the United States that will expire between 2021 and 2037 for which no tax benefit has been recorded.

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8. Income taxes (continued)

The components of deferred income tax expense (recovery) are as follows:

	Year Ended February 28, 2017	Year Ended February 29, 2016
Non-capital losses	2,148,181	8,873,611
Asset retirement obligation	2,385,262	(118,697)
Unrealized foreign exchange gains	(270,778)	1,117,038
Property, plant and equipment	4,015	6,132,908
Mineral property and other	(4,267,131)	(16,006,849)
	(451)	(1,989)

Continuity of Changes in the Company's net deferred tax position is as follows:

	Year Ended February 28, 2017	Year Ended February 29, 2016
Balance, beginning of year	26,375	28,364
Recovery on the consolidated statement of operations	(451)	(1,989)
Amounts charged to equity	-	-
Foreign currency translation	-	-
Balance, end of year	25,924	26,375

9. Share capital

(a) Authorized and issued

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

At February 28, 2017, the Company had 127,309,956 (February 29, 2016 - 90,887,205) common shares issued and outstanding.

- (i) On February 28, 2017, the Company completed a bought deal financing and issued 17,250,000 units at a purchase price of \$1.00. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.50 expiring February 28, 2019. The Company paid \$1,377,787 for commission, legal and other expenses related to the financing. The Company also issued 948,750 share purchase warrants to brokers with an exercise price of \$1.35 expiring February 28, 2019. These common share purchase warrants had a fair value of \$3,366,326 computed using the Black-Scholes option pricing model, using the parameters outlined below. The fair value of the equity was determined using the fair value of the Company's shares on the date of issue. The gross proceeds were then proportionately allocated using the relative fair value method to common shares and common share purchase warrants.

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9. Share capital (continued)

(a) Authorized and issued (continued)

	<u>Unit Warrants</u>	<u>Broker Warrants</u>
Risk free interest rate	0.80%	0.80%
Expected life (years)	2	2
Annualized volatility	86%	86%
Expected dividend	\$nil	\$nil
Stock price	\$1.23	\$1.23
Exercise price	\$1.50	\$1.35

- (ii) For the year ended February 28, 2017, 1,879,051 common shares were issued on exercise of share purchase warrants. These include 1,490,999 warrants with an exercise price of \$0.40 and 388,052 warrants were exercised with an exercise price of \$0.37 for total proceeds of \$739,979. Upon exercise, the Company transferred \$274,026 from share purchase warrants to common shares.
- (iii) During the year ended February 28, 2017, 2,538,500 common shares were issued for stock options that were exercised and these include 1,153,500 options with an exercise price of \$0.20, 380,000 options with an exercise price of \$0.21, and 1,005,000 options with an exercise price of \$0.30 for total proceeds of \$612,000. Upon exercise, the Company transferred \$311,110 from share-based payments reserve to common shares.
- (iv) On June 1, 2016, the Company completed an offering and issued 14,755,200 units at \$0.30 per unit for gross proceeds of \$4,426,560. Each unit purchased in the offering consisted of one common share and one half common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.40 expiring June 1, 2018. The Company paid \$316,082 for commission, legal and other expenses related to the financing. The Company also issued 592,953 share purchase warrants to brokers with an exercise price of \$0.37 expiring June 1, 2018. These common share purchase warrants had a fair value of \$1,068,706 computed using the Black-Scholes option pricing model, using the parameters outlined below. The fair value of the equity was determined using the fair value of the Company's shares on the date of issue. The gross proceeds were then proportionately allocated using the relative fair value method to common shares and common share purchase warrants.

	<u>Unit Warrants</u>	<u>Broker Warrants</u>
Risk free interest rate	0.69%	0.69%
Expected life (years)	2	2
Annualized volatility	80%	80%
Expected dividend	\$nil	\$nil
Stock price	\$0.63	\$0.63
Exercise price	\$0.40	\$0.37

eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

9. Share capital (continued)

(b) Stock options

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

All options are subject to vesting restrictions based on the Plan and at the discretion of the Board of Directors. The exercise price is the fair value of the Company's common shares at the grant date. The maximum number of common shares to be issued under the Plan reserved for issuance as at February 28, 2017 was 12,730,995 (2016 – 9,088,720). The maximum number of shares reserved for issuance to insiders may not exceed 10% of the outstanding shares issued. Under certain conditions, Option holders may elect to exercise their stock options on a cashless basis.

(i) As at February 28, 2017, outstanding and exercisable stock options were as follows:

Options Outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	\$		
290,000	0.30	0.93 years	February 1, 2018
515,000	0.21	2.32 years	June 25, 2019
1,869,500	0.20	3.15 years	April 27, 2020
218,182	0.52	4.35 years	July 8, 2021
2,010,000	0.60	4.50 years	September 6, 2021
4,902,682	0.39		

eCobalt Solutions Inc.

(Formerly Formation Metals Inc.)

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February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

9. Share capital (continued)

(b) Stock options

As at February 29, 2016, outstanding and exercisable stock options were as follows:

Options Outstanding	Exercise price	Weighted ave. remaining contractual life	Expiry date
	\$		
215,000	1.50	0.65 years	*October 25, 2016
550,000	0.80	0.65 years	*October 25, 2016
220,000	0.30	0.65 years	*October 25, 2016
175,000	1.50	0.88 years	January 17, 2017
450,000	0.80	0.88 years	January 17, 2017
1,220,000	0.30	1.93 years	February 1, 2018
930,000	0.21	3.32 years	June 25, 2019
3,103,000	0.20	4.15 years	April 27, 2020
6,863,000	0.38		

*During the year ended February 29, 2016, a former officer of the Company passed away. Pursuant to the terms of the option agreement, this resulted in the expiry dates of the options held by the deceased to be amended to October 25, 2016.

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

	February 28, 2017	Weighted average exercise price	February 29, 2016	Weighted average exercise price
		\$		\$
Balance outstanding, beginning of year	6,863,000	0.38	3,760,000	0.54
Activity during the year				
Options granted	2,228,182	0.59	3,103,000	0.20
Options exercised	(2,538,500)	0.24	-	-
Options expired	(1,390,000)	1.00	-	-
Options cancelled	(260,000)	0.26	-	-
Balance outstanding, end of year	4,902,682	0.39	6,863,000	0.38

(iii) During the year ended February 28, 2017, 2,228,182 (2016 – 3,103,000) stock options were granted to directors, officers, employees and consultants of the Company. Using the Black-Scholes option pricing model, the fair value of stock options granted was \$812,125 (2016 - \$333,981).

eCobalt Solutions Inc.

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9. Share capital (continued)

(b) Stock options (continued)

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

	February 28, 2017	February 29, 2016
Risk free interest	0.69%	0.94%
Expected life (years)	5	5
Annualized volatility	77%	73%
Expected dividend	\$ nil	\$ nil
Stock price	\$0.60	\$0.185
Exercise price	\$0.60	\$0.20

The Black-Scholes option pricing model requires the input of highly subjective assumptions regarding volatility. The Company has used historical volatility of the Company's share price to estimate the annualized volatility used in its Black Scholes option pricing model.

(c) Warrants

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

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

The changes in warrants during the current and previous year were as follows:

	February 28, 2017	Weighted avg exercise price	February 29, 2016	Weighted avg exercise price
		\$		\$
Balance outstanding, beginning of period	-	-	-	-
Activity during the period				
Warrants issued	17,544,303	1.06	-	-
Warrants exercised	(1,879,051)	0.39	-	-
Balance outstanding end of period	15,665,252	1.06	-	-

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February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

9. Share capital (continued)

(d) Loss per share

	February 28, 2017	February 29, 2016
Continued Operations:		
Net loss	\$ 2,209,700	\$ 53,001,128
Weighted average number of common shares outstanding	102,861,869	90,887,205
Loss per share	\$ 0.02	\$ 0.58

The following potential common shares, are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted earnings per share:

Stock options	4,902,682	6,863,000
Warrants	15,665,252	-

10. Related party transactions

(a) Subsidiaries

	Ownership interest	
	February 28, 2017	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.

eCobalt Solutions Inc.

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Notes to the consolidated financial statements

February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

10. Related party transactions

(b) Compensation of key management personnel

The compensation to directors and officers of the Company during the years ended February 28, 2017 and February 29, 2016 were as follows:

	Note	February 28, 2017	February 29, 2016
		\$	\$
Salaries and short-term employee benefits including bonuses		437,075	445,007
Share-based compensation	(i)	623,280	262,867
Directors' fees	(ii)	84,125	116,000
		1,144,480	823,874

There were outstanding balances of \$91,500 owed to directors at February 28, 2017 (February 29, 2016 - \$57,750), included in accrued liabilities.

- (i) Share-based payments are based on fair value of options and common shares granted to directors and officers of the Company. During the year ended February 28, 2017, the Company granted 1,680,000 (February 29, 2016 – 2,418,000) stock options to directors and officers who are considered key management of the Company, with weighted average exercise price of \$0.60 per share, expiring five years from the issue date. Using the Black-Scholes option pricing model, the fair value of stock options granted was \$623,280 (February 29, 2016 - \$262,867). Refer to Note 9(b)(iii) for pricing assumptions.
- (ii) The Company paid or accrued directors fees of \$84,125 (2016 - \$116,000) for the year ended February 28, 2017. The Company also reimbursed directors for business related expenses in the amount of \$9,430 (February 29, 2016- \$8,460).

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.

eCobalt Solutions Inc.

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February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

11. Segmented information

The Company's operations and non-current assets by geographic location and operating segment are as follows:

	February 28, 2017			
	Canada	United States	Mexico	Total
	\$	\$	\$	\$
Non-current assets				
Mineral properties	1,430,016	20,451,915	-	21,881,931
Property, plant and equipment	28,369	40,630,100	-	40,658,469
Reclamation bond	-	2,973,439	-	2,973,439
Total non current assets	1,458,385	64,055,454	-	65,513,839

	February 29, 2016			
	Canada	United States	Mexico	Total
	\$	\$	\$	\$
Non-current assets				
Mineral properties	1,386,481	19,262,377	-	20,648,858
Property, plant and equipment	30,994	40,357,197	-	40,388,191
Reclamation bond	-	3,029,411	-	3,029,411
Total non current assets	1,417,475	62,648,985	-	64,066,460

12. Supplemental cash flow information

Change in working capital items for the years ended:

	Note	February 28, 2017	February 29, 2016
		\$	\$
Trade and other receivables		(53,939)	-
Prepaid expenses and other deposits		(29,090)	3,931
Accounts payable and accrued liabilities, relating to operating items		324,731	(210,226)
Change in working capital for the years ended		241,702	(206,295)
Net addition to mineral properties	5	1,233,073	1,321,747
Add back non-cash ARO adjustment	7	1,314,283	226,507
Accounts Payable		(590,190)	-
Total cash expenditures on mineral properties for the year ended		1,957,166	1,548,254

13. Capital risk management

The Company's objectives when managing capital are to ensure there are adequate capital resources to safeguard the Company's ability to continue as a going concern, continue the development and exploration of its mineral properties and to maximize growth of its business and provide returns to its shareholders. The Company's capital structure consists of debt facilities and certain components of shareholders' equity, which are: issued common shares, share purchase warrants, and share-based payments reserve less deficit.

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13. Capital risk management (continued)

The Company manages its capital structure and makes adjustments to it based on economic conditions and the risk characteristics of the underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate under specific circumstances.

Capital, as defined above, at February 28, 2017 and February 29, 2016 is summarized in the following table.

	February 28, 2017	February 29, 2016
	\$	\$
Common shares	178,430,193	160,945,419
Share purchase warrants reserve	11,504,324	7,343,318
Share-based payments reserve	9,532,117	9,031,102
Deficit	(121,059,833)	(118,850,133)
	78,406,801	58,469,706

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Board of Directors.

14. Financial instruments

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

The Company's financial assets 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 (Note 4). 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.

eCobalt Solutions Inc.

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February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

14. Financial instruments (continued)

At February 28, 2017 and February 29, 2016, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	February 28, 2017		February 29, 2016	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	19,221,353	19,221,353	1,095,357	1,095,357
Reclamation bond	2,973,439	2,966,773	3,029,411	3,022,619
Financial liabilities				
Accounts payable	945,254	945,254	74,669	74,669
Accrued liabilities	289,992	289,992	139,902	139,902

15. 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 bond.

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:

	February 28, 2017	February 29, 2016
	\$	\$
Cash and cash equivalents	19,221,353	1,095,357
Reclamation bond	2,973,439	3,029,411

eCobalt Solutions Inc.

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February 28, 2017 and February 29, 2016

Expressed in Canadian Dollars, unless otherwise noted

15. Fair values and financial risk management (continued)

Liquidity risk

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

	February 28, 2017			February 29, 2016	
	Within 1 year	2-5 years	Over 5 years	Total	Total
	\$	\$	\$	\$	\$
Cash	16,644,849	-	-	16,644,849	62,949
Short term investment	2,576,504	-	-	2,576,504	1,032,408
	19,221,353	-	-	19,221,353	1,095,357
Accounts payable	945,254	-	-	945,254	74,669
Accrued liabilities	289,992	-	-	289,992	139,902
	1,235,246	-	-	1,235,246	214,571

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 February 28, 2017, the Company's Canadian savings account of \$2,576,504 (February 29, 2016 - \$1,032,408) earns an interest rate of up to 1% (February 29, 2016 - 0.46%). The Company has interests in equity instruments of other corporations which are not material.

Foreign exchange rate risk

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

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

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15. Fair values and financial risk management (continued)

Translation exposure

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

At February 28, 2017, a 15% (February 29, 2016 – 15%) strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately \$315,000 (February 29, 2016 - \$404,000).

16. Commitments

The following is a schedule of the Company's annual commitments as at February 28, 2017:

	Note	2017	2018	2019
		\$	\$	\$
Mineral property expenditure	(a)	21,000	-	-
General liability insurance	(b)	43,828	-	-
Office operating leases	(c)	100,711	100,711	92,319
Professional Fees - Feasibility study	(d)	318,918	-	-
		484,457	100,711	92,319

- (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 calendar 2017 exploration program budget is \$10,000. The Company is also committed to spend \$11,000 for Kernaghan project representing 20% of its budget
- (b) The Company has a total liability of \$43,828 for insurance premium, to be paid in equal monthly instalments until October 12, 2017.
- (c) The Company has an office lease commitment totalling \$293,741 ending January 31, 2020.
- (d) The Company has a total remaining commitment of \$318,918 as a result of commissioning a FS on the ICP with Micon Engineering Ltd. and 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 a change in control as defined in the agreements



eCobalt Solutions Inc.
(Formerly Formation Metals Inc.)

Management's Discussion and Analysis

For the Year Ended February 28, 2017

Date of Report: May 29, 2017

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

Symbol: Toronto Stock Exchange – ECS

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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 annual audited consolidated financial statements and the notes thereto of eCobalt Solutions Inc. (formerly Formation Metals Inc.) (the "Company") for the year ended February 28, 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 May 29, 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 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. 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 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").

In November 2016, the Company completed a 2,600 foot metallurgical large diameter drill core program on the Ram deposit of the ICP to obtain samples of mineralized material for further test work and bench testing. This program was successful in providing several hundred kilograms of mineralized core from the drill program which was used in metallurgical test work designed to provide additional data on concentrate recoveries, hydrometallurgical processing and cobalt sulfate heptahydrate crystal production. These results compliment the results from the metallurgical program that was completed in March 2016. The final products produced from this metallurgical drill program are being used to provide potential offtake partners with end product samples for their due diligence and evaluation to pursue offtake arrangements with the Company.

As at May 29, 2017, Micon reported key milestones have been achieved on the FS that include the advancements on the mine design and schedule, metallurgical test work with successful confirmatory recovery results from all circuits, bench scale production of cobalt sulphate heptahydrate crystals, the securing of an option to purchase land for the CPF within an industrial park in Blackfoot, Idaho, and the commencement of geotechnical studies on Paste Backfill and Tailings Waste Storage Facility material characterization. Initial results are expected in late Q2 / early Q3, with the NI 43-101 compliant Technical Report for SEDAR filing to follow within 45 days.

The Company filed a final short form base shelf prospectus (the "Shelf Prospectus") on January 12, 2017. The Shelf Prospectus, subject to regulatory requirements, will allow the Company to make offerings up to \$100,000,000 by issuing securities during the 25 month period that 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.

To finance operations and development of the ICP, the Company raised 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 CAPEX financing.

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 year ended February 28, 2017 and subsequent events

Corporate:

- (a) During the year ended February 28, 2017, the Company reported a comprehensive loss of \$2,209,700 (February 29, 2016 - \$53,172,052) and accumulated deficit of \$121,059,833 (February 29, 2016 - 118,850,133);
- (b) As at February 28, 2017, the Company had working capital of \$18,142,854 (February 29, 2016 - \$954,504);
- (c) On June 1, 2016, the Company completed a private placement for gross proceeds of \$4,426,560 by issuing 14,755,200 Units at a price of \$0.30 per Unit (the "Private Placement"). On a fully diluted basis, the Units sold represented 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 common share of the Company 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;
- (d) On June 21, 2016, the Company announced that it signed an agreement with Micon for technical services to conduct a FS 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;
- (e) On August 5, 2016, the Company changed its name to eCobalt Solutions Inc. The Company trades on the Toronto Stock Exchange under the symbol ECS, and OTCQB platform under the symbol ECSIF;
- (f) The Company held its Annual and Special Meeting on August 8, 2016 and all resolutions were passed including election of Directors, appointment of Symthe LLP as the Company's auditor, reconfirming the Company's Shareholder Rights Plan, and amending the Company's Articles to implement advance notice procedures relating to nomination of Directors;
- (g) On September 6, 2016, the Company granted 1,910,000 stock options at a price of \$0.60 and a term of five years to directors, employees and consultants of the Company;
- (h) The Company filed a Shelf Prospectus on October 19, 2016, subject to securities regulatory requirements, which allows the Company to make corporate securities offerings of up to \$100,000,000. These securities may be debt, warrants, subscription receipts, units, preference shares and/or common shares any combination of such securities during the 25-month period that the Shelf Prospectus is effective; The Company obtained a receipt for the Shelf Prospectus on January 12, 2017;
- (i) The Company filed a Revised PEA on January 10, 2017 for non material changes; and
- (j) On February 28, 2017, the Company completed a bought deal financing and issued 17,250,000 units at a purchase price of \$1.00. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.50 expiring February 28, 2019. The Company paid \$1,377,787 for commission, legal and other expenses related to the financing. The Company also issued 948,750 share purchase warrants to brokers with an exercise price of \$1.35 expiring February 28, 2019.

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 annual audited consolidated financial statements for the year ended February 28, 2017 and related notes thereto.

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

1.2.5 Property Activities

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

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

(a) Idaho Cobalt Project – Idaho, USA

Background

The Company's principal property is the 100% owned ICP Mine Site, a primary high grade cobalt deposit located in Lemhi County, Idaho, acquired through staking in 1994 and 1995. The property is held by the Company's 100% owned subsidiary, Formation Capital and is comprised of 163 contiguous unpatented mining claims covering an area of approximately 2,520 acres. All required environmental permits have been received from the various permitting agencies and remain in good standing. A Reclamation Performance Bond in the amount of US\$6.38 million was placed to cover the estimated reclamation cost of actual and planned surface disturbance and US\$2.23 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 will 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 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%. 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: (net of gold, copper and magnesium credits)	\$4.94 per pound
•	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: (including ounces in copper con and doré)	46,858 ounces

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.

Based on the feasibility level metallurgical test work completed over the past fiscal year, plans include initial scalping of copper from concentrate produced at the mine and mill to produce a copper rich concentrate and a cobalt rich concentrate utilizing standard froth flotation circuits for further hydrometallurgical processing at the CPF. Additional cobalt is expected to be recovered from the copper rich concentrate at the CPF to produce a clean copper concentrate suitable for direct sale to a copper smelter. Hydrometallurgical processing of the cobalt rich, copper bearing sulfide concentrate will 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 (from the copper rich concentrate), copper sulfate pentahydrate and magnesium sulfate used primarily in the agricultural industry, 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.

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. 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 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 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. These results are expected to compliment 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.

Feasibility Study

On June 21, 2016, the Company announced that it has signed an agreement with Micon for technical services to conduct a FS 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. Initial results from the FS are expected to be delivered to the Company later in calendar Q2 or early in calendar Q3 2017.

The proposed underground mine development layout has been optimized to minimize the scheduled lead time while providing access to stopes of above average grade early in the mine life to assist in minimizing mine payback schedule. Equipment requirements and layouts for both plants have been finalized and material take-offs (determining all materials required to accomplish the design and costing) have been quantified. In addition, SNC-Lavalin has completed its review and revision of the basic process engineering for the mill/concentrator and the CPF.

Impairment Assessment

For the year ended February 28, 2017, the Company examined economic indicators to determine the likelihood of impairment on the ICP and concluded impairment indicators were not present. Impairment to the ICP was not recognized for the year ended February 28, 2017.

For the year ended February 29, 2016, impairment indicators included examining the general condition of the mining industry, capital markets and access to capital, current and future forecast on the price of cobalt, current performance and future forecast on supply and demand for cobalt, and the Company's market capitalization during the fiscal year. In order to assess for impairment of the non-current assets recorded for ICP at February 29, 2016, management had made the following

assessment to determine the recoverable amount and compared these results to the carrying value of the ICP for the purpose of impairment:

(i) Recoverable Amount:

At February 29, 2016, the Company conducted an impairment assessment of the ICP, which is the Company's sole primary asset, and estimated recoverable amount based on the fair value in use method. The economic model for future cash flows was derived from the Company's April 29, 2015 Preliminary Economic Assessment ("PEA") which was SEDAR filed on May 8, 2015.

(ii) Cash Flow Period:

Cash flows used for the impairment assessment of the ICP were based on the Company's PEA. The PEA was an independent National Instrument 43-101 compliant technical report based on estimated resources and three-dimensional block modeling used for mine planning, design, and scheduling ("Mine Development").

The Life of Mine was estimated to be 12.5 years after the preproduction period. The preproduction period is 21 months, in which the initial capital expenditure investment would be made to bring the ICP into commercial production.

IAS 36 suggests that cash flow projections be 5 years unless there is justifiable evidence to support a longer period. A 5 year cash flow would have only captured the preproduction period and 3.25 years (39 months) of commercial production; resulting in an incomplete assessment of the project's cash flows and a negative net present value ("NPV") as 100% of initial capital expenditure is required during the preproduction period.

As such, the Company believes that the use of a greater than five year cash flow was justified, because the modeling was developed on a "life of mine basis", was external in nature, supportable, reliable and represents management's best estimate of the remaining useful life of the asset.

(iii) Discount Rate:

A pre-tax discount rate of 13.40% as at February 29, 2016 was used for impairment testing and derived based on the Company's weighted average cost of capital ("WACC") using the Capital Asset Pricing Model. A debt to equity ratio of 50:50 was estimated based on strategic financing arrangements that the Company anticipates. Factors such as the positive long term outlook for cobalt driven by increased demand in the rechargeable batteries industry and a shortfall of cobalt supply, off-take agreements to de-risk revenue and future cash flows, internal assessments on financing alternatives' effect on return to shareholders, and comparing the Company's discount rate amongst its peers, were considered in the determination of the debt to equity ratio. Management is of the position that the discount rate used for the impairment assessment fairly reflects the pre-tax market assessment of time value of money for the ICP.

(iv) Impairment Assessment:

Prior to the impairment assessment, the carrying costs capitalized to the ICP were \$109,214,133.

The carrying value of the ICP at February 29, 2016 post impairment as discussed below was \$57,779,420, comprised of \$19,229,600 for mineral properties and \$38,549,820 for property, plant and equipment.

The recoverable amount of the ICP was derived using the pre-tax cash flow model of the PEA. Using a pre-tax discount rate of 13.40% as at February 29, 2016, the recoverable value of the ICP was \$57,779,420 or US\$43,184,965. The Company recorded an impairment of the ICP of \$51,434,713 as at February 29, 2016, which reduced the capitalized costs incurred on the ICP of \$102,214,133 to the recoverable amount of \$57,779,420. The changes in the forecast price of cobalt to \$17.00 per lb. and discount rate as a result of changes to the Company's capital expenditure financing assumptions lead to the reduction in the recoverable amount of the ICP.

(v) Inclusion of Measured and Indicated Resources:

The Company included 100% of measured and indicated resources in deriving the value in use of the ICP. In measuring value in use, the Company made assumptions about the range of economic conditions that will exist over the life of mine. Some of the factors considered in determining the probability of conversion include:

- (i) The Company's history of converting resources into reserves;
- (ii) Closeness of the scheduled start of the work to convert resources into reserves; and
- (iii) Additional cost to access the resource.

Significant milestones have been achieved and the ICP is an advanced project with the following completed:

- (i) Fully permitted;
- (ii) Completed construction of earthworks at the mine and mill;
- (iii) Have purchased all long lead equipment for the mine and mill; and
- (iv) Filing of the PEA in May 2015 to produce cobalt sulfate heptahydrate instead of high purity cobalt metal, in response to growth in the rechargeable batteries industry.

Positive initial results from in-house evaluations of the Company's ability to produce cobalt heptahydrate suitable for the rapidly growing rechargeable battery sector resulted in the decision to proceed with the commissioning and filing of the PEA. The Company continues to work to enhance the project life as outlined under cash flows in item 2 above, and intends to produce a BFS (Note 1) by the end of calendar year 2016. Construction of the CPF and mine could begin by March 1, 2017. As a result of the above activities, the Company is of the view that inclusion of 100% of measured and indicated resources in deriving the recoverable amount of the ICP is appropriate.

The Company expects the ICP to commence commercial production in 2 years post recommencement of construction, pending market conditions and the ability to finance initial capital expenditure. The additional initial capital expenditure is US\$147 million as per the information disclosed in the current PEA.

The above factors were estimated at February 29, 2016 and are subject to change upon completion of the FS.

(vi) Additional Expenditures Required

Based on estimates included in the PEA, the additional initial capital expenditure required to put the ICP into commercial production, ready in use, is US\$147 million. See item iii above for management's assumptions on financing of additional capital expenditure.

(vii) Sensitivity Analysis

Management anticipates that 70% of total revenues from the Life of Mine of the ICP will be from the sale of cobalt sulfate heptahydrate; therefore, changes in the price of cobalt have the biggest impact on the recoverable amount of the ICP. This is followed by changes in operating cost, capital expenditure and discount rate. Below illustrates the sensitivity of changes in price of cobalt sulfate heptahydrate, operating cost, capital expenditure, and discount rate have on the recoverable value of the ICP.

Percentage Change of Inputs	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%
Recoverable Amount Sensitivity- in Canadian Dollars									
Price of Cobalt Sulfate Heptahydrate	\$ -	\$ -	\$ -	\$ 19,463,042	\$ 57,779,420	\$ 96,095,798	\$ 134,412,176	\$ 172,728,555	\$ 211,044,933
Operating Cost	\$ 133,167,447	\$ 114,636,118	\$ 95,894,337	\$ 76,942,105	\$ 57,779,420	\$ 38,406,283	\$ 18,822,715	\$ -	\$ -
Capex	\$ 123,836,855	\$ 107,322,496	\$ 90,808,137	\$ 74,293,779	\$ 57,779,420	\$ 41,265,061	\$ 24,750,703	\$ 8,236,344	\$ -
Discount Rate	\$ 124,316,837	\$ 104,919,142	\$ 87,522,259	\$ 71,879,591	\$ 57,779,420	\$ 45,039,436	\$ 33,502,194	\$ 23,031,341	\$ 13,508,458
Surplus (Short-fall) from Carrying Value- in Canadian Dollars									
Price of Cobalt Sulfate Heptahydrate	\$ (57,779,420)	\$ (57,779,420)	\$ (57,779,420)	\$ (38,316,378)	\$ -	\$ 38,316,378	\$ 76,632,756	\$ 114,949,135	\$ 153,265,513
Operating Cost	\$ 75,388,027	\$ 56,856,698	\$ 38,114,917	\$ 19,162,685	\$ -	\$ (19,373,137)	\$ (38,956,705)	\$ (57,779,420)	\$ (57,779,420)
Capex	\$ 66,057,435	\$ 49,543,076	\$ 33,028,717	\$ 16,514,359	\$ -	\$ (16,514,359)	\$ (33,028,717)	\$ (49,543,076)	\$ (57,779,420)
Discount Rate	\$ 66,537,417	\$ 47,139,722	\$ 29,742,839	\$ 14,100,171	\$ -	\$ (12,739,984)	\$ (24,277,226)	\$ (34,748,079)	\$ (44,270,962)

Included in the above are additional assumptions and estimates for production volumes, recoverable quantities, production profile, and contractual duration of mining rights, and financial, economic, political and technological risks external to the Company. As the Company continues evaluating the ICP for production of cobalt sulfate heptahydrate and refining processes, all parameters which could be incorporated into the impairment assessment as mentioned above, the resulting estimates, assumptions and outcomes are subject to changes which may impact future impairment evaluations.

(b) Black Pine – Idaho, USA

The Company has a lease option agreement to purchase certain mineral claims located in Lemhi County, which required annual advance royalty payments of US\$400 per claim until 2006. During the year ended February 28, 1999 an amendment to the agreement was negotiated which requires payments of \$nil if the average price of copper trades below US\$0.85 per pound, US\$200 per claim per year if the average price of copper trades between US\$0.85 to \$0.89 per pound and US\$400 per claim if the average price of copper trades above US\$0.90 per pound. In addition, the Company will be required to pay the lessors a sliding scale net smelter return royalty ("NSR") of between 1% and 5% based on the realized price of copper to a maximum of US\$2,000,000 (including the option payments). These payments are only required if the Company enters into a joint venture arrangement on the property. There have been no payments due since the amended agreement was concluded. During the year ended February 29, 2004, the Company again amended the option agreement to extend the term for two five-year terms, which eliminated the requirement to make additional payments based on the price of copper and to share on a 50/50 basis with the optioner any payments received from any prospective joint venture partner.

During the year ended February 28, 2015, the Company fully impaired the Black Pine property by \$3,339,332, resulting in a carrying cost of \$Nil. The February 28, 2015 impairment was the result of the Company not having any plan or budget to

explore the property further, and the Company having no basis with which to value the property. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

All mineral claims related to the Black Pine are in good standing.

(c) 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. During the current year the Company paid \$16,000 to purchase the claims.

During the year ended February 28, 2015, the Company fully impaired the Morning Glory property by \$544,726, resulting in a carrying cost of \$Nil. The impairment was the result of the Company not having any plan or budget to explore the property further, and the Company having no basis with which to value the property. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

All mineral claims related to the Morning Glory are in good standing.

(d) Queen of the Hills – Idaho, USA

The Company holds a 100% lease option on certain mineral claims located in Lemhi County, Idaho. During the year ended February 28, 2001, the terms of the lease option agreement were amended from a required minimum annual advance royalty payment of US\$1,400 to require annual payments based on the price of gold ranging from no payments to US\$1,400. A total of US\$25,200 has been paid to date. To exercise the option, the Company must pay a total purchase price of US\$1,000,000, including the advance annual minimum royalty payments.

All mineral claims related to the Queen of the Hills are in good standing.

(e) Wallace Creek – Idaho, USA

The Company has a 100% lease option on certain additional mineral claims located in the same area as the ICP. During the year ended February 28, 2001, the terms of the lease option were amended from a required minimum annual advance royalty payment of US\$8,000 to annual payments based on the price of gold ranging from no payments to US\$8,000. The annual minimum advance royalty payment is applied against a 3% to 5% NSR. To exercise the option, the Company must pay a total purchase price of US\$1,000,000, of which US\$25,600 has been paid to date.

(f) El Milagro – Mexico

The Company has a 100% interest in the El Milagro property in Tamaulipas, Mexico. During the year ended February 28, 2015, the Company fully impaired the El Milagro property by \$93,310 resulting in a carrying cost of \$nil. The impairment was the result of the Company not having any current plan or budget to explore the property further, and the Company having limited geological data with no NI 43-101 basis with which to assign any value to the property.

The Company has a 100% interest in the El Milagro property in Tamaulipas, Mexico. During the year ended February 28, 2015, the Company fully impaired the El Milagro property by \$93,310 resulting in a carrying cost of \$Nil. The impairment was the result of the Company not having any plan or budget to explore the property further, and the Company having no basis with which to value the property. The impairment was calculated in accordance with level 3 of the fair value hierarchy.

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

(g) 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. None of the holes drilled in 2009 intersected significant uranium mineralization.

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, it remains in good standing until 2017. Proposed budget for 2017 is \$55,000, of which the Company's share is \$11,000 representing a 20% joint venture partnership.

(h) 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. As at February 28, 2015, over \$32,874,828 has been spent on the project, exploring for a large unconformity-type deposit that has resulted in the discovery of the Centennial Deposit.

The Centennial Deposit has been traced over 650 metres of strike length and has a minimum across strike width ranging from 10.0 metres to 52.5 metres. Approximately \$14,000,000 was reported by Cameco as having been spent on the 2009 - 2012 drill programs that were designed to follow up on the 2004 - 2008 drill results from the Centennial Zone.

The 2013 program concentrated on environmental studies focused on the indigenous Woodland Caribou population, an evaluation of a permanent overland road to the Centennial Deposit for year round exploration and development access and the compilation of existing data to prepare the project area for renewed exploration with a calendar 2013 expended budget of \$303,942.

The 2014 program was comprised of a geophysical survey utilizing a ZTEM Airborne geophysical system with the goal of providing regional data sets of the conductive architecture of the underlying geology that includes the flanking conductor corridors that are poorly defined and tested, continued independent scientific study of Woodland Caribou habitat in order to influence future decisions on the caribou protection plans for Saskatchewan, the demobilization of the historical drilling contractor, continued data compilation, and corridor scale analysis of the Virgin trend in order to drive future exploration programs.

All uranium assays were carried out by the Saskatchewan Research Council (SRC) of Saskatoon, Saskatchewan. Delayed neutron counting (DNC) and / or X-ray fluorescence spectroscopy (XRF) U₃O₈ check assays were completed on all split assay samples returning greater than 1.0% U₃O₈. The average of the check assays and the ICP-OES results were used in the calculations of grade thicknesses.

A budget of \$500,000 was approved for 2017 calendar year, of which the Company's portion is \$10,000 representing a 2% joint venture partnership.

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. and CRU. 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 83,000¹ tonnes in 2013, 89,000² tonnes in 2014, 90,150³ tonnes in 2015 and 98,000 tonnes in 2016⁴. Global cobalt demand is expected to exceed 100,000 tonnes for the first time in 2017 as the market begins to face supply deficit⁵. 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 6.7% compounded annual growth rate ("CAGR") from 2015 to 2020 and 5.7% CAGR from 2020 to 2025⁶. Non-metallurgical demand is expected to reach over 100,000 tonnes by 2015, driven by the rechargeable battery sector.

¹ CRU Cobalt Market Outlook 2015

² CRU Cobalt Market Outlook 2015

³ CRU Cobalt Market Outlook 2015

⁴ CRU Cobalt Market Outlook 2016

⁵ CRU Cobalt Market Outlook 2016

⁶ CRU Cobalt Market Outlook 2016

End user consumption of cobalt will also change rapidly by 2020, with the most significant change in demand by lithium ion batteries used in electric vehicles (“EVs”)⁷ by 114%:

Applications	2015 Consumption	2020 Consumption	Percentage Change
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 forecast⁸. The growth in the EVs market will increase consumption of cobalt sulfate to 27,500 tonnes in 2020 and 41,500 tonnes in 2025, accounting for roughly 40% of chemical cobalt consumption in 2025⁹.

Energy requirement in MWh for EVs are expected to grow at 16% per annum until 2025¹⁰. Battery supply is one of the key hurdles to EV growth, especially for to meet demand requirements beyond 2019 and 2020¹¹. To produce this energy requirement, the battery sector is forecasted to consume 75% to 78% of total cobalt production¹². 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 including¹³:

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 2022¹⁴. 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.

⁷ CRU Cobalt Market Outlook 2016

⁸ CRU Cobalt Market Outlook 2016

⁹ CRU Cobalt Market Outlook 2016

¹⁰ CRU Cobalt Market Outlook 2015

¹¹ BNP Paribas Plugged- In- November 22, 2016

¹² CRU Cobalt Market Outlook 2015

¹³ BNP Paribas Plugged- In- November 22, 2016

¹⁴ BNP Paribas Plugged- In- November 22, 2016

Approximately 65% of the world cobalt supply is mined from the Democratic Republic of Congo (“DRC”) with 69,200 tonnes produced in 2015¹⁵. 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 mining¹⁶. 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 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 will continue to grow against supply even though there is a small surplus in metallurgical cobalt supply. Significant increase in demand of non-metallurgical or cobalt chemicals used in rechargeable batteries will cause 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 during Q1 2017 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 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.

¹⁵ Darton Commodities Limited Cobalt Market Review 2015-16

¹⁶ Darton Commodities Limited Cobalt Market Review 2015-16

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

²³ CRU Cobalt Market Outlook 2015

²⁴ CRU Cobalt Market Outlook- February 2017

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 Company's shares performed exceptionally well over the last year with a share price increase of well over 800%. The Company traded at \$0.11 on March 1, 2016 and closed at \$0.99 on the filing date of this report with a 52 week high of \$1.48. The Company has outperformed market indexes during the same period. The increase in the Company's value has been the result of increased cobalt prices due to potential supply deficits, continued positive media coverage regarding the expansion of the EVs and Energy Storage markets, and further developments of the ICP.

Figure 1: eCobalt's Share Price, March 1, 2016 – May 29, 2017 (Stockwatch.com, 2017)



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 28, 2017		Year ended February 29, 2016		Year ended February 28, 2015	
	\$	%	\$	%	\$	%
Share-based payments	(812,125)	143%	(333,981)	196%	(112,746)	
Foreign exchange gain	14,445	-93%	222,005	-59%	535,476	
Depreciation	(51,121)	0%	(51,248)	9%	(47,211)	
Impairment of property, plant and equipment	-	0%	-	-100%	(5,386,920)	
Impairment of mineral properties	-	-100%	(51,434,713)	1113%	(4,240,426)	
All other expenses	(1,360,899)	-3%	(1,405,180)	0%	(1,411,718)	
Net loss before taxes from continued operations	(2,209,700)	-96%	(53,003,117)	397%	(10,663,545)	
Income tax recovery	451	-77%	1,989	-100%	1,717,062	
Net loss after taxes from continued operations	(2,209,249)	-96%	(53,001,128)	492%	(8,946,483)	
Loss from discontinued operations	-	0%	-	-100%	(358,955)	
Other comprehensive income: currency translation adjustment	-	-100%	(170,924)	-288%	91,136	
Total comprehensive loss for the year	(2,209,249)	-96%	(53,172,052)	477%	(9,214,302)	
Basic and diluted loss per share	(0.02)	-97%	(0.58)	480%	(0.10)	

	Year ended February 28, 2017		Year ended February 29, 2016		Year ended February 28, 2015	
	\$		\$		\$	
Total assets	84,891,939		65,235,535		118,008,882	
Total long term liabilities	4,697,123		5,998,489		5,703,288	

1.4 Results of Operations

Financial Results of Operations for the Year Ended February 28, 2017 and February 29, 2016

The following are highlights from the Company's results from operations for the year ended February 28, 2017 and February 29, 2016:

- (a) **Comprehensive loss** for the year ended February 28, 2017 was \$2,209,700 or \$0.02 per share (February 29, 2016 - \$53,172,052 or \$0.58 per share). Changes to net loss in the current year compared to the same period last year were mainly the result of changes to the items discussed below.
- (b) **Impairment of mineral properties and property, plant and equipment** for the year ended February 28, 2017 was \$nil (February 29, 2016 - \$51,434,713). Impairment on mineral properties was recognized on the ICP as a result of changes in discount rate from 11.00% in 2015 to 13.40% in 2016 (see disclosure in Idaho Cobalt Project - Impairment section). Changes in assumption of Capex financing structure for the ICP were made from 20/80 debt to equity in 2015 to 50/50 debt to equity in 2016. These assumptions were made to reflect current market conditions and structure of the Company's past financing activities. Base case assumption on price of cobalt sulfate heptahydrate was also changed from \$19.50 in 2015 to \$17.00 in 2016, this more accurately reflects current spot cobalt price and projected premiums at February 28, 2016.
- (c) **Directors fees** for the year ended February 28, 2017 was \$93,555 (February 29, 2016 - \$124,460). The Company reduced directors' fees including annual retainers and meeting fees by 50% during since June 1, 2016.

- (d) **Shareholder relations** for the year ended February 28, 2017 was \$171,089 (February 29, 2016 - \$125,138). Higher shareholder relations fees incurred during the current year was a result of investor relations and promotional activities related to financing and to enhance shareholder awareness of the ICP. These activities includes travelling, attending conferences and road shows, and corporate rebranding.
- (e) **Foreign exchange gain** for the year ended February 28, 2017 was \$14,445 (February 29, 2016 - \$222,005). The US dollar appreciated against the Canadian dollar from an average of \$1.3071 to \$1.3113 during the fiscal year ended February 28, 2017 (February 29, 2016 - from \$1.1266 to \$1.3071). Foreign exchange gains and losses results from the settlement of foreign currency transactions and from the translation at reporting period exchange rates for monetary assets and liabilities denominated in currencies other than the Company's subsidiaries' functional currency.
- (f) **Office expense** for the year ended February 28, 2017 was \$319,105 (February 29, 2016 - \$306,087). Increased office expense compared to the same period last year was a result of marketing report subscriptions, and general overhead as a result of the FS work and advancing the ICP.
- (g) **Share-based compensation, a non-cash expense**, for the year ended February 28, 2017 \$812,215 (February 29, 2016 - \$333,981). During the year ended February 28, 2017, a total of 2,228,182 (February 29, 2016 - 3,103,000) stock options were granted to employees, consultants, officers and directors and these include 218,182 stock options that were issued on July 8, 2016 with an exercise price of \$0.52 and 2,010,000 stock options that were issued on September 1, 2016 with an exercise price of \$0.60. All options have a life of 5 years from grant date.
- (h) **Salary and wages** for the year ended February 28, 2017 was \$449,922 (February 29, 2016 - \$538,055). In addition to downsizing its employment, the Company also reduced all salaries and wages January 1 to May 31, 2016 resulting in lower salary expenses during the current period. Salary and wages were readjusted to their pre-reduction levels after June 1, 2016.
- (i) **Legal fees** for the year ended February 28, 2017 was \$82,830 (February 29, 2016 - \$50,719). The Company updated its Corporate Governance and Shelf Prospectus filing during the year compared to the same period last year.

Financial Results of Operations for the Three Months Ended February 28, 2017 and 2016

The following are highlights from the Company's results from operations for the three months ended February 28, 2017 and 2016:

- (a) **Net loss** for the three months ended February 28, 2017 was \$325,352 or \$0.002 per share (February 29, 2016 - \$51,865,581 or \$0.57 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) **Impairment of mineral properties and property, plant and equipment** for the three months ended February 28, 2017 was \$nil (February 29, 2016 - \$51,434,713).
- (c) **Directors fees** for the three months ended February 28, 2017 was \$18,750 (February 29, 2016 - \$29,875). Lower directors' fees during the period were a result of directors agreeing to reduce their annual retainers fee by 50% and cancellation of meeting fees.
- (d) **Office expense** for the three months ended February 28, 2017 was \$63,070 (February 29, 2016 - \$58,200). Higher office expense during the period ended February 28, 2017 was the result of travel expenses.
- (e) **Salary and wages** for the three months ended February 28, 2017 was \$138,110 (February 29, 2016 - \$135,902). Salary was comparable to the same period last year.
- (f) **Shareholder relations** for the three months ended February 28, 2017 was \$39,251 (February 29, 2016 - \$12,831). 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 includes travelling, attending conferences and road shows, and corporate rebranding.

1.4.1 Summary of Quarterly Results

Financial Information in thousands (except per share information)

	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 \$	Three Months ended August 31, 2015 \$	Three Months ended May 31, 2015 \$
Net loss from continued operations	(345)	(1,087)	(431)	(347)	(51,764)	(299)	(151)	(789)
Basic and diluted loss per share	(0.002)	(0.01)	(0.005)	(0.002)	(0.57)	(0.003)	(0.002)	(0.01)

Net loss from operations for Q4 ended February 29, 2017 was \$345,321 compared to, \$1,086,597, \$431,115 and \$347,118 reported for Q3, Q2 and Q1 respectively. Net loss was significantly higher in Q3 and this was due to a non-cash expense of \$812,125 for shared based compensation from the issuance of stock options (see section 1.4 part (g)). Otherwise, quarterly financial results were consistent during the year ended February 28, 2017.

Net loss from operations for Q4 ended February 29, 2016 was \$51,763,516 compared to \$299,227, \$151,389 and \$788,996 reported for Q3, Q2 and Q1 respectively. Excluding the impairment in mineral properties of \$51,434,713 recorded in Q4, net loss for Q4 was \$328,803. Net loss was significantly higher in Q1 and this was due to a non-cash expense of \$331,889 for shared based compensation from the issuance stock based options on April 27, 2015 (see section 1.4 part (g)). The Company also disposed of refinery slag materials in Q1. The disposition costs were high due to the environmentally sensitive nature of the materials; otherwise the Company has made material reductions to overhead and office expenses. Foreign exchange gains were the highest in Q2 at \$173,874, compared to \$42,453 in Q4, \$30,442 in Q3, and \$24,764 in Q1, this resulted in lower net operating loss in Q2 compared to other quarters.

1.5 Liquidity

February 28, 2017 and 2016

- Cash and cash equivalents** as at February 28, 2017 were \$19,221,353 (February 29, 2016 - \$1,095,357).
- Working capital** as at February 28, 2017 was \$18,142,854 (February 29, 2016 - \$954,504).
- Mineral property expenditures** of \$1,957,166 (February 29, 2016 - \$1,548,254) were capitalized during the year ended February 28, 2017.
- Net Purchase of Property, Plant and Equipment expenditures** for the year ended February 28, 2017 was \$321,399 (February 29, 2016 - \$591,735).

The Company's cash and cash equivalents are held in Canadian dollars and are invested in highly rated securities at fixed interest rates of 1% 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. 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 bought deal financing.

Contractual Commitments

The following is a schedule of the Company's annual commitments as at February 28, 2017:

	Note	2017	2018	2019
		\$	\$	\$
Mineral property expenditure	(a)	21,000	-	-
General liability insurance	(b)	43,828	-	-
Office operating leases	(c)	100,711	100,711	92,319
Professional Fees - Feasibility study	(d)	318,918	-	-
		484,457	100,711	92,319

- (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 calendar 2017 exploration program budget is \$10,000. The Company is also committed to spend \$11,000 for Kernaghan project representing 20% of its budget.
- (b) The Company has a total liability of \$43,828 for insurance premium, to be paid in equal monthly instalments until October 12, 2017.
- (c) The Company has an office lease commitment totalling \$293,741 ended January 31, 2020.
- (d) The Company has a total remaining commitment of \$318,918 as a result of commissioning a Feasibility Study on the ICP with Micon Engineering and 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 a change in control as defined in the agreements

1.6 Capital Resources

The Company's working capital as at February 28, 2017 was \$18,142,854 (February 29, 2016 - \$954,504). 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.

1.7 Off-Balance Sheet Arrangements

None.

1.8 Transactions with Related Parties

- (a) Subsidiaries

	Ownership interest	
	February 29, 2016	February 28, 2015
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 years ended February 28, 2017 and February 29, 2016 were as follows:

	Note	February 28, 2017	February 29, 2016
		\$	\$
Salaries and short-term employee benefits including bonuses		437,075	445,007
Share-based compensation	(i)	623,280	262,867
Directors' fees	(ii)	84,125	116,000
		1,144,480	823,874

There were outstanding balances of \$91,500 owed to directors at February 28, 2017 (February 29, 2016 - \$57,750), included in accrued liabilities.

- (i) Share-based payments are based on fair value of options and common shares granted to directors and officers of the Company. During the year ended February 28, 2017, the Company granted 1,680,000 (February 29, 2016 – 2,418,000) stock options to directors and officers who are considered key management of the Company, with weighted average exercise price of \$0.60 (February 29, 2016 - \$0.2) per share, expiring five years from the issue date.
- (ii) The Company paid and accrued directors fees of \$84,125 (February 29, 2016 - \$116,000) for the year ended February 28, 2017. The Company also reimbursed directors for business related expenses in the amount of \$9,430 (February 29, 2016 - \$8,460).

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 February 28, 2017				For the period ended February 29, 2016			
		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	55,650	-	13,500	69,150	25,178	-	17,000	42,178
James Engdahl	Director	-	-	4,125	4,125	25,178	-	17,500	42,678
Paul Farquharson	President & CEO	111,300	199,731	-	311,031	32,280	205,111	-	237,391
Gregory Hahn	Director	55,650	-	13,500	69,150	25,178	-	17,000	42,178
Scott Hean	Director	55,650	-	13,500	69,150	25,178	-	17,500	42,678
Rick Honsinger	Vice President	89,040	121,094	-	210,134	25,824	122,396	-	148,220
Robert Metka	Director	55,650	-	13,500	69,150	25,178	-	16,000	41,178
Robert Quinn	Director	55,650	-	13,000	68,650	25,178	-	15,000	40,178
David Stone	Director	55,650	-	13,000	68,650	25,178	-	16,000	41,178
Marc Tran	CFO	89,040	116,250	-	205,290	25,824	117,500	-	143,324
		623,280	437,075	84,125	1,144,480	262,867	445,007	116,000	823,874

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 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.

1.11 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 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 February 28, 2017 and February 29, 2016, the carrying values and the fair values of the Company's financial instruments are shown in the following table:

	February 28, 2017		February 29, 2016	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	19,221,353	19,221,353	1,095,357	1,095,357
Reclamation bond	2,973,439	2,966,773	3,029,411	3,022,619
Financial liabilities				
Accounts payable	945,254	945,254	74,669	74,669
Accrued liabilities	289,992	289,992	139,902	139,902

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:

	February 28, 2017	February 29, 2016
	\$	\$
Cash and cash equivalents	19,221,353	1,095,357
Reclamation bond	2,973,439	3,029,411

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:

	February 28, 2017			February 29, 2016	
	Within 1 year	2-5 years	Over 5 years	Total	Total
	\$	\$	\$	\$	\$
Cash	16,644,849	-	-	16,644,849	62,949
Short term savings	-	-	-	-	1,032,408
GIC	2,576,504	-	-	2,576,504	-
Accounts payable	945,254	-	-	945,254	74,669
Accrued liabilities	289,992	-	-	289,992	139,902

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 February 28, 2017, the Company's Canadian savings account of \$2,576,504 (February 29, 2016 - \$1,032,408) earns an interest rate of up to 1% (February 29, 2016 - 0.46%). 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 February 28, 2017, a 15% (February 29, 2016 - 15%) strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately \$315,000 (February 29, 2016 - \$404,000).

1.13 Other MD&A Requirements

(a) Disclosure of Outstanding Share Data

As at May 29, 2017, there were 129,831,656 outstanding common shares, 4,652,682 outstanding stock options with a weighted average exercise price of \$0.38 and weighted average life of 3.31 years. The Company has 13,393,552 share purchase warrants outstanding with a weighted average price of \$1.18 and average life of 1.5 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 February 28, 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 year ended February 28, 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.