



# **Geomega Resources Inc.**

Management's Discussion and Analysis  
Quarterly Highlights

Six months ended November 30, 2019

# Geomega Resources Inc.

## Management Discussion & Analysis- Quarterly Highlights

Six months ended November 30, 2019

The following quarterly highlights management discussion and analysis (the “MD&A Highlights”) of the financial condition and results of the operations of Geomega Resources Inc. (the “Corporation”, “Company” or “Geomega”) constitutes management’s review of the factors that affected the Corporation’s financial and operating performance for Q2-20 YTD. This MD&A Highlights should be read in conjunction with the Corporation’s unaudited condensed interim financial statements as at November 30, 2019 prepared in accordance with the International Financial Reporting Standards (“IFRS”), as well as with the management discussion and analysis for the year ended May 31, 2019. All figures are in Canadian dollars unless otherwise noted.

Further information regarding the Corporation and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be found on [www.sedar.com](http://www.sedar.com).

Abbreviation	Period
Q1-19	June 1, 2018 to August 31, 2018
Q2-19	September 1, 2018 to November 30, 2018
Q2-19 YTD	June 1, 2018 to November 30, 2018
Q3-19	December 1, 2018 to February 28, 2019
Q4-19	March 1, 2019 to May 31, 2019
Fiscal 19	June 1, 2019 to May 31, 2019
Q1-20	June 1, 2019 to August 31, 2019
Q2-20	September 1, 2019 to November 30, 2019
Q2-20 YTD	June 1, 2019 to November 30, 2019
Q3-20	December 1, 2019 to February 28, 2020
Q4-20	March 1, 2020 to May 31, 2020
Fiscal 20	June 1, 2020 to May 31, 2020

## 1. NATURE OF ACTIVITIES

Geomega is a mineral exploration and evaluation corporation focused on the discovery and sustainable development of economic deposits of metals in Quebec. Geomega is committed to meeting the Canadian mining industry standards and distinguishing itself with innovative engineering, high stakeholder engagement and dedication to local transformation benefits. On the TSX Venture Exchange (the “Exchange”), common shares of the Corporation are trading under the symbol GMA.

As society moves from consumption of fossil fuels to more sustainable energy sources, Geomega believes that the future of clean energy resides in one of the rare earth elements (“REE”) called neodymium. Neodymium is vital for the production of high-performance permanent magnets used in a wide variety of electrical motors. Such motors are in increasing demand with the growth of sustainable-energy initiatives such as hybrid and electric vehicles and direct-drive wind turbines.

Innord Inc. (“Innord”) is the innovation arm of Geomega and was created in March 2015 to optimize the value of the separation technology by facilitating its development through direct investments of key financial partners. Innord is a subsidiary of Geomega that holds all the separation rights and laboratory equipment. The primary goal of Innord is to successfully scale-up its proprietary REE separation process. From now on, all research and development initiatives of Geomega are conducted by Innord.

## 2. CORPORATE UPDATE

### 2.1 Private placement

On July 2 and 10, 2019, the Corporation closed a private placement in two tranches consisting of 8,800,215 units at a price of \$0.14 for total gross proceeds of \$1,232,010. Each unit being comprised of one share and

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one half-warrant, each whole warrant entitling the holder to acquire one share at a price of \$0.20 per share for 2 years.

Of the total gross proceeds of units, \$162,353 was allocated to warrants and \$1,069,677 to equity, based on a pro-rata allocation of the estimated fair value of each of these two components. The fair value of the warrants granted was estimated using the Black-Scholes model with no expected dividend yield, 76.6% and 76.5% expected volatility, 1.49% and 1.58% risk-free interest rate for the first and second tranches respectively, and 2 years warrants expected life.

Share issuance costs totaled \$37,168, of which \$32,270 was allocated to equity and \$4,898 to warrants.

### 2.2 Financial Highlights

Geomega has \$838,000 of cash and cash equivalents as at November 30, 2019 and a working capital of \$288,004 (negative working capital of \$829,780 as at May 31, 2019). The Corporation is constantly seeking financing or business opportunities.

For Q2-20 YTD, the Corporation recorded a net loss of \$580,377 compared to a net income of \$172,129 for Q2-19 YTD. Excluding the effects of fluctuations from the investment in an associate, a net loss of \$513,800 was realized in Q2-20 YTD compared to a net loss of \$434,640 in Q2-19 YTD. The main variations are as follows:

- Salaries, benefits, settlement and share-based compensation of \$108,465 (\$61,743 in Q2-19 YTD). The Corporation hired an internal CFO in October 2019, which explains the increase in salaries, but the decrease in professional fees, which are of \$57,855 in Q2-20 YTD compared to \$140,586 in Q2-19 YTD.
- Exploration and evaluation expenses, net of tax credits of \$245,049 (\$134,756 in Q2-19 YTD). See the analysis of work on the Montviel property in Section 4.1. The level of activity was essentially the same as in the previous year, but the Corporation benefited for 2020 of a grant from IRAP to reimburse from \$16,000 to \$19,000 per month on research salaries. Additionally, since the start of 2020, an expenditure of \$94,460 was made in connection with the Engineering of the demonstration plant.
- Travel, conference and investor relations of \$129,648 (\$13,418 during T2-19 YTD). With the increase in the level of activity and the approaching production of rare earth oxides from the demonstration plant, the Corporation has invested in order to increase its visibility in the market with several marketing agreements as well as for its participation in tradeshow. A total of \$31,925 of the Q2-20 YTD expense represents stock-based compensation.
- Share of loss of an associate of \$161,462 (\$668,146 in Q2-19 YTD) and net gain on the dilution of investment in an associate of \$65,085 (1,274,915 in Q2-19 YTD). Kintavar is the only associate of the Corporation and this investment is accounted for using the equity method. The investment in Kintavar went from 28.76% to 22.49% during Q2-19 YTD as a result of shares issued for a total number of 17,297,007 Kintavar shares. During Q1-20, the equity interest of Geomega in Kintavar decreased from 21.77% to 18.49% following the issuance of 9,125,000 Kintavar shares and following the sale of 1,000,000 shares by Geomega, generating a gain of \$29,800 in the financial statements. See section 2.3 for more details on this transaction.

### 2.3 Other Sources of financing

On December 9, 2019, the Company signed, through its subsidiary Innord, an amendment to add \$113,500 to the initial \$350,000 grant from the IRAP program with the National Research Council Canada. This additional grant will cover up to 50% of subcontracting costs during the construction of the demonstration plant.

On November 30, 2019, the Company proceeded with the sale of its rolling equipment used for exploration activities. The sale price was \$19,501 and no transaction costs were incurred for this sale. The carrying value of the assets sold was \$1,900.

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On September 30, 2019, the Company concluded a transaction with a third party for the sale of its warehouse located in Lebel-sur-Quévillon, Québec. The sale price was \$175,000 and no transaction costs were incurred for this sale. The carrying value of the property was \$81,078.

On August 2, 2019, the Corporation signed a financial assistance agreement with the Minister of Economy and Innovation under the "SME in Action" Program for a non-repayable grant of \$19,456 to reimburse up to 40% of eligible expenses of the FEED study. This amount was revised upward on October 4, 2019 to \$81,856.

On June 14, 2019, the Corporation sold 1,000,000 shares of Kintavar at a price of \$0.16 per share for gross proceeds of \$160,000. Transaction fees of \$16,000 were incurred on this amount for a total net proceeds of \$144,000. A net gain on the sale of \$29,800 was recorded in the consolidated statement of earnings and comprehensive earnings.

### 3. OUTLOOK ON THE UPCOMING MONTHS

Validation of the separation technology through processing industrial residues was and remains Geomega's main objective since 2015. The Corporation is focusing on producing rare earth oxides, which are used in the production of permanent magnets, from high grade industrial residues.

The Corporation's objectives over the next months include:

- Carry out the EPCM (Engineering, Procurement, Construction and Management) on the demonstration plan.
- Separation tests to obtain a purity of 99.9% and higher.
- Secure more supply to ensure long-term profitability of commercial plant operations.
- Secure offtake agreements with potential clients.

### 4. EXPLORATION AND VALIDATION OF THE SEPARATION TECHNOLOGY ACTIVITIES

#### 4.1 Expense summary - Montviel property

Montviel Property	Three months ended November 30		Six months ended November 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Acquisition and maintenance</b>	<b>552</b>	<b>3,076</b>	<b>813</b>	<b>9,162</b>
<b>Exploration</b>				
Salaries and benefits	8,472	-	13,073	-
Share-based compensation	2,283	2,398	3,111	4,879
Supplies and tools	84	-	611	-
Transport and lodging	62,067	(203)	68,882	(745)
Depreciation of property and equipment	950	3,114	3,343	5,923
Taxes, permits and insurance	1,849	576	4,360	1,189
Billing - rental	(2,002)	(13,375)	(22,741)	(27,750)
<b>Total exploration</b>	<b>73,703</b>	<b>(7,490)</b>	<b>70,639</b>	<b>(16,504)</b>
<b>Evaluation</b>				
Salaries and benefits – separation process	82,148	72,945	159,284	147,145
Separation process	10,095	27,433	35,089	64,982
Depreciation of property and equipment	7,600	10,776	14,057	21,453

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Engineering	72,450	-	94,460	-
<b>Total evaluation</b>	<b>172,293</b>	<b>111,154</b>	<b>302,890</b>	<b>233,580</b>
Gross E&E expenses	<b>246,548</b>	<b>106,740</b>	<b>374,342</b>	<b>226,238</b>
Government grants	(54,844)	(60,360)	(105,472)	(66,482)
Tax credits	(37,576)	(46,382)	(37,576)	(46,382)
	<b>154,128</b>	<b>(2)</b>	<b>231,294</b>	<b>113,374</b>
Transferred to discontinued operations	11,951	9,887	13,755	21,382
<b>Net E&amp;E expenses - Montviel</b>	<b>166,079</b>	<b>9,885</b>	<b>245,049</b>	<b>134,756</b>

Alain Cayer, P. Geo., M.Sc., Vice-President Exploration of Geomega, a qualified person as defined in NI 43-101 supervised the preparation of the technical information in this section.

There was no surface exploration activity on the Montviel property during Q2-20 YTD (same as Q2-19 YTD). Expenses incurred in terms of salaries and accommodation in 2020 are related to the moving of equipment and drilling cores following the sale of the warehouse located in Lebel sur Quévillon. The engineering expenditure of \$94,460 represents the costs incurred for the start of engineering work for the development of the demonstration plant for the recycling of permanent magnets.

### 4.2 ISR Technology Development

Dr. Pouya Hajiani, process inventor and engineer and CTO of Geomega supervised and approved the technical information of this section.

Innord is continuing the research and development activities for separating rare earth elements using its proprietary separation technology that does not use organic solvents ("Innord Separation of Rare Earths (ISR Technology)"). Following up on the successful developments of 2017 and 2018, the Corporation is focusing on scaling up activities by processing rare earth enriched feed that is coming from the permanent magnet industry. The products of the Corporation have been already tested and validated by potential end users for manufacturing of permanent magnets.

Geomega is currently heading towards the construction of the demonstration plant that will be using the ISR technology to recycle rare earth magnets and produce rare earth oxides. On October 1st, 2019, the Corporation announced an updated capital expenditure estimation based on the Front-End Engineering & Design ("FEED") study. The updated design has now been scaled up to use 5,000 L reactors and operate on a single work shift of 8 to 10 hours. As a result of this sizing increase and process optimization by Geomega, the demonstration plant could reach a throughput capacity of 1.5 ton per shift, a 50% increase over the initial design. On a per hour basis, this demonstrates a 4.5X increase.

The current study also confirmed that the ISR process that was developed by Innord, a private subsidiary of Geomega, is technically feasible and uses off the shelf equipment thereby making it easier to scale up.

### CAPEX\*

<b>Direct Costs</b>	\$1,783,025
<b>Indirect Costs</b>	\$371,605
<b>Contingency (20%)</b>	\$432,926
<b>TOTAL</b>	<b>\$2,587,556</b>

\* The capital costs presented in the table were confirmed via the preliminary results received from the FEED study

### 4.3 Preliminary Economic Assessment ("PEA")

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The corporate commitment to sustainable development dictated the following operational parameters for the Montviel project: i) underground mining scenario with paste backfill, ii) reduction in reagents to be transported by road and iii) electrical operations with a low voltage power line. It has taken more than three and a half years of metallurgical work and optimization to meet these three parameters.

In 2015, Montviel's flow sheet was greatly simplified. All of the acid required for hydrometallurgy will be generated on site with the insertion of a closed loop acid regeneration unit. In addition, two physical restatements at the beneficiation step significantly decrease the ore mass moving to hydrometallurgy.

To complete the PEA, the primary remaining work is the evaluation of the cost of the plant and infrastructure based on the May 2015 flow sheet (see press release dated May 20, 2015). The Corporation is focussing on scaling up its activities and will pursue the remaining work for the PEA subsequently.

### 4.4 Environmental Geochemistry

There are four (4) environmental studies that are ongoing on Montviel. These are long term studies with repetitive sampling.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, methods of computation and presentation applied in the Financial Statements are consistent with those of the previous financial year ended May 31, 2019, except for the new policy described below.

### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16. IFRS 16 sets out the principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer (the "lessee") and the supplier (the "lessor"). IFRS 16 replaces IAS 17, Leases and related interpretations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in the statement of (loss) income.

The Corporation has been applying this standard since June 1, 2019. In accordance with the provisions of IFRS 16, an analysis was conducted by management which concluded that IFRS 16 does not have a significant impact on existing leases and on the Corporation's financial statements.

### Stocks

The stocks consist of raw materials, rare earth permanent magnets that will be recycled in the demonstration plant in order to extract the rare earths oxide to be sold. Stocks are valued at the lowest of the cost and net realizable value. The cost of raw material inventory is generally determined using the average cost method.

### Foreign currency transactions

Foreign currency-denominated transactions are converted into the relevant functional currency as follows: monetary assets and liabilities are converted to the current exchange rate on the date of the consolidated balance sheet, while expenses are converted at the average exchange rate for the period. Non-monetary assets and liabilities are converted to historical rates or the rate in effect on the date they were valued at fair

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value. If applicable, foreign exchange gains and losses resulting from the settlement of those transactions and from period-end translations are recognized in the consolidated statement of loss.

### 6. SUBSEQUENT EVENTS

On December 15, 2019, the Corporation proceeded with the buy-back of minority positions totaling 3.84% in Innord Inc., the technological subsidiary of Geomega. The total consideration for the acquisition of the shares is \$ 371,208, payable by the issuance of a total of 2,516,664 shares of Geomega. The issue price of \$0.1475 was established based on the weighted average price of Geomega common shares, calculated on the volume of common shares traded during the 30-day period preceding the closing date of December 15, 2019. With this transaction, the Corporation now owns 100% of its subsidiary. Non-controlling interests of \$42,981 and the Liability related to share exchange rights of \$500,000 will be eliminated from the consolidated statement of financial position in the next quarter.

On January 10, 2020, the Corporation entered into a long-term lease agreement for the lease of an industrial space located in St-Bruno de Montarville, Quebec. The agreement, which will begin on February 1, 2020, is for an initial term of sixty (60) months with an option to renew for an additional sixty (60) months. The base rent is \$7.50 per square foot plus the estimated operating costs of \$3.75 per square foot and the area of the premises is 14,880 square feet. An asset and a liability will be recognized in future quarterly financial statements under IFRS 16.

On January 18, 2020, the Corporation granted its consultants 150,000 stock options at a price of \$0.185, valid for 5 years. These options were granted at an exercise price equal to the market price the day before the grant.

January 28, 2020

*(s) Kiril Mugerma*

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Kiril Mugerma  
President and CEO

*(s) Mathieu Bourdeau*

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Mathieu Bourdeau  
CFO

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### **Management**

Kiril Mugerma, President & CEO  
Alain Cayer, VP Exploration  
Mathieu Bourdeau, CFO  
Pouya Hajiani, CTO

### **Board of directors**

Gilles Gingras, President of the Audit Committee <sup>1)</sup>  
Kosta Kostic<sup>1)</sup>  
Mario Spino <sup>1)</sup>  
Jean Demers  
Kiril Mugerma

#### *Notes:*

*1) Member of the Audit Committee*

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### **Auditors**

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### **Transfer agents**

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