



Geomega Resources Inc.

Consolidated Financial Statements

For the years ended May 31, 2020 and 2019



Independent auditor's report

To the Shareholders of Geomega Resources Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Geomega Resources Inc. and its subsidiary (together, the Company) as at May 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at May 31, 2020 and 2019;
- the consolidated statements of (loss) income and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Maxime Guilbault.

PricewaterhouseCoopers LLP¹

Montréal, Quebec
August 13, 2020

¹ CPA auditor, CA, public accountancy permit No. A128042

Geomega Resources Inc.
Consolidated Statements of Financial Position
For the years ended May 31, 2020 and 2019
(in Canadian Dollars)

	Note	As at May 31, 2020 \$	As at May 31, 2019 \$
Assets			
Current assets			
Cash		485,780	33,438
Accounts receivable	5	130,144	40,586
Tax credits and government grants receivable	6	100,061	21,717
Prepaid expenses and others		94,724	17,463
Inventories		7,188	-
Current assets		817,897	113,204
Non-current assets			
Investment in an associate	7	1,508,159	2,039,287
Property and equipment	8	29,132	120,393
Right-of-use asset	9	772,832	-
Non-current assets		2,310,123	2,159,680
Total assets		3,128,020	2,272,884
Liabilities			
Current liabilities			
Trade and other payables		299,413	336,323
Liability related to share exchange rights	17	-	500,000
Convertible debentures	10	-	106,661
Current portion of the lease obligations	11	58,014	-
Current liabilities		357,427	942,984
Non-current liabilities			
Lease obligations	11	737,775	-
Long-term debt	12	53,724	-
Non-current liabilities		791,499	-
Total liabilities		1,148,926	942,984
Equity			
Share capital	10,13	31,132,420	29,241,753
Equity component of convertible debentures	10	-	3,300
Warrants	14	570,300	267,024
Broker options	15	5,742	-
Stock options	16	501,688	343,326
Contributed surplus		4,385,820	4,279,526
Deficit		(34,616,876)	(32,769,526)
Equity attributable to Geomega Resources Inc.'s shareholders		1,979,094	1,365,403
Non-controlling interests	17	-	(35,503)
Total equity		1,979,094	1,329,900
Total liabilities and equity		3,128,020	2,272,884

Going concern (Note 1)

The accompanying notes are an integral part of these consolidated Financial Statements.

On behalf of the Board

(s) Kiril Mugerma

Kiril Mugerma
Director

(s) Gilles Gingras

Gilles Gingras
Director

Geomega Resources Inc.

Consolidated Statements of (Loss) Income and Comprehensive Loss

For the years ended May 31, 2020 and 2019

(in Canadian Dollars, except number of common shares)

	Note	Fiscal 2020	Fiscal 2019
		\$	\$
Operating expenses			
Salaries, employee benefits and share-based compensation	20	204,993	124,396
Directors fees	20	33,750	45,000
Loss on debt extinguishment		3,000	-
Exploration and evaluation expenses, net of tax credits	20	614,922	215,570
Professional fees		91,152	167,445
Travel, conference and investor relations		263,536	97,859
Administration		34,001	27,073
Filing fees		48,214	40,092
Rent		61,349	55,322
Depreciation of right-of-use asset	9	30,111	-
Insurance, taxes and permits		17,900	24,252
Other income		(26,588)	-
Operating loss		(1,376,340)	(797,009)
Other income (expenses)			
Interest income (expenses)		8,733	(12,953)
Finance costs		(29,590)	(15,541)
Gain on foreign exchange		43,923	-
Gain on disposal of property and equipment	8	111,523	-
Gain on buyback of share-exchange rights	17	84,750	-
Share of loss of an associate	7	(553,957)	(929,664)
Net gain on dilution of investment in an associate	7	137,029	1,176,709
Net gain on sale of investment in an associate	7	29,800	-
		(167,789)	218,551
Net and comprehensive loss		(1,544,129)	(578,458)
Net loss attributable to:			
Geomega Resources Inc.'s shareholders		(1,532,700)	(564,250)
Non-controlling interests		(11,429)	(14,208)
Basic and diluted earnings per share			
		(0.018)	(0.006)
Weighted average number of basic and diluted outstanding shares			
		100,779,993	90,132,798

The accompanying notes are an integral part of these consolidated Financial Statements.

Geomega Resources Inc.
Consolidated Statements of Changes in Equity
For the years ended May 31, 2020 and 2019
(in Canadian Dollars, except number of common shares)

	Note	Number of shares outstanding	Capital stock	Equity component of convertible debentures	Warrants	Stock- Options	Contributed surplus	Deficit	Equity attributable to Geomega Resources Inc.	Non- controlling interest	Total equity
			\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at May 31, 2018		90,072,634	29,133,500	3,300	680,489	315,460	3,780,142	(32,155,770)	1,757,121	(21,295)	1,735,826
Net loss and comprehensive loss		-	-	-	-	-	-	(564,250)	(564,250)	(14,208)	(528,458)
Share-based compensation		-	-	-	-	95,507	-	-	95,507	-	95,507
Exercised stock options		127,500	19,088	-	-	(8,063)	-	-	11,025	-	11,025
Expired stock options		-	-	-	-	(59,578)	59,578	-	-	-	-
Exercised warrants		550,000	89,165	-	(23,165)	-	-	-	66,000	-	66,000
Expired warrants		-	-	-	(439,806)	-	439,806	-	-	-	-
Extended warrants		-	-	-	49,506	-	-	(49,506)	-	-	-
Balance at May 31, 2019		90,750,134	29,241,753	3,300	267,024	343,326	4,279,526	(32,769,526)	1,365,403	(35,503)	1,329,900

The accompanying notes are an integral part of these consolidated Financial Statements.

Geomega Resources Inc.
Consolidated Statements of Changes in Equity
For the years ended May 31, 2020 and 2019
(in Canadian Dollars, except number of common shares)

	Note	Numbers of shares outstanding	Capital stock \$	Equity component of convertible debentures \$	Warrants \$	Broker warrants \$	Stock- options \$	Contributed Surplus \$	Deficit \$	Equity attributable to Geomega Resources Inc. \$	Non- controlling interest \$	Total equity \$
Balance at May 31, 2019		90,750,134	29,241,753	3,300	267,024	-	343,326	4,279,526	(32,769,526)	1,365,403	(35,503)	1,329,900
Net and comprehensive loss		-	-	-	-	-	-	-	(1,532,700)	(1,532,700)	(11,429)	(1,544,129)
Units issued as part of private placements	13	8,800,215	1,060,720	-	162,353	5,742	-	-	-	1,228,815	-	1,228,815
Buyback of non-controlling interest in shares	17	2,516,664	415,250	-	-	-	-	-	(46,932)	368,318	46,932	415,250
Exercised stock options	16	791,250	127,594	-	-	-	(55,981)	-	-	71,613	-	71,613
Expired stock options	16	-	-	-	-	-	(79,970)	79,970	-	-	-	-
Exercised warrants	15	785,000	206,073	-	(95,573)	-	-	-	-	110,500	-	110,500
Expired warrants	15	-	-	-	(26,324)	-	-	26,324	-	-	-	-
Extended warrants	15	-	-	-	239,057	-	-	-	(239,057)	-	-	-
Repriced warrants	15	-	-	-	28,661	-	-	-	(28,661)	-	-	-
Exercised conversion rights on convertible debentures	10	916,665	113,300	(3,300)	-	-	-	-	-	110,000	-	110,000
Share-based compensation		-	-	-	-	-	294,313	-	-	294,313	-	294,313
Stock issuance costs		-	(32,270)	-	(4,898)	-	-	-	-	(37,168)	-	(37,168)
Balance at May 31, 2020		104,559,928	31,132,420	-	570,300	5,742	501,688	4,385,820	(34,616,876)	1,979,094	-	1,979,094

The accompanying notes are an integral part of these consolidated Financial Statements.

Geomega Resources Inc.
Consolidated Statements of Cash Flows
For the years ended May 31, 2020 and 2019
(in Canadian Dollars)

	Note	Fiscal 2020 \$	Fiscal 2019 \$
Operating activities			
Net and comprehensive loss		(1,544,129)	(578,458)
Restatements for:			
Share-based compensation		186,313	95,507
Loss on debt extinguishment		3,000	-
Depreciation of property and equipment		26,143	47,654
Depreciation of right-of-use asset		30,110	-
Other operating income		(26,588)	-
Finance costs for the accretion of debentures		3,339	15,541
Finance costs for the accretion of long-term debt		312	-
Gain on disposal of property, plant and equipment		(111,523)	-
Gain on buyback of share-exchange liabilities		(84,750)	-
Share of loss of an associate	7	553,957	929,664
Net gain on dilution of investment in an associate	7	(137,029)	(1,176,709)
Net gain on sale of investment in an associate	7	(29,800)	-
Changes in non-cash working capital items	25	(184,261)	(68,277)
Cash flows used in operating activities		(1,314,906)	(735,078)
Investing activities			
Additions of property and equipment		(17,860)	(35,295)
Proceeds from disposal of property, plant and equipment		194,501	-
Proceeds from disposal of an investment in an associate	7	144,000	-
Cash flows used in investing activities		320,641	(35,295)
Financing activities			
Proceeds from issuance of units, net of issue costs		1,191,647	-
Exercise of warrants		110,500	66,000
Exercise of stock options		71,613	11,025
Increase in long-term debt	12	80,000	-
Repayments of lease liability	11	(7,153)	-
Cash flows from financing activities		1,446,607	77,025
Net change in cash		452,342	(693,348)
Cash – beginning		33,438	726,786
Cash – ending		485,780	33,438

The accompanying notes are an integral part of these consolidated Financial Statements.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

1. NATURE OF OPERATIONS AND GOING CONCERN

Geomega Resources Inc. (the "Corporation") is incorporated under the *Canada Business Corporations Act* and is engaged in the acquisition, exploration and evaluation of mining properties in Canada. The Corporation's shares are listed on the TSX Venture Exchange (the "Exchange") under symbol GMA. The address of the Corporation's registered office and principal place of business is 75, de Mortagne Boulevard, Boucherville, Quebec, Canada, J4B 6Y4. These audited consolidated Financial Statements (the "Financial Statements") were approved by the Corporation's Board of Directors on August 13, 2020.

The Corporation has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the ability of the Corporation to obtain necessary financing to pursue the exploration and evaluation on its mining properties.

These Financial Statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. For the year ended May 31, 2020, the Corporation reported a net loss of \$1,544,129 and has accumulated a deficit of \$34,616,876 up to that date. As at May 31, 2020, the Corporation had a working capital of \$460,470.

Management estimates that the working capital is not sufficient to meet the Corporation's obligations and commitments and budgeted expenditures through May 31, 2021. These circumstances lend a significant doubt as to the ability of the Corporation to ensure its continuity of operation and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Corporation's ability to continue as a going concern as described in the preceding paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Financial Statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

Any funding shortfall may be met in the future in a number of ways including but not limited to, the issuance of new equity or debt financing. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Corporation or that they will be available on terms which are acceptable to the Corporation, especially in the Covid-19 pandemic outbreak context. The extent and duration of impacts that the coronavirus may have on the Corporation's operations including suppliers, service providers, employees and global financial markets is still uncertain at this time. The Corporation is monitoring developments in order to be in a position to take appropriate actions as needed. If management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the Financial Statements.

2. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with the *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB").

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of measurement

These Financial Statements have been prepared on a historical cost basis. The Corporation has elected to present the statement of loss and comprehensive loss in a single statement.

3.2 Consolidation

The Financial Statements include the accounts of the Corporation and those of its subsidiary Innord Inc. ("Innord"), which is wholly owned by the Corporation as at May 31, 2020 (96.16% on May 31, 2019). Control refers to the power to govern an entity's financial and operating policies in order to derive benefits from its operations. All intra-group transactions, balances, income and expenses are eliminated during consolidation.

3.3 Non-controlling interests

Non-controlling interests represent an equity interest in a subsidiary owned by an outside party. The share of net assets of the subsidiary attributable to the non-controlling interests is presented as a component of equity. Their share of net income or loss and comprehensive income or loss is recognized directly in equity. Changes in the Corporation's ownership interest in the subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.4 Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Corporation operates (the "functional currency"). The functional and presentation currency of the Corporation and Innord is the Canadian dollar.

3.5 Investments in an associate

Associates are entities over which the Corporation has significant influence, but not control. The financial results of the Corporation's investments in its associates are included in the Corporation's results according to the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Corporation's share of comprehensive income or loss of the associates after the date of acquisition. The Corporation's share of profits or losses is recognized in the statement of (loss) income and its share of other comprehensive income or loss of associates is included in other comprehensive (loss) income.

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of (loss) income.

The Corporation assesses at each period-end whether there is any objective evidence that its investments in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the statement of (loss) income.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Exploration and evaluation expenses

Exploration and evaluation ("E&E") expenses include rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

E&E expenses also include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. Expenditures relating to E&E activities are expensed as incurred.

E&E include costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. E&E include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve;
- determining the optimal methods of extraction and metallurgical and treatment processes, including the separation process, for the Corporation's mining properties;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

The E&E expenses are recorded in the statement of (loss) income until such time as the technical feasibility and commercial viability has been established that supports the future development of the property, and such development receives the Board of Directors approval, at which time the mine project moves into the development phase.

E&E include overhead expenses directly attributable to the related activities.

The Corporation has taken steps to verify the validity of title to mineral properties on which it is conducting exploration activities and is acquiring interests in accordance with industry standards that apply to the current stage of E&E of such property. However, these procedures do not guarantee the Corporation's title, as property title may be subject to unregistered prior agreements, aboriginal claims or noncompliance with regulatory requirements.

3.7 Research and development costs

Research costs are expensed during the year in which the expenses are incurred. Development costs are capitalized when they meet the criteria for capitalization in accordance with IAS 38 "Intangible Assets".

3.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Repairs and maintenance costs are charged to the statement of (loss) income during the period in which they are incurred.

Depreciation is calculated to amortize the cost of the property and equipment less their residual values over their estimated useful lives using the straight-line method and following periods by major categories:

Office equipment	3 years
Vehicles	3 years
Field equipment and base camp related to E&E activities	3 to 5 years
Warehouse related to E&E activities	15 years

Depreciation of property and equipment, if related to exploration activities, is expensed consistently with the policy for E&E expenses. For those which are not related to E&E activities, depreciation expense is recognized directly in the statement of (loss) income.

Depreciation of an asset ceases when it is classified as held for sale (or included in a disposal group that is classified as held for sale) or when it is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Residual values, methods of depreciation and useful lives of the assets are reviewed annually and restated if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recorded in the statement of (loss) income.

3.9 IFRS 16 Leases

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 eliminates 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 earnings.

The Corporation adopted IFRS 16 on June 1, 2019 and determined that the adoption had no impact on its consolidated financial statements at that time.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.10 Right-of-use assets

The Corporation recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Corporation is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

3.11 Lease obligations

At the commencement date of the lease, the Corporation recognizes a lease obligation measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Corporation and payments of penalties for terminating a lease, if the lease term reflects the Corporation exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of the lease obligation is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease obligation is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3.12 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.

3.13 Tax credits and mining rights receivable

The Corporation is entitled to a refundable tax credit on qualified exploration expenditures incurred and refundable credit on duties for losses under the *Mining Tax Act*. These tax credits are recognized as a reduction of the E&E expenses incurred.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Investment tax credits

Investment tax credits are recognized when there is reasonable assurance that the Corporation has complied with, and will continue to comply with, all conditions necessary to obtain such assistance. The Corporation incurs research and development expenses that are eligible for investment tax credits. Refundable investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by tax authorities.

Investment tax credits are recognized as a reduction of the cost of the related assets or expenses in the year in which the expenditures are made when management deems that there is reasonable assurance that the conditions for government assistance or investment tax credits have been met.

3.15 Government grants

The Corporation's subsidiary, Innord, receives financial assistance under government incentive programs for research and development. Government grants are recognized initially as government grants receivable at fair value when there is reasonable assurance that it will be received and Innord will comply with the conditions associated with the grant. Grants that compensate Innord are recognized as a reduction of the related expenditures (in the statements of financial position or statements of income (loss) depending on the nature of the expenditures).

3.16 Impairment of non-financial assets

Property and equipment and right-of-use asset are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of 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 for which estimates of future cash flows have not been restated.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the statement of (loss) income. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

3.17 Convertible debentures

The liability, equity and other (when applicable) components of convertible debentures are presented separately on the statement of financial position, starting from initial recognition. The Corporation determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. Subsequently, the liability component is then increased by accretion of the discounted amounts to reach the nominal value of the convertible debenture at maturity which is recorded in the statement of (loss) income as finance cost.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The carrying amount of other components (when applicable), such as warrants, is obtained by deducting the nominal value of the debentures and the present value of future capital payments at the prevailing market rate for a convertible debenture without warrants.

The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible debenture and is presented in Equity as an equity component of convertible debenture. The equity component is not re-measured subsequent to initial recognition, except on conversion or expiry.

The transaction costs are distributed between liability, equity and other components (when applicable), on a pro-rata basis according to their carrying amounts.

3.18 Provisions, contingent liabilities and contingent assets

Provisions for environmental restoration, restructuring costs and legal claims, where applicable, are recognized when: (i) the Corporation has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The increase in the provision due to passage of time is recognized as finance costs. Changes in assumptions or estimates are reflected in the period in which they occur.

Provision for environmental restoration represents the legal and constructive obligations associated with the eventual closure of the Corporation's property and equipment. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been restated.

The Corporation's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, management believes that the Corporation's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible, given that the Corporation's operations are still in the E&E stage. A restoration provision will be recognized in the cost of the property and equipment when there is constructive or legal commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

Possible inflows of economic benefits to the Corporation that do not yet meet the recognition criteria of an asset are considered contingent assets. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in Financial Statements since this may result in the recognition of income that may never be realized.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.19 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 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.

3.20 Flow-through shares

The Corporation finances some E&E expenses through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The difference between the amounts recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liability which is reversed into the statement of (loss) income as a recovery of deferred income taxes when the eligible expenditures are incurred. The amount recognized as a flow-through share liability represents the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares, net of allocated issue costs.

3.21 IFRS 9, Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss ("FVTPL"), which are measured initially at fair value. The subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are offset, and the net amount is reported in the statements of financial position when there is an unconditional and legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

a) Financial assets

Financial assets are initially measured at fair value. If the financial asset is not subsequently FVTPL, then the initial valuation includes transaction costs that are directly attributable to the acquisition or asset generation. At the time of initial recognition, the Corporation categorizes its financial instruments into the following categories, depending on the purposes for which the instruments were acquired: at amortized cost or at fair value.

Geomega Resources Inc.

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For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

At amortized cost:

Financial assets at amortized cost are non-derivative financial assets with specified or determinable payments that consist exclusively of capital and interest payments held under a business model whose purpose is to collect these amounts. Financial assets at amortized cost are initially recorded at the amount expected to receive less, when significant, a discount to bring them back to fair value. Subsequently, financial assets at amortized cost are assessed using the current interest rate method, which is reduced by a provision for anticipated losses. Cash, accounts receivable, sales taxes receivable and tax credits and government grants receivable are classified in this category.

b) Financial liabilities

At amortized cost:

Trade and other payables are initially recorded at the amount to be paid less, when significant, a discount to bring this amount back to fair value. Subsequently, they are assessed at the amortized cost using the effective interest method.

c) Impairment of financial assets

At amortized cost:

The expected loss represents the difference between the amortized cost of financial assets and the present value of anticipated future cash flows, discounted to the instrument's initial effective interest rate. The book value of the asset is reduced by this amount either directly or indirectly through a value correction account. Provisions for anticipated losses are restated upwards or downwards in subsequent periods if the amount of the anticipated loss increases or decreases. The Corporation considers that there is no significant increase of credit risk for the financial instruments with low credit risk.

3.22 Current income and mining taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of (loss) income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized directly in equity. Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

The current income and mining tax charge is the expected tax payable or receivable on the taxable loss for the year, using the tax laws enacted or substantively enacted at the statement of financial position date in the jurisdictions where the Corporation operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

3.23 Deferred income and mining taxes

The Corporation uses the asset and liability method of accounting for income and mining taxes. Under this method, deferred income and mining tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred income and mining tax assets and liabilities are measured using enacted or substantively enacted tax rates (and laws) that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income and mining tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income and mining tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income or mining taxes levied by the same taxation authority on either the same taxable entity where there is an intention to settle the balances on a net basis.

Changes in deferred tax assets or liabilities are recognized as deferred income tax recovery in the statement of (loss) income, except where they relate to items that are recognized directly in equity, in which case the related deferred tax is also recognized in equity. As management intends to realize the carrying value of its assets and settle the carrying value of its liabilities through the sale of its E&E properties, the related deferred tax has been calculated accordingly.

3.24 Basic and diluted income or loss per share

The calculation of income or loss per share is based on the weighted average number of shares outstanding for each period. The basic income or loss per share is calculated by dividing the income or loss attributable to the equity owners of the Corporation, considering the impact of the warrants extension, by the weighted average number of common shares outstanding during the period.

Diluted income or loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of the diluted income or loss per share assumes that the proceeds to be received on the exercise of dilutive stock options, warrants and broker options are used to repurchase common shares at the average market price during the period.

The computation of diluted income or loss per share assumes the conversion or exercise only when such conversion, exercise or issuance would have a dilutive effect on the income per share. When the Corporation reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding stock options, broker options and warrants.

3.25 Equity

Share capital represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs.

Common shares, stock options, warrants and broker options are classified as equity. Incremental costs directly attributable to the issuance of shares, stock options, warrants and broker options are recognized as a deduction from the proceeds in equity in the period where the transaction occurs.

3.26 Issuance of units

Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes pricing model.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.27 Equity-settled share-based compensation

The Corporation offers an equity settled share-based compensation plan for its eligible directors, officers, employees and consultants. Each award is considered a separate award with its own vesting periods and fair value. Fair value is measured at the date of grant using the Black-Scholes option pricing model.

Any consideration paid on exercise of share options is credited to share capital. None of the Corporation's plans feature any options for a cash settlement. The accumulated expenses resulting from stock options are transferred to share capital when the options are exercised.

All equity settled share-based compensation (except broker options) are ultimately recognized as an expense in the statement of (loss) income with a corresponding credit to stock options, in equity. Equity settled share-based compensation to broker, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to broker options in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of share options or warrants expected to vest. Non-market vesting conditions are included in assumptions about the instruments that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of instruments expected to vest differs from previous estimates. Any cumulative restatement prior to vesting is recognized in the current period.

3.28 Employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) is recognized in the period in which the services are rendered and is not discounted.

The expected cost of compensated absences is recognized in the statement of (loss) income as the employees render services that increase their entitlement. The cost of bonus payments is recognized in the statement of (loss) income when there is a legal or constructive obligation to make such payments as a result of past performance.

3.29 Segment reporting

The Corporation currently has one operating segment, the exploration and evaluation of mineral resources in Canada.

4. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ERRORS

The preparation of Financial Statements in conformity with IFRS requires the Corporation's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the Financial Statements and related notes to the Financial Statements. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results may differ from those estimates.

The areas which require management to make significant judgements, estimates and assumptions in determining carrying values include, but are not limited to:

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2020 and 2019

4. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ERRORS (CONT'D)

4.1 Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.2 Income taxes and recoverability of potential deferred tax assets

Periodically, the Corporation evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Corporation believes that it is probable that some portion of the deferred tax assets will fail to be realized, the Corporation records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires management to make significant judgment. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the statement of financial position date could be impacted. Significant judgment is required in determining the income tax recovery as there are transactions and calculations for which the ultimate tax determination is uncertain. Management intends to realize the carrying value of its assets and settle the carrying amount of its liabilities through the sale of its E&E properties, which is an important judgment.

4.3 Refundable credit on mining duties and refundable tax credit related to resources

The refundable credit for resources and refundable credit on mining duties (the "tax credits") for the current period and prior periods are measured at the amount the Corporation expects to recover from the tax authorities as at the closing date. However, uncertainties remain as to the interpretation of tax rules and the amount and timing of the recovery of such tax credits. To determine whether the expenses it incurs are eligible, the Corporation must exercise considerable judgment and interpretation, which makes the recovery of tax credits uncertain. Accordingly, there may be a significant difference between the recorded amount of tax credits receivable and the actual amount of tax credits received following the tax authorities' review of issues whose interpretation is uncertain. Should such a difference arise, a restatement would have to be made to tax credits receivable and provisions may potentially need to be recognized for previous tax credits received by the Corporation. It may take considerable time for the tax administration to render its decisions on issues related to tax credits, and it can therefore take a long time to recover tax credits. Tax credits that the Corporation expects to recover within more than one year are classified as non-current assets. The amounts recognized in the Financial Statements are based on the Corporation's best estimates and according to its best judgment, as stated above.

However, given the uncertainty inherent in obtaining the approval of the relevant tax authorities, the amount of tax credits that will actually be recovered or the amount to be repaid, as well as the timing of such recovery or repayment, could differ materially from the accounting estimates, which would affect the Corporation's financial position and cash flows.

Geomega Resources Inc.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2020 and 2019

5. ACCOUNTS RECEIVABLE

	As at May 31, 2020	As at May 31, 2019
	\$	\$
Receivables	37,168	10,469
Sales taxes receivable	92,961	17,330
Other accounts receivables	15	12,787
Accounts receivable	130,144	40,586

6. TAX CREDITS AND GOVERNMENT GRANTS RECEIVABLE

	As at May 31, 2020	As at May 31, 2019
	\$	\$
Refundable tax credits	54,996	3,995
Government grants	45,065	17,722
Current portion of tax credits receivable	100,061	21,717

Refundable tax credits are related to qualifying mineral exploration expenses incurred in the province of Québec. The government grants are related to expenditures on research and development incurred by the Corporation's subsidiary, Innord.

7. INVESTMENT IN AN ASSOCIATE

Kintavar Exploration Inc. is the Corporation's only associate. Kintavar's share capital consists solely of ordinary shares, which are held directly by the Corporation. Kintavar is incorporated in Canada where its exploration and evaluation activities on bearing properties are carried out. The proportion of ownership interest is the same as the proportion of voting rights held. The investment in Kintavar is accounted for under the equity method. Its fair value as at May 31, 2020 is \$1,854,286 (16,857,143 shares at \$0.11, closing price on the Exchange). The Corporation categorized the fair value measurement as Level 1, as it is derived from quoted prices in active markets. As a result of the issuance of shares, exercise of warrant and stock options of Kintavar, the Corporation's interest in Kintavar was diluted from 21.77% as at May 31, 2019 to 18.48% as at May 31, 2020.

Determination of significant influence

Management determines its ability to exercise significant influence over an investment in shares of other companies by looking at its percentage interest and other qualitative factors including but not limited to its voting rights, representation on the board of directors, participation in policy-making processes, material transactions between the Corporation and the associate, interchange of managerial personnel, provision of essential technical information and operating involvement. Considering these factors, Geomega is considered to have significant influence over Kintavar.

	As at May 31, 2020	As at May 31, 2019
	\$	\$
Balance at beginning of period	2,039,287	1,792,242
Share of net and comprehensive loss	(553,957)	(929,664)
Net gain from dilution of the interest	137,029	1,176,709
Proceeds from disposition of participation	(144,000)	-
Net gain on the sale of an interest	29,800	-
Balance at end of period	1,508,159	2,039,287

Geomega Resources Inc.
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8. PROPERTY AND EQUIPMENT

	Office equipment	E&E Equipment			Total
		Vehicles	Equipment and Camp	Warehouse	
	\$	\$	\$	\$	\$
Fiscal 2020					
Opening net book value	-	3,800	34,072	82,521	120,393
Additions	-	-	17,860	-	17,860
Depreciation	-	(1,900)	(22,800)	(1,443)	(26,143)
Disposal	-	(1,900)	-	(81,078)	(82,978)
Closing net book value	-	-	29,132	-	29,132
As at May 31, 2020					
Cost	14,984	-	670,178	-	685,162
Accumulated depreciation	(14,984)	-	(641,046)	-	(656,030)
Closing net book value	-	-	29,132	-	29,132

	Office equipment	E&E Equipment			Total
		Vehicles	Equipment and Camp	Warehouse	
	\$	\$	\$	\$	\$
Fiscal 2019					
Opening net book value	-	7,600	34,280	90,872	132,752
Additions	-	-	35,295	-	35,295
Depreciation	-	(3,800)	(35,503)	(8,351)	(47,654)
Closing net book value	-	3,800	34,072	82,521	120,393
As at May 31, 2019					
Cost	14,984	30,724	652,318	159,388	857,414
Accumulated depreciation	(14,984)	(26,924)	(618,246)	(76,867)	(737,021)
Closing net book value	-	3,800	34,072	82,521	120,393

Depreciation of property and equipment related to E&E properties is being recorded within E&E expenses. Depreciation of property and equipment other than related to E&E is recorded on the statement of (loss) income under depreciation of property and equipment. An amount of \$26,143 (\$47,654 – in Fiscal 2019) was expensed as E&E expenses during the year ended May 31, 2020.

Geomega Resources Inc.
Notes to the Consolidated Financial Statements
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9. RIGHT-OF-USE ASSET

	Industrial building
	\$
Fiscal 2020	
Opening net book value	-
Additions	802,942
Depreciation	(30,110)
Closing net book value	772,832
As at May 31, 2020	
Cost	802,942
Accumulated Depreciation	(30,110)
Closing net book value	772,832

On January 10, 2020, the Corporation signed a new lease agreement for the lease of an industrial space that will be used for the construction of the demonstration plant for the recycling of permanent magnets.

10. CONVERTIBLE DEBENTURES

	As at May 31, 2020	As at May 31, 2019
	\$	\$
Balance at beginning of period	106,661	91,120
Accretion expense	3,339	15,541
Conversion	(110,000)	-
Balance at end of period	-	106,661

The convertible debentures were issued on August 11, 2017 with a two-year maturity date. In fiscal year 2019, they were reclassified as current liabilities. All convertible debentures were converted in shares during fiscal 2020.

On July 31 and August 10, 2019, debenture holders converted debentures of \$110,000 into common shares at a deemed price of \$0.12 per share pursuant to the terms of the convertible debenture. The Corporation issued 203,333 commons shares on August 2, 2019 and 708,332 common shares on August 12, 2019.

11. LEASE LIABILITY

	Fiscal 2020
	\$
Balance, opening	-
New contract signed during the period	802,942
Repayments of lease liability	(7,153)
Balance	795,789
Balance, current	(58,014)
Balance, non-current	737,775

Geomega Resources Inc.
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11. LEASE LIABILITY (CONT'D)

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 began on February 1, 2020, is for an initial term of sixty (60) months with an option to renew an additional sixty (60) months. The monthly payments used to calculate the lease obligation include the base rent for the area of premises of 14,880 square foot.

12. LONG-TERM DEBT

	As at May 31, 2020	As at May 31, 2019
	\$	\$
Canada Emergency Business Account ("CEBA") received in the context of the COVID-19 pandemic outbreak. The loan bears no interest and capital is payable in full on or before December 31, 2022.	53,724	-
Long-term debt - non-current	53,724	-

In the context of the COVID-19 pandemic outbreak, the Corporation and its wholly owned subsidiary Innord both applied for and received \$40,000 under the Canada Emergency Business Account ("CEBA") program which is an interest-free loan offered to cover operating costs. Repaying the balance of the loan on or before December 31, 2022 will result in a loan forgiveness of \$10,000. On December 31, 2022, the Corporation has the option to extend the loan for 3 years and it will bear a 5% interest rate. To estimate the fair value, the debt component was estimated first at \$53,412 (\$26,706 for each company), considering the forgiveness and interest free aspects. A 7% effective rate was used which corresponds to a rate that the Corporation would have obtained for a similar investment. The \$26,588 residual value was attributed to a governmental subsidy that is presented in the statement of loss in other income.

13. SHARE CAPITAL

13.1 Authorized Share Capital

The Corporation's authorized share capital consists of an unlimited number of voting common shares.

13.2 Private placement

On July 2 and 10, 2019, the Corporation closed a private placement in two tranches consisting of 4,750,215 units at a price of \$0.14 CAD and 4,050,000 at a price of \$0.105 USD for total gross proceeds of \$1,223,073. Each unit is composed of one share and 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 \$1,060,720 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.

Geomega Resources Inc.
Notes to the Consolidated Financial Statements
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13. SHARE CAPITAL (CONT'D)

13.3 Buyback of non-controlling interests

On January 13, 2020, the Corporation repurchased the 3.84% non-controlling interests in Innord for 2,516,664 common shares of the Corporation, issued at a value of \$0.165 per share, for a total consideration of \$415,250. The \$500,000 liability related to share exchange rights associated with these minority shares was repurchased with this transaction (note 17) and the non-controlling interests of \$46,932 were reclassified in the Corporation's deficit.

14. WARRANTS

Changes in the Corporation's warrants were as follows:

	Year Ended May 31, 2020		Year ended May 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Opening	6,378,778	0.16	11,019,416	0.18
Issued (note 13)	4,400,108	0.14	-	-
Exercised	(785,000)	0.14	(550,000)	0.12
Expired	(625,000)	0.12	(4,090,638)	0.23
Balance, end	9,368,886	0.17	6,378,778	0.16

Warrants outstanding as at May 31, 2020 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
577,778	0.23	June 19, 2020
3,265,197	0.20	July 2, 2021
1,134,911	0.20	July 10, 2021
825,000	0.15	May 2, 2022
2,300,000	0.15	May 14, 2022
1,266,000	0.15	May 18, 2022
9,368,886		

On April 15, 2020, the 1,302,778 warrants with an initial exercise price of \$0.23 maturing on June 19, 2020 were revalued at a new exercise price of \$0.14, with the expiry date remaining unchanged. The estimated fair value of the warrant revaluation is \$28,661 which has been recorded under warrants and the offsetting entry is recorded in the deficit. This fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows: no expected dividend yield, 165.50% expected volatility, 0.16% risk-free interest rate and 0.18 years warrant expected life.

On April 15, 2020, the 825,000 warrants due to expire on May 2, 2020 have been extended by two years. The estimated fair value of the warrant extension is \$53,625 which has been recorded under warrants and the offsetting entry is recorded in the deficit. This fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows for the two periods respectively: no expected dividend yield, 84.33% and 9.70% expected volatility, 0.33% and 0.16% risk-free interest rate and 2.05 and 0.05 years warrant expected life.

Geomega Resources Inc.
Notes to the Consolidated Financial Statements
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14. WARRANTS (CONT'D)

On April 15, 2020, the 2,300,000 warrants due to expire on May 14, 2020 have been extended by two years. The estimated fair value of the warrant extension is \$119,600 which has been recorded under warrants and the offsetting entry is recorded in the deficit. This fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows for the two periods respectively: no expected dividend yield, 84.13% and 93.98% expected volatility, 0.33% and 0.16% risk-free interest rate and 2.08 and 0.08 years warrant expected life.

Also on April 15, 2020, the 1,266,000 warrants due to expire on May 18, 2020 have been extended by two years. The estimated fair value of the warrant extension is \$65,832 which has been recorded under warrants and the offsetting entry is recorded in the deficit. This fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows for the two periods respectively: no expected dividend yield, 83.73% and 87.96% expected volatility, 0.33% and 0.16% risk-free interest rate and 2.09 and 0.09 years warrant expected life.

On June 14, 2018, the 1,302,778 warrants due to expire on June 19, 2018 have been extended by two years. The estimated fair value of the warrant extension is \$49,506 which has been recorded under warrants and the offsetting entry is recorded in the deficit. This fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows for the two periods respectively: no expected dividend yield, 89.73% and 0.82% expected volatility, 1.93% and 1.25% risk-free interest rate and 2.02 and 0.02 years warrant expected life. These 1,302,778 warrants were extended for the first time on June 19, 2017.

15. BROKER OPTIONS

Changes in the Corporation's warrants are as follows:

	Year ended May 31, 2020		Year ended May 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, opening	-	-	-	-
Issued (note 13)	120,800	0.20	-	-
Balance, end	120,800	0.20	-	-

The number of outstanding warrants as at May 31, 2020 are as follows:

Number of broker warrants	Exercise price	Expiry date
	\$	
16,000	0.20	July 2, 2021
104,800	0.20	July 10, 2021
120,800		

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16. STOCK OPTIONS

Changes in the Corporation's stock options are as follows:

	Fiscal 2020		Fiscal 2019	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Balance, opening	6,565,000	\$ 0.10	4,530,000	\$ 0.11
Granted	4,475,000	0.16	3,050,000	0.09
Expired	(577,500)	0.20	(470,000)	0.18
Exercised	(791,250)	0.09	(127,500)	0.09
Forfeited	(422,500)	0.13	(417,500)	0.09
Balance, end	9,248,750	0.12	6,565,000	0.10
Balance, end, exercisable	5,723,750	0.11	3,760,000	0.10

The number of options outstanding as of May 31, 2020 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
500,000	500,000	0.07	November 22, 2020
1,270,000	1,270,000	0.095	November 29, 2021
778,750	778,750	0.09	October 19, 2022
400,000	300,000	0.085	August 28, 2023
400,000	300,000	0.08	September 14, 2023
925,000	693,750	0.085	November 20, 2023
100,000	50,000	0.08	December 10, 2023
400,000	200,000	0.09	March 13, 2024
250,000	62,500	0.175	July 29, 2024
1,575,000	393,750	0.155	October 23, 2024
200,000	50,000	0.155	November 28, 2024
150,000	-	0.185	January 19, 2025
75,000	-	0.20	February 13, 2025
1,775,000	1,125,000	0.165	April 16, 2025
450,000	-	0.165	April 21, 2025
9,248,750	5,723,750		

On October 23, 2019, the Corporation shareholders renewed the option to call for shares plan, which stipulates that the maximum number of common shares in the Corporation's capital that could be reserved for allocation under the 10% of the outstanding shares.

On April 22, 2020, the Corporation granted a consultant 450,000 stock options, priced at \$0.165, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 0.42%, expected volatility of 83%, no dividend per share and expected duration of 3.75 years options.

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16. STOCK OPTIONS (CONT'D)

On April 17, 2020, the Corporation granted to its employees and consultants 650,000 stock options, priced at \$0.165, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 0.43%, expected volatility of 83%, no dividend per share and expected duration of 3.75 years options.

Also on April 17, 2020, the Corporation granted to its directors and consultants 1,125,000 stock options, priced at \$0.165, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 0.43%, expected volatility of 83%, no dividend per share and expected duration of 3.75 years options. Since these options were granted following the renunciation of director's fees and related liability by all directors, these options vested immediately on the day of the grant.

On February 13, 2020, the Corporation granted an employee 75,000 stock options, priced at \$0.20, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 1.43%, expected volatility of 79%, no dividend per share and expected duration of 3.75 years options.

On January 19, 2020, the Corporation granted a consultant 150,000 stock options priced at \$0.185, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 1.60%, expected volatility of 79%, no dividend per share and expected duration of 3.75 years options.

On November 28, 2019, the Corporation granted a consultant 200,000 stock options, priced at \$0.155, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 1.53%, expected volatility of 79%, no dividend per share and expected duration of 3.75 years options

On October 23, 2019, the Corporation granted to its directors, officers, employees and consultants 1,575,000 options exercisable at \$0.155, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 1.56%, expected volatility of 82%, no dividend per share and expected duration of 3.75 years options.

On July 29, 2019, the Corporation granted a consultant 250,000 options, exercisable at \$0.175, valid for 5 years. The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 1.43%, expected volatility of 81%, no dividend per share and expected duration of 3.75 years options.

All options granted bear the same conditions unless mentioned above. From the date of the grant, the options are earned in increments of 25% every 6 months, are valid for 5 years and have been granted at a value equal to or greater than that of the market at the close before the grant.

The expected life was estimated by benchmarking comparable situations for companies that are similar to the Corporation. The expected volatility was determined by calculating the historical volatility of the Corporation's share price back from the date of grant and for a period corresponding to the expected life of the options.

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17. NON-CONTROLLING INTEREST

On June 3, 2016, the Corporation concluded a subscription agreement with two institutional investors, Société de développement de la Baie-James (“SDBJ”) and the Administration régionale Baie-James (“ARBJ”) to finance the development of the process prototype to separate mixed rare earth elements concentrate into pure individual rare earth oxides. Each institutional investor invested \$125,000 for 2 shares in Innord, for a total of \$250,000. As a result, the Corporation owned 96.16% of Innord and recorded a \$500,000 liability related to share exchange rights corresponding to the option where the investors would exchange their shares in Innord.

On December 15, 2019, the Corporation repurchased the non-controlling interest in Innord and the associated liability related to share exchange rights. The total consideration for the acquisition of the shares is \$415,250, payable by the issuance of a total of 2,516,664 shares of Geomega, resulting in a gain of \$84,750 to the consolidated statements of loss and comprehensive loss.

	Fiscal 2020	Fiscal 2019
	\$	\$
Balance, opening	500,000	477,840
Accretion expense	-	22,160
Buyback in shares of the liability related to share exchange rights	(415,250)	-
Gain on repurchase of share-exchange right	(84,750)	-
Liability related to exchange rights	-	500,000

18. CAPITAL MANAGEMENT

The Corporation's objective in managing capital is to safeguard its ability to continue its operations as well as its E&E programs. The Corporation manages its capital structure and makes restatements to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares, secure new debt and acquire or sell mining rights to improve its financial performance and flexibility. In Fiscal 2020, the Corporation issued common shares (note 13), sold a part of its investment in Kintavar and secured a long-term debt for \$1,72M in order to finance the construction of its demonstration plant. The loan will be interest-free, for a term of 8 years, with annual repayment of principal beginning 24 months following the first drawdown, which has not yet occurred. The Corporation's capital is composed of equity and balances and changes in equity are presented in the statement of changes in shareholders' equity.

The Corporation is not subject to externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, unless the Corporation closes a flow-through private placement in which case the funds are reserved in use for exploration expenses.

19. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period, considering the extension of warrants, divided by the weighted average number of shares outstanding during the period. In calculating the diluted loss per share, potential common shares such as stock options, broker options, warrants and share exchange rights have not been included, as they would have the effect of decreasing the loss per share.

Geomega Resources Inc.
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20. REMUNERATION

	Fiscal 2020	Fiscal 2019
	\$	\$
Wages, salaries	445,926	391,239
Benefits	69,550	33,188
Share-based compensation	113,064	58,696
	628,540	483,123
Salaries and benefits recorded in E&E expenses	(339,991)	(294,385)
Share-based payments recorded in E&E expenses	(46,806)	(19,342)
Directors fees	(33,750)	(45,000)
Loss on debt extinguishment	(3,000)	-
Salaries, employee benefits and share-based compensation presented on the statement of loss	204,993	124,396

21. EXPLORATION AND EVALUATION EXPENSES

Montviel	Fiscal 2020	Fiscal 2019
	\$	\$
Acquisition and maintenance	813	10,337
Exploration		
Salaries and benefits	15,143	437
Share-based compensation	13,644	7,440
Geology	611	1,272
Transport and lodging	70,659	6,883
Depreciation of property and equipment	3,343	12,151
Taxes, permits and insurances	3,182	5,595
Billing - rental	(21,117)	(48,621)
Total exploration	85,465	(14,843)
Evaluation		
Salaries and share-based compensation – Separation process	360,009	305,851
Separation process	72,721	101,692
Depreciation of property and equipment	22,800	35,502
Engineering	494,449	-
Total Evaluation	949,979	443,045
Total gross E&E expenses	1,036,257	438,539
Government grants	(355,554)	(176,587)
Net tax credits	(65,781)	(46,382)
Net E&E expenses - Montviel	614,922	215,570

21.1 Montviel property (Rare Earth Elements and Niobium)

The Corporation owns 100% of the Montviel property, located approximately 100 km north of Lebel-sur-Quévillon and 45 km west of the Cree First Nation of Waswanipi. The Montviel property comprises 161 mining claims totalling 8,942 hectares as at May 31, 2020.

Geomega Resources Inc.

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21. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

The property is subject to a royalty of 2% of the net proceeds. On May 27, 2015, the Corporation entered into an agreement with the purchaser under which an option, without charge, was granted to redeem the 2% royalty on Montviel for \$ 2 million.

21.2 Buckingham property (Graphite)

The Corporation holds a 0.75% net output returns royalty on the Buckingham property (graphite), sold to Saint Jean Carbon Inc. in Fiscal 2017.

21.3 Patent ownership and royalty agreement

On August 11, 2017, the Corporation and Innord entered into a patent ownership and royalty agreement (the "Agreement") with its Chief Technology Officer ("CTO") to insure the long-term development and commercialization of the Corporation's proprietary rare earths extraction and separation technologies. The Agreement replaces the 2013 agreement that granted the CTO 1,000,000 warrants in exchange for the transfer by the CTO of certain intellectual property rights to the Corporation, and which warrants have been cancelled pursuant to the Agreement. On October 19, 2017, the Agreement was approved by the shareholders of the Corporation at the annual meeting of the shareholders.

The Extraction Royalty and the Separation Royalty (the "Royalties") to be granted to the CTO on commercialization under the Agreement may be summarized as follows:

- Extraction Royalty of 1.5% of the Net Profits for the extraction products. The royalty will increase to 2% if the gross profit margin of the operation ("GPM"), before subtracting the Royalties, is greater than 40% and it will be reduced to 1% if the GPM, before subtracting the Royalties, is less than 15%.
- Separation Royalty of 3% of the Net Sales Revenue for the separation products. The royalty will increase to 4% if the GPM, before subtracting the Royalties, is greater than 40% and it will be reduced to 2.5% if the GPM, before subtracting the Royalties, is less than 15%.

Pursuant to the Agreement, commercialization is deemed to occur at the earliest of:

- Oxide separation at a rate of 50 kg/day of Separation Products in oxide form for at least (i) 10 consecutive business days or (ii) 20 business days during any 2-month period, and the receipt by the Corporation of the full payment of a first order relating to such production.
- Montviel production – if the Corporation's Montviel project has reached 100% of nameplate capacity or 12 months after reaching 60% capacity or after reaching 60% of capacity and no longer ramping up to 100%.

In addition, and in order to secure the long term commitment of the CTO, the Agreement provides that development work not currently covered by the patents that the Corporation has already filed, will be jointly owned by the CTO and the Corporation (for the extraction work) and Innord (for the separation work) until commercialization at which point such rights shall be assigned to the Corporation and Innord, as the case may be. Notwithstanding the CTO's joint ownership rights in respect of new development work described above, the CTO shall not have any right to make, use, sell, dispose, offer for sale, grant licenses, import, export or otherwise distribute products or practice processes covered by one or more claims of the patents or any intellectual property without the prior written consent of the Corporation and/or Innord, which may be withheld in their sole discretion. Nevertheless, if there is a change of control or if there is no commercialization, the CTO would be granted a non-exclusive commercialization licence.

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22. INCOME TAXES

The income tax expense is made up of the following components:

	Fiscal 2020	Fiscal 2019
	\$	\$
Deferred income tax recovery		
Amortization of flow-through share liability	-	-
Total recovery of deferred income taxes	-	-

The Corporation's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. This difference arises from the following items:

	Fiscal 2020	Fiscal 2019
	\$	\$
Loss before income taxes	(1,544,129)	(578,458)
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 26.5% (26.6% in Fiscal 2019)	(409,194)	(153,870)
Increase (decrease) in income taxes resulting from the following:		
Non-deductible items	149,673	(3,659)
Rate change	-	339
Restatement from prior year	2,127	789
Unrecognized temporary differences	257,393	156,401
Deferred income tax recovery	-	-

The ability to realize the tax benefits is dependent upon a few factors, including the future profitability of operations. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Accordingly, some deferred tax assets have not been recognized; these deferred tax assets not recognized amount to \$6,936,752 (\$6,669,695 in 2019).

Significant components of the Corporation's deferred income tax assets and liabilities are as follows:

	As at May 31, 2020	As at May 31, 2019
	\$	\$
Deferred income tax assets:		
Intangible assets	3,941	4,237
Property and equipment	92,219	137,821
Deductible share issue expenses	10,100	6,759
E&E assets	3,064,831	3,054,081
Lease liability	210,884	-
Operating losses carried forward	3,776,570	3,467,682
Total deferred income tax assets	7,158,545	6,670,580
Deferred income tax liabilities		
Convertible debentures	-	(885)
Right-of-use asset	(204,801)	-
R&D grant and credit receivable	(15,246)	-
Long-term debt	(1,746)	-
Total deferred income tax assets non recognized	6,936,752	6,669,695

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22. INCOME TAXES (CONT'D)

As at May 31, 2020, expiration dates of losses available to reduce future years' income for tax purposes are:

	Federal	Provincial
	\$	\$
2040	1,183,234	1,142,047
2039	749,043	749,043
2038	648,408	624,217
2037	1,062,368	1,020,859
2036	1,379,945	1,379,946
2035	2,026,827	2,026,827
2034	1,483,287	1,483,287
2033	2,398,375	2,444,550
2032	1,943,591	1,943,591
2031	563,968	563,968
2030	16,391	16,391
2029	1,718	1,718
Total	13,457,155	13,396,444

23. FINANCIAL INSTRUMENTS AND RISKS

Objectives and policies concerning financial risk management

The Corporation is exposed to different financial risks resulting from its operating, investing and financing activities. The management of financial risks is done by the management of the Corporation. The Corporation does not enter into agreements for financial instruments, including financial derivatives, for speculation purposes.

23.1 Interest rate risk

When the Corporation has cash balances, the current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of May 31, 2020, and 2019, the Corporation had no investment. The other financial assets and liabilities of the Corporation do not bear interest. The Corporation does not use financial derivatives to decrease its exposure to interest risk. A variation of plus or minus 1% change in the rates would not have a material impact on the assets and liabilities and net loss of the Corporation.

23.2 Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation's ability to continue as a going concern is dependent on management's ability to raise the funds required through future debt or equity financings, asset sales or exploration option agreements, off-take or forward sales agreements, the granting of royalties or a combination thereof. The Corporation's liquidity and operating results may be adversely affected by delays in receiving the tax credits receivable from the Quebec government (or securing financing against the tax credit) and if the Corporation's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation. The Corporation has historically generated cash flow primarily from its financing activities. Refer to note 4.1 for management assessment of going concern.

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23. FINANCIAL INSTRUMENTS AND RISKS (CONT'D)

As at May 31, 2020, the Corporation is committed to future minimum payments of principal and interest on the debt, as follows:

	Up to 1 year	1 to 5 years	More than 5 years	Total
	\$	\$	\$	\$
Trade and other payables	299,412	-	-	299,413
Lease Liability – Current contractual maturities ¹	159,049	596,433	-	755,482
Lease Liability – Future renewal options ¹	-	-	808,498	808,498
Long-term debt (note12)	-	60,000	-	60,000
	458,461	656,433	808,498	1,923,393

¹ The amount presented as a liability in the consolidated statement of financial position is based on an expected duration of 10 years. Since the Corporation can decide to not renew the lease after 5 years, the amount presented in the above table was split between the current contractual maturity and the future five-year renewal. Also, the amounts presented in the above table include both the fixed and variable lease payments while the amount presented as liability in the statement of financial position only includes the fixed payments.

23.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk is equivalent to the carrying value of financial assets exposed to credit risk, less any impairment. The Corporation is subject to credit risk through cash and accounts receivables. The Corporation reduces its credit risk by maintaining its cash in Canadian chartered bank accounts from which management believes the risk of loss is minimal. In addition, the most significant accounts receivables are with Kintavar, held at 18.48% by the Corporation.

23.4 Foreign exchange risk

The Corporation is exposed to foreign exchange risk arising from currency volatility, primarily with respect to the US dollar. The Corporation holds balances in cash denominated in U.S. dollars and is therefore exposed to gains or losses on foreign exchange.

As at May 31, 2020, the balance in U.S. dollars held by the Corporation was as follows:

	May 31, 2020
	\$
Cash	198,194
Trade and other payables	(4,600)
Net exposure, in US dollars	193,594
Equivalent in Canadian dollars	286,579

Based on the balance as at May 31, 2020, a 5% fluctuation in the exchange rates on that date (with all other variables being constant) would have resulted in a variation of net earnings of \$14,329 in 2020.

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23. FINANCIAL INSTRUMENTS AND RISKS (CONT'D)

23.5 Fair value of financial instruments

The carrying value of cash, accounts receivables and trade and other payables are considered to be a reasonable approximation of their fair value because of the short-term maturity and contractual terms of these instruments. For the long-term debt the carrying value is a reasonable approximation of fair value given it has been obtained close to the year end.

24. RELATED PARTY TRANSACTIONS

24.1 Transactions with related parties

In the normal course of business:

- ◆ A firm in which an officer is a partner charged professional fees amounting to \$14,300 (\$30,523 in Fiscal 2019).
- ◆ As at May 31, 2020, the balance due to related parties amounted to nil (\$6,666 as at May 31, 2019).

Out of the normal course of business:

- ◆ Directors and officers of the Corporation participated in a private placement in July 2019. 450,250 shares of the Corporation were bought at a price of \$0.14, for a total value of \$63,035.

24.2 Billing according to agreement with Kintavar and its subsidiary

	Fiscal 2020	Fiscal 2019
	\$	\$
Exploration and evaluation, net of tax credits	42,435	49,472
Sale of equipment	19,501	-
Travel, conventions and investor relations	10,494	23,009
Administration	-	118
Rent	10,900	12,975
Total	83,330	85,574

As of May 31, 2020, the amount receivable from Kintavar was \$37,394 (\$23,241 as of May 31, 2019).

25. ADDITIONAL INFORMATION RELATING TO THE CONSOLIDATED CASH FLOW STATEMENT

Change in non-cash working capital items

	2020	2019
	\$	\$
Accounts receivable	(89,558)	(15,430)
Tax credits and government grants receivable	(78,344)	21,973
Prepaid and other expenses	(77,261)	7,035
Inventories	(7,188)	-
Trade and other payables	68,090	3,144
Tax credits payable	-	(84,999)
	(184,261)	(68,277)

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26. SUBSEQUENT EVENTS

On June 3, 2020, the Corporation welcomed a new Director to its Board of Directors and granted him 250,000 stock options at a price of \$0.155 valid for 5 years and vesting at a rate of 25% per period of six-months. These options were granted at an exercise price equal to the market price the day before the grant.