



Geomega Resources Inc.

Consolidated Financial Statements

For the years ended May 31, 2021 and 2020



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, 2021 and 2020, 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, 2021 and 2020;
- 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.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



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.

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
September 27, 2021

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

Geomega Resources Inc.
Consolidated Statements of Financial Position
For the years ended May 31, 2021 and 2020
(in Canadian Dollars)

	Note	As at May 31, 2021 \$	As at May 31, 2020 \$
Assets			
Current assets			
Cash and cash equivalents	5	3,389,195	485,780
Accounts receivable	6	74,595	130,144
Tax credits and government grants receivable	7	98,722	100,061
Prepaid expenses and others		115,689	94,724
Inventories		11,587	7,188
Current assets		3,689,788	817,897
Non-current assets			
Investment in an associate	8	1,342,522	1,508,159
Property and equipment	9	27,590	29,132
Right-of-use asset	10	692,538	772,832
Non-current assets		2,062,650	2,310,123
Total assets		5,752,438	3,128,020
Liabilities			
Current liabilities			
Trade and other payables		220,018	299,413
Current portion of the lease obligations	11	61,896	58,014
Current liabilities		281,914	357,427
Non-current liabilities			
Lease obligations	11	677,891	737,775
Long-term debt	12	71,629	53,724
Non-current liabilities		749,520	791,499
Total liabilities		1,031,434	1,148,926
Equity			
Share capital	13	35,437,309	31,132,420
Warrants	14	197,268	570,300
Broker warrants	15	43,979	5,742
Stock options	16	688,438	501,688
Contributed surplus		4,424,649	4,385,820
Deficit		(36,070,639)	(34,616,876)
Total equity		4,721,004	1,979,094
Total liabilities and equity		5,752,438	3,128,020

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, 2021 and 2020

(in Canadian Dollars, except number of common shares)

	Note	Fiscal 2021	Fiscal 2020
		\$	\$
Operating expenses			
Salaries, employee benefits and share-based compensation	19	214,611	204,993
Directors fees	19	-	33,750
Loss on debt extinguishment		-	3,000
Exploration and evaluation expenses, net of tax credits	20	354,217	614,922
Professional fees		98,184	91,152
Travel, conference and investor relations		313,407	263,536
Administration		39,829	34,001
Filing fees		40,169	48,214
Rent		88,364	61,349
Depreciation of right-of-use asset	10	80,294	30,111
Insurance, taxes and permits		16,233	17,900
Other income		(26,380)	(26,588)
Operating loss		(1,218,928)	(1,376,340)
Other income (expenses)			
Investment income		5,985	8,733
Finance costs		(62,115)	(29,590)
Gain (loss) on foreign exchange		(46,179)	43,923
Gain on disposal of property and equipment	9	50,000	111,523
Gain on buyback of share-exchange rights		-	84,750
Share of loss of an associate	8	(154,651)	(553,957)
Net gain (loss) on dilution of investment in an associate	8	(10,986)	137,029
Net gain on sale of investment in an associate	8	-	29,800
Loss on shares issued in settlement of a debt		(16,889)	-
		(234,835)	(167,789)
Net and comprehensive loss		(1,453,763)	(1,544,129)
Net loss attributable to:			
Geomega Resources Inc.'s shareholders		(1,453,763)	(1,532,700)
Non-controlling interests		-	(11,429)
Basic and diluted earnings per share			
Weighted average number of basic and diluted outstanding shares		(0.013)	(0.018)
		115,761,483	100,779,993

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, 2021 and 2020
(in Canadian Dollars, except number of common shares)

	Note	Numbers of shares outstanding	Share Capital	Warrants	Broker warrants	Stock-options	Contributed Surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$	\$
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
Net and comprehensive loss		-	-	-	-	-	-	(1,453,763)	(1,453,763)
Units issued as part of a private placement, net of issue costs	13	14,709,093	2,344,769	-	39,053	-	-	-	2,383,822
Shares issued in settlement of debt, net of issue costs	13	140,754	64,010	-	-	-	-	-	64,010
Exercised stock options		2,271,250	369,730	-	-	(142,249)	-	-	227,481
Exercised warrants		6,527,511	1,522,364	(334,203)	-	-	-	-	1,188,161
Exercised broker warrants		16,000	4,016	-	(816)	-	-	-	3,200
Expired warrants		-	-	(38,829)	-	-	38,829	-	-
Shared-based compensation		-	-	-	-	328,999	-	-	328,999
Balance at May 31, 2021		128,224,536	35,437,309	197,268	43,979	688,438	4,424,649	(36,070,639)	4,721,004

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, 2021 and 2020
(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 a private placement, net of issue costs		8,800,215	1,060,720	-	162,353	5,742	-	-	-	1,228,815	-	1,228,815
Buyback of non-controlling interest in shares		2,516,664	415,250	-	-	-	-	-	(46,932)	368,318	46,932	415,250
Exercised stock options		791,250	127,594	-	-	-	(55,981)	-	-	71,613	-	71,613
Expired stock options		-	-	-	-	-	(79,970)	79,970	-	-	-	-
Exercised warrants		785,000	206,073	-	(95,573)	-	-	-	-	110,500	-	110,500
Expired warrants		-	-	-	(26,324)	-	-	26,324	-	-	-	-
Extended warrants		-	-	-	239,057	-	-	-	(239,057)	-	-	-
Repriced warrants		-	-	-	28,661	-	-	-	(28,661)	-	-	-
Exercised conversion rights on convertible debentures		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, 2021 and 2020
(in Canadian Dollars)

	Note	Fiscal 2021	Fiscal 2020
		\$	\$
Operating activities			
Net and comprehensive loss		(1,453,763)	(1,544,129)
Adjustments for:			
Share-based compensation		328,999	186,313
Loss on debt extinguishment		-	3,000
Depreciation of property and equipment		18,701	26,143
Depreciation of right-of-use asset		80,294	30,110
Other income		(26,380)	(26,588)
Finance costs for the accretion of debentures		-	3,339
Finance costs for the accretion of long-term debt		4,285	312
Gain on disposal of property, and equipment		(50,000)	(111,523)
Gain on buyback of share-exchange rights		-	(84,750)
Loss on shares issued in settlement of a debt		16,889	-
Share of loss of an associate	8	154,651	553,957
Net loss (gain) on dilution of investment in an associate	8	10,986	(137,029)
Net gain on sale of investment in an associate	8	-	(29,800)
Changes in non-cash working capital items	24	(13)	(184,261)
Cash flows used in operating activities		(915,351)	(1,314,906)
Investing activities			
Additions of property and equipment		(17,159)	(17,860)
Proceeds from disposal of property, and equipment		50,000	194,501
Proceeds from disposal of an investment in an associate	8	-	144,000
Cash flows used in investing activities		32,841	320,641
Financing activities			
Proceeds from issuance of units, net of issue costs		2,383,822	1,191,647
Exercise of warrants		1,188,161	110,500
Exercise of stock options		227,481	71,613
Exercise of broker warrants		2,463	-
Increase in long-term debt	12	40,000	80,000
Repayments of lease liability	11	(56,002)	(7,153)
Cash flows from financing activities		3,785,925	1,446,607
Net change in cash		2,903,415	452,342
Cash and cash equivalents – beginning		485,780	33,438
Cash and cash equivalents – ending		3,389,195	485,780

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, 2021 and 2020

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. Through its private and wholly owned subsidiary Innord, the Corporation is developing innovative technologies for extraction and separation of rare earth elements and other critical and strategic metals from its mining properties and other mining and industrial waste, in an environmentally sustainable way. 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 consolidated Financial Statements (the "Financial Statements") were approved by the Corporation's Board of Directors on September 27, 2021.

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, 2021, the Corporation reported a net loss of \$1,453,763 and has accumulated a deficit of \$36,070,639 up to that date. As at May 31, 2021, the Corporation had a working capital of \$3,407,874.

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.

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").

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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

3.2 New accounting standards

Amendments to IAS 1 Presentation of Financial Statements

The IASB has made amendments to IAS 1 Presentation of Financial Statements which use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. The Corporation adopted IAS 1 on June 1, 2020, which did not have a significant impact on the consolidated financial statements disclosures.

3.3 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. 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.

3.4 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, 2021 and 2020

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.

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

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

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 Leases

The Corporation has entered into different lease agreements. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases with a term in excess of twelve months and for other than low-value assets are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Corporation.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of loss.

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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

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 Inventories

The Inventories 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. Inventories 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.

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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

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 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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

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.

3.18 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.

3.19 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.

3.20 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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

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.

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.

3.21 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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

3.22 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.

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.

3.23 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 warrants 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 warrants and warrants.

3.24 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.

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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

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

3.25 Issuance of units

Proceeds from unit placements are allocated between shares and warrants issued using the residual value method.

Share and warrant issue expenses are accounted for in the year in which they are incurred and are recorded as a deduction to equity in the deficit in the year in which the shares are issued.

3.26 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 warrants) 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 warrants 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.

3.27 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.

3.28 Segment reporting

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

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

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:

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, 2021 and 2020

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalent include a guaranteed investment certificate bearing the following conditions:

- Short term deposits totaling \$850,000 with rates from 0.45% to 0.90% and expiring dates ranging from July 22, 2021 to January 17, 2022. Interest and principal are cashable at any time without penalties.
- Investment of \$340,195 USD (\$410,911 CAD) in a high interest trading account at the rate of 0.20%. Interest and principal are cashable at any time.
- Investment of \$1,753,174 in a high interest exchange trading fund.

6. ACCOUNTS RECEIVABLE

	As at May 31, 2021	As at May 31, 2020
	\$	\$
Trade receivables	27,699	37,168
Sales taxes receivable	44,312	92,961
Other accounts receivables	2,584	15
Accounts receivable	74,595	130,144

7. TAX CREDITS AND GOVERNMENT GRANTS RECEIVABLE

	As at May 31, 2021	As at May 31, 2020
	\$	\$
Refundable tax credits	26,806	54,996
Government grants	65,734	45,065
Other government credit	6,182	-
Tax credits and government grants receivable	98,722	100,061

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.

8. INVESTMENT IN AN ASSOCIATE

Kintavar Exploration Inc. ("Kintavar") 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, 2021 is \$2,950,000 (16,857,143 shares at \$0.175, 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 in Kintavar in the year ended May 31, 2021, the Corporation's interest was diluted from 18.48% as at May 31, 2020 to 15.91% as at May 31, 2021.

Geomega Resources Inc.
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8. INVESTMENT IN AN ASSOCIATE (CONT'D)

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, 2021	As at May 31, 2020
	\$	\$
Balance at beginning of year	1,508,159	2,039,287
Share of net and comprehensive loss	(154,651)	(553,957)
Net gain (loss) from dilution of the interest	(10,986)	137,029
Proceeds from disposition of participation	-	(144,000)
Net gain on the sale of an interest	-	29,800
Balance at end of year	1,342,522	1,508,159

9. PROPERTY AND EQUIPMENT

	Office equipment	E&E Equipment	Total
	\$	\$	\$
Fiscal 2021			
Opening net book value	-	29,132	29,132
Additions	-	17,159	17,159
Depreciation	-	(18,701)	(18,701)
Closing net book value	-	27,590	27,590
As at May 31, 2021			
Cost	14,984	243,765	258,749
Accumulated depreciation	(14,984)	(216,175)	(231,159)
Closing net book value	-	27,590	27,590

Geomega Resources Inc.
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9. PROPERTY AND EQUIPMENT (CONT'D)

	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

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 \$18,701 (\$26,143 in Fiscal 2020) was expensed as E&E expenses during the year ended May 31, 2021.

10. RIGHT-OF-USE ASSET

	Industrial building
	\$
Fiscal 2021	
Opening net book value	772,832
Additions	-
Depreciation	(80,294)
Closing net book value	692,538
As at May 31, 2021	
Cost	802,942
Accumulated Depreciation	(110,404)
Closing net book value	692,538
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

Geomega Resources Inc.
Notes to the Consolidated Financial Statements
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11. LEASE LIABILITY

	Fiscal 2021	Fiscal 2020
	\$	\$
Balance, opening	795,789	-
New contract signed during the period	-	802,942
Repayments of lease liability	(56,002)	(7,153)
Balance	739,787	795,789
Balance, current	(61,896)	(58,014)
Balance, non-current	677,891	737,775

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, 2021	As at May 31, 2020
	\$	\$
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.	71,629	53,724
Long-term debt - non-current	71,629	53,724

During the year ended May 31, 2020, 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. In December 2020, an additional amount of \$20,000 for each company was received under the same program. Repaying the balance of the loan on or before December 31, 2022 will result in a loan forgiveness of \$20,000. 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 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. A residual value of \$26,588 relating to the loans received in 2020 was attributed to a governmental subsidy, presented in the statement of loss as in other income. The fair value of the second part was revaluated using the same assumptions and a residual value of \$26,380 was recorded in the statement of loss.

13. SHARE CAPITAL

13.1 Authorized Share Capital

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

Geomega Resources Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021 and 2020

13. SHARE CAPITAL (CONT'D)

13.1 Private Placement

On November 6, 2020, the Corporation closed a private placement consisting of 14,559,093 units at a price of \$0.17 CAD and 150,000 units at a price of \$0.13 USD for total gross proceeds of \$2,500,656. Each unit is composed of one share and one warrant, each warrant entitling the holder to acquire one share at a price of \$0.22 per share until the date that is 24 months from their issue and thereafter at a price of \$0.25 until the date that is 36 months from their issue.

The entire gross proceeds of units as well as issuance costs of \$155,887 were allocated to share capital, using the residual method, as the market price was higher than the issuance price of the units on the day of issuance.

A total of 526,544 broker warrants were granted, each broker warrants entitling the holder to acquire one share at a price of \$0.22 and included in the issuance costs. The value of the broker warrants was estimated using the Black-Scholes model with no expected dividend yield, 77.04% expected volatility, 0.24% risk-free interest rate and 2 years expected life.

13.2 Shares Issued in Settlement of a Debt

On January 27, 2021, the Corporation entered into an agreement to issue shares in settlement of a debt of \$47,858 representing accrued interest on a convertible debenture financing closed on August 13, 2017, converted into common shares in August 2019 excluding accrued interests, as well as other past consulting services. In consideration for the debt settlement, the Corporation issued a total of 140,754 common shares at a deemed price of \$0.34 per share. A director and an executive of the Corporation were among the creditors and benefited from this debt settlement in shares. The shares were issued at a value of \$0.46, which is the value of the share on February 9, 2021, the date the transaction was approved by the TSX. Transaction costs of \$739 were incurred and a loss on shares issued in settlement of a debt of \$16,889 was recorded in the consolidated statement of loss and comprehensive loss.

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 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:

	Fiscal 2021		Fiscal 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Opening	9,368,886	0.17	6,378,778	0.16
Issued (note 13)	14,709,093	0.22	4,400,108	0.14
Exercised	(6,527,511)	0.18	(785,000)	0.14
Expired	(300,000)	0.15	(625,000)	0.12
Balance, end	17,250,468	0.21	9,368,886	0.17

Geomega Resources Inc.
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14. WARRANTS (CONT'D)

Warrants outstanding as at May 31, 2021 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
407,250	0.20	July 2, 2021
330,625	0.20	July 10, 2021
481,250	0.15	May 2, 2022
1,156,250	0.15	May 14, 2022
576,000	0.15	May 18, 2022
14,299,093	0.22*	November 6, 2022*
17,250,468		

*Warrants issued on November 6, 2020 have an exercise price of \$0.22 for the first 24 months after which the price is \$0.25 for the following 12 months.

On April 15, 2020, 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, 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.

On April 15, 2020, 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, 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.

Geomega Resources Inc.
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15. BROKER WARRANTS

Changes in the Corporation's broker warrants are as follows:

	Fiscal 2021		Fiscal 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, opening	120,800	0.20	-	-
Issued (note 13)	526,544	0.22	120,800	0.20
Exercised	(16,000)	0.20	-	-
Balance, end	631,344	0.22	120,800	0.20

The number of outstanding warrants as at May 31, 2021 are as follows:

Number of broker warrants	Exercise price	Expiry date
	\$	
104,800	0.20	July 10, 2021
526,544	0.22	November 6, 2022
631,344		

16. STOCK OPTIONS

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

	Fiscal 2021		Fiscal 2020	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
		\$		\$
Balance, opening	9,248,750	0.12	6,565,000	0.10
Granted	2,525,000	0.26	4,475,000	0.16
Expired	-	-	(577,500)	0.20
Exercised	(2,271,250)	0.10	(791,250)	0.09
Forfeited	(206,250)	0.17	(422,500)	0.13
Balance, end	9,296,250	0.17	9,248,750	0.12
Balance, end, exercisable	6,402,500	0.12	5,723,750	0.11

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16. STOCK OPTIONS (CONT'D)

The number of options outstanding as of May 31, 2021 are as follows:

Number of options outstanding	Number of options exercisable	Exercise Price	Expiry date
		\$	
1,150,000	1,150,000	0.095	November 29, 2021
658,750	658,750	0.09	October 19, 2022
400,000	400,000	0.08	September 14, 2023
775,000	775,000	0.085	November 20, 2023
250,000	187,500	0.175	July 29, 2024
1,362,500	1,000,000	0.155	October 23, 2024
200,000	150,000	0.155	November 28, 2024
75,000	-	0.185	January 19, 2025
1,450,000	1,162,500	0.165	April 16, 2025
450,000	225,000	0.165	April 21, 2025
250,000	62,500	0.155	June 3, 2025
100,000	25,000	0.155	June 8, 2025
500,000	125,000	0.175	August 13, 2025
75,000	18,750	0.205	August 31, 2025
250,000	62,500	0.18	October 21, 2025
1,350,000	-	0.34	January 27, 2026
9,296,250	6,402,500		

On October 21, 2020, the shareholders of the Corporation renewed the stock option plan which stipulates that the maximum number of ordinary shares in the capital of the Corporation that could be reserved for allotment under the plan is limited to 10% of the outstanding shares.

On January 27, 2021, the Company granted 1,350,000 stock options to employees, directors and consultants at a price of \$ 0.34, valid for 5 years (2 years for consultants). The fair value of the options granted was estimated using the Black-Scholes model based on the following assumptions: risk-free interest rate of 0.3203% (0.1537% for consultants), expected volatility of 79.42% (81.24% for consultants), no dividend per share and expected duration of 3.75 years options (2 years for consultants). From the granting, options are earned in increments of 25% every 6 months (3 months for consultants).

On October 21, 2020, the Corporation granted to a new director 250,000 stock options, priced at \$0.18, 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 0.3010%, expected volatility of 79.89%, no dividend per share and expected duration of 3.75 years options.

On August 31, 2020, the Corporation granted to a new employee 75,000 stock options, priced at \$0.205, 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 0.3854%, expected volatility of 79.85%, no dividend per share and expected duration of 3.75 years options.

On August 13, 2020, the Corporation granted to consultants 500,000 stock options, priced 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 0.3500%, expected volatility of 81.00%, no dividend per share and expected duration of 3.75 years options.

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16. STOCK OPTIONS (CONT'D)

On June 8, 2020, the Corporation granted two employees 100,000 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 0.4065%, expected volatility of 82.87%, no dividend per share and expected duration of 3.75 years options.

On June 3, 2020, the Corporation granted to a new director 250,000 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 0.3854%, expected volatility of 83.12%, no dividend per share and expected duration of 3.75 years options.

Except for the options granted to consultants on January 27, 2021, all options granted bear the same conditions. 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.

17. 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 2021, the Corporation issued common shares (note 13), received proceeds from exercised warrants for \$1,42M and secured additional debt for \$1,33M which will be added to the \$1,72M secured in Fiscal 2020 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.

18. 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 warrants and warrants have not been included, as they would have the effect of decreasing the loss per share.

Geomega Resources Inc.
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19. REMUNERATION

	Fiscal 2021	Fiscal 2020
	\$	\$
Wages, salaries	487,624	445,926
Benefits	78,966	69,550
Share-based compensation	198,389	113,064
	764,979	628,540
Salaries and benefits recorded in E&E expenses	(464,446)	(339,991)
Share-based payments recorded in E&E expenses	(85,922)	(46,806)
Directors fees	-	(33,750)
Loss on debt extinguishment	-	(3,000)
Salaries, employee benefits and share-based compensation presented on the statement of loss	214,611	204,993

20. EXPLORATION AND EVALUATION EXPENSES

Montviel	Fiscal 2021	Fiscal 2020
	\$	\$
Acquisition and maintenance	9,282	813
Exploration		
Salaries and benefits	748	15,143
Share-based compensation	18,704	13,644
Geology	240	611
Transport and lodging	113	70,659
Geophysics	60,310	-
Depreciation of property and equipment	-	3,343
Taxes, permits and insurances	250	3,182
Billing - rental	-	(21,117)
Total exploration	80,365	85,465
Evaluation		
Salaries and share-based compensation – Separation process	530,916	360,009
Separation process	63,742	72,721
Depreciation of property and equipment	18,701	22,800
Engineering	77,400	494,449
Total Evaluation	690,759	949,979
Total gross E&E expenses	780,406	1,036,257
Government grants	(316,248)	(355,554)
Net tax credits	(109,941)	(65,781)
Net E&E expenses - Montviel	354,217	614,922

20.1 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 162 mining claims totalling 8,998 hectares as at May 31, 2021.

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.

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20. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

20.2 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.

20.3 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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21. 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 2021	Fiscal 2020
	\$	\$
Loss before income taxes	(1,453,763)	(1,544,129)
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 26.5% (26.5% in Fiscal 2020)	(385,247)	(409,194)
Increase in income taxes resulting from the following:		
Non-deductible items	116,780	149,674
Rate change	-	-
Restatement from prior year	-	2,127
Unrecognized temporary differences	268,467	257,393
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 \$7,120,362 (\$6,936,752 in 2020).

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

	As at May 31, 2021	As at May 31, 2020
	\$	\$
Deferred income tax assets:		
Intangible assets	3,941	3,941
Property and equipment	53,812	92,219
Deductible share issue expenses	40,225	10,100
E&E assets	3,074,255	3,064,831
Lease liability	196,044	210,884
Operating losses carried forward	3,937,826	3,776,570
Total deferred income tax assets	7,306,103	7,158,545
Deferred income tax liabilities		
Right-of-use asset	(183,523)	(204,801)
R&D grant and credit receivable	-	(15,246)
Long-term debt	(2,218)	(1,746)
Total deferred income tax assets non recognized	7,120,362	6,936,752

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21. INCOME TAXES (CONT'D)

As at May 31, 2021, expiration dates of losses available to reduce future years' income for tax purposes are:

	Federal	Provincial
	\$	\$
2041	1,147,967	1,074,473
2040	560,477	519,290
2039	609,407	573,075
2038	648,408	624,217
2037	1,042,404	1,000,895
2036	1,250,612	1,250,613
2035	1,978,913	1,978,913
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	13,645,518	13,474,981

22. 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.

22.1 Interest rate risk

When the Corporation has cash balances, the current policy is to invest excess cash in certificates of deposit or other low-risk short-term investments. 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.

22.2 Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet the obligations associated with its financial liabilities. Management believes that it has sufficient funds to finance its operations and meet its obligations as they come due.

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22. FINANCIAL INSTRUMENTS AND RISKS (CONT'D)

As at May 31, 2021, 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	220,018	-	-	220,018
Lease Liability – Current contractual maturities ¹	111,600	334,800	-	446,400
Lease Liability – Future renewal options ¹	-	111,600	427,800	539,400
Long-term debt (note12)	-	80,000	-	80,000
	331,618	526,400	427,800	1,285,818

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-years 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.

22.3 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.

22.4 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, 2021, the balance in U.S. dollars held by the Corporation was as follows:

	May 31, 2021
	\$
Cash	101,545
Investments included in cash equivalents	340,195
Net exposure, in US dollars	441,740
Equivalent in Canadian dollars	550,795

Based on the balance as at May 31, 2021, 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 \$22,087 in 2021.

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22. FINANCIAL INSTRUMENTS AND RISKS (CONT'D)

22.5 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.

23. RELATED PARTY TRANSACTIONS

23.1 Transactions with related parties

In the normal course of business:

- ◆ A firm in which a director was a partner charged professional fees amounting to \$42,982 (\$14,300 in Fiscal 2020).

Out of the normal course of business:

- ◆ A director participated in a private placement in November 2020. 85,000 shares of the Corporation were bought at a price of \$0.17, for a total value of \$14,500.
- ◆ Officers and directors of the Corporation exercised 500,000 options during fiscal 2021 for a total value of \$ 35,000.
- ◆ On January 27, 2021, a director and an officer together received 25,928 shares in a shares for debt transaction for a value of \$ 8,816. See note 13.2 for more details on the transaction.
- ◆ 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.

23.2 Billing according to agreement with Kintavar and its subsidiary

	Fiscal 2021	Fiscal 2020
	\$	\$
Exploration and evaluation, net of tax credits	(9,545)	42,435
Sale of equipment	-	19,501
Travel, conventions and investor relations	15,464	10,494
Rent	12,025	10,900
Total	17,944	83,330

As of May 31, 2021, the amount receivable from Kintavar was \$3,558 (\$37,394 as of May 31, 2020).

23.3 Allowance for Termination or Change of Control

There are certain employment agreements between key management and the Corporation that contain a termination provision and a change of control provision. If the provision for termination without cause or change of control involving adverse changes to duties assigned to key management had occurred as of May 31, 2021, the amounts payable for the executive team would have totalled \$337,025 and \$1,098,100 respectively. In the case of termination for cause, no compensation will be paid.

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24. ADDITIONAL INFORMATION RELATING TO THE CONSOLIDATED STATEMENT OF CASH FLOW

Change in non-cash working capital items

	2021	2020
	\$	\$
Accounts receivable	55,549	(89,558)
Tax credits and government grants receivable	1,339	(78,344)
Prepaid and other expenses	(20,965)	(77,261)
Inventories	(4,399)	(7,188)
Trade and other payables	(31,537)	68,090
	(13)	(184,261)
