



## **Geomega Resources Inc.**

Unaudited Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

*The attached financial statements have been prepared by Management of Geomega Resources Inc. and have not been reviewed by the auditors*

# Geomega Resources Inc.

## Consolidated Statements of Financial Position (Unaudited)

	Note	As at August 31, 2016 \$	As at May 31, 2016 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	1,232,221	1,372,840
Sales tax receivable		36,513	24,765
Tax credits and government grant receivable		47,856	54,612
Prepaid expenses and others		25,464	22,395
<b>Current assets</b>		<b>1,394,554</b>	<b>1,474,612</b>
<b>Non-current assets</b>			
Marketable securities	5.1	52,500	-
Exploration and evaluation assets	5	17,660,570	17,516,788
Property and equipment		182,653	199,280
<b>Non-current assets</b>		<b>17,895,723</b>	<b>17,716,068</b>
<b>Total assets</b>		<b>19,237,777</b>	<b>19,190,680</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		574,605	515,096
Liability related to the premium on flow-through shares	6	47,942	98,442
<b>Current liabilities</b>		<b>622,547</b>	<b>613,538</b>
<b>Non-current liabilities</b>			
Liability related to share exchange rights	10	451,111	-
<b>Total Liabilities</b>		<b>1,073,658</b>	<b>613,538</b>
<b>Equity</b>			
Share capital		28,138,731	28,138,731
Warrants	7	559,010	559,010
Broker options	8	23,595	23,595
Stock options	9	925,701	1,134,067
Contributed surplus		2,824,598	2,616,232
Deficit		(14,291,060)	(13,894,493)
Accumulated other comprehensive loss		(22,500)	-
Equity attributable to Geomega Resources Inc. shareholders		18,158,075	18,577,142
Non-controlling interests		6,044	-
<b>Total equity</b>		<b>18,164,119</b>	<b>18,577,142</b>
<b>Total liabilities and equity</b>		<b>19,237,777</b>	<b>19,190,680</b>

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

# Geomega Resources Inc.

## Consolidated Statements of Comprehensive Loss (Unaudited)

	Note	Three months ended August 31	
		2016 \$	2015 \$
<b>Operating Expenses</b>			
Salaries, employee benefits and share-based compensation		72,128	191,967
Directors fees		18,750	-
Exploration and evaluation expenses, net of tax credits	11	60,000	194,885
Research expenses, net of tax credits		-	5,647
Professional fees		94,646	68,005
Travel conference and investor relations		7,675	12,580
Administration		4,895	10,290
Filing fees		3,978	10,320
Rent		15,769	7,306
Insurance, taxes and permits		15,273	13,122
Impairment of exploration and evaluation assets		17,653	-
Gain on disposal of exploration and evaluation assets		(71,391)	-
<b>Operating loss</b>		<b>(239,376)</b>	<b>(514,122)</b>
<b>Other income (expenses)</b>			
Interest income		(536)	4,328
Finance costs		(8,387)	(1,965)
		<b>(8,923)</b>	<b>2,363</b>
<b>Net loss before income taxes</b>		<b>(248,299)</b>	<b>(511,759)</b>
Deferred income taxes recovery	6	50,500	66,749
<b>Net loss for the period</b>		<b>(197,799)</b>	<b>(455,010)</b>
<b>Other comprehensive loss</b>			
Unrealized loss due to change in value of marketable securities		(22,500)	-
<b>Other comprehensive loss</b>		<b>(22,500)</b>	<b>-</b>
<b>Comprehensive loss</b>		<b>(220,299)</b>	<b>(455,010)</b>
Net loss attributable to:			
Geomega Resources Inc. shareholders		(195,857)	(455,010)
Non-controlling interests		(1,942)	-
Comprehensive loss attributable to:			
Geomega Resources Inc. shareholders		(218,357)	(455,010)
Non-controlling interests		(1,942)	-
Basic and diluted loss per share		(0.003)	(0.008)
Weighted average number of basic and diluted outstanding shares		77,433,712	58,846,143

Other comprehensive loss is composed solely of items that may be reclassified subsequently to net loss.

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

# Geomega Resources Inc.

## Consolidated Statements of Changes in Equity (Unaudited)

	Note	Number of shares outstanding	Capital stock	Warrants	Broker Options	Stock Options	Contributed surplus	Deficit	Total equity
			\$	\$			\$	\$	\$
<b>Balance at May 31, 2015</b>		56,989,560	26,525,148	700,225	119,910	1,663,131	1,529,238	(11,927,228)	18,610,424
Loss and comprehensive loss for the period		-	-	-	-	-	-	(445,010)	(445,010)
Shared-based compensation		-	-	-	-	(10,251)	-	-	(10,251)
Shared issued for private placements		5,213,556	822,270	88,684	-	-	-	-	910,954
Shared insurance costs		-	(22,540)	(3,791)	-	-	-	-	(26,331)
Expired stock-options		-	-	-	-	(250,020)	250,020	-	-
<b>Balance at August 31, 2015</b>		<b>62,203,116</b>	<b>27,324,878</b>	<b>785,118</b>	<b>119,910</b>	<b>1,402,860</b>	<b>1,779,258</b>	<b>(12,372,238)</b>	<b>19,039,786</b>

	Note	Number of shares outstanding	Capital stock	Warrants	Broker Options	Stock Options	Contributed surplus	Equity attributable to Geomega Resources Inc.	Accumulated other comprehensive income	Total	Non- controlling interest	Total equity
			\$	\$			\$	\$				\$
<b>Balance at May 31, 2016</b>		77,433,712	28,138,731	559,010	23,595	1,134,067	2,616,232	(13,894,493)	-	18,577,142	-	18,577,142
Net loss		-	-	-	-	-	-	(195,857)	-	(195,857)	(1,942)	(197,799)
Unrealized loss due to change in value of marketable securities		-	-	-	-	-	-	-	(22,500)	(22,500)	-	(22,500)
Comprehensive income		-	-	-	-	-	-	(195,957)	(22,500)	(218,357)	(1,942)	(220,299)
Investment in Innord by non- controlling interest	10	-	-	-	-	-	-	242,014	-	242,014	7,986	250,000
Liability related to share exchange rights	10	-	-	-	-	-	-	(442,724)	-	(442,724)	-	(442,724)
Expired stock-options		-	-	-	-	(208,366)	208,366	-	-	-	-	-
<b>Balance at August 31, 2016</b>		<b>77,433,712</b>	<b>28,138,731</b>	<b>559,010</b>	<b>23,595</b>	<b>925,701</b>	<b>2,824,598</b>	<b>(14,291,060)</b>	<b>(22,500)</b>	<b>18,158,075</b>	<b>6,044</b>	<b>18,164,119</b>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**Geomega Resources Inc.**  
Consolidated Statements of Cash Flows  
(Unaudited)

	Note	Three months ended August 31,	
		2016	2015
		\$	\$
<b>Operating activities</b>			
Net loss for the period		(197,799)	(445,010)
Adjustments for:			
Share-based compensation		-	(11,662)
Gain on disposal of exploration and evaluation assets		(71,391)	-
Finance costs		8,387	-
Impairment of exploration and evaluation assets		17,653	-
Deferred income tax recovery		(50,500)	(66,749)
Changes in non-cash working capital items			
Sales tax receivable		(11,748)	(67,325)
Prepaid expenses and other		(3,069)	15,222
Trade and other payables		77,199	93,904
<b>Cash flows used in operating activities</b>		<b>(231,268)</b>	<b>(481,620)</b>
<b>Investing activities</b>			
Additions of exploration and evaluation assets		(189,991)	(253,115)
Government grants		30,640	-
Tax credit received		-	48,813
Additions of property and equipment		-	(16,099)
<b>Cash flows from (used) in investing activities</b>		<b>(159,351)</b>	<b>(220,401)</b>
<b>Financing activities</b>			
Proceeds from issuance of units and shares, net of issue costs		-	1,043,571
Contribution of non-controlling shareholders		250,000	-
Payments on obligations under finance leases		-	(14,604)
<b>Cash flows from (used) in financing activities</b>		<b>250,000</b>	<b>1,028,967</b>
<b>Net change in cash and cash equivalents</b>		<b>(140,619)</b>	<b>326,946</b>
Cash and cash equivalents – beginning		1,372,840	454,671
<b>Cash and cash equivalents – ending</b>		<b>1,232,221</b>	<b>781,617</b>
<b>Additional information</b>			
Interest received		409	3,131
Interest paid		-	(1,706)
Addition of exploration and evaluation assets included in trade and other payables		136,760	37,029

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

# Geomega Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Geomega Resources Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is engaged in the acquisition, exploration and evaluation of mining properties in Canada. The Company's shares are listed on the TSX Venture Exchange (the "Exchange") under symbol GMA. The address of the Company's registered office and principal place of business is 75, de Mortagne Boulevard, Boucherville, Quebec, Canada, J4B 6Y4. These unaudited condensed interim consolidated financial statements (the "Financial Statements") were approved by the Company's Board of Directors on October 28, 2016.

The Company 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 Company 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 three months ended August 31, 2016, the Company reported a net loss of \$197,799 and has accumulated a deficit of \$14,291,060 up to that date. As at August 31, 2016, the Company had working capital of \$719,507. From this working capital, the Company has to dedicate \$144,444 to Canadian mining properties exploration, pursuant to the restrictions imposed by the December 30, 2015 flow-through financing.

Management estimates that the working capital will not be sufficient to meet the Company's obligations and commitments and budgeted expenditures through August 31, 2017. These circumstances lend a significant doubt as to the ability of the Company 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 Company'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 Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the Financial Statements.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of Compliance

The Financial Statements have been prepared in accordance with the *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB") applicable to the preparation of interim financial statements, including *International Accounting Standard* ("IAS") 34, *Interim Financial Reporting*. Accordingly, the Financial Statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting purposes.

The Board of Directors has approved the Financial Statements on October 28, 2016.

# Geomega Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Basis of Presentation

The Financial Statements should be read in conjunction with the annual financial statements for the year ended May 31, 2016, which have been prepared in accordance with IFRS. The accounting policies, methods of computation and presentation applied in the Financial Statements are consistent with those of the previous financial year ended May 31, 2016, except for the policies described below.

#### **Consolidation**

The Financial Statements include the accounts of the Company and those of its subsidiary Innord Inc. ("Innord") owned at 96.16% on August 31, 2016 (100% on May 31, 2016).

#### **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 Company's ownership interest in the subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. The fair values of the investments in common shares are based on the quoted market prices of those shares on a recognized stock exchange at the end of each reporting period. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of income as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of income and are included in other gains or losses. Available-for-sale financial assets are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of Financial Statements in conformity with IFRS requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. The Corporation also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing the Financial Statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended May 31, 2016, except for the new judgements and estimates described below.

# Geomega Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

#### Critical judgments

##### *Liability related to share exchange rights*

The put option is classified as a financial liability using the present-access method. Under this method, non-controlling interests continue to be recognized because the non-controlling shareholders still have present access to the returns associated with the underlying ownership interests. Therefore, the offsetting entry to the financial liability is posted to deficit.

#### Critical estimates

##### *Liability related to share exchange rights*

Estimates and assumptions used to calculate the value of the liability related to share exchange rights include the interest rate used to discount the amount of redemption (8%) and the estimated period of time over which the different exchange rights could be exercised by the non-controlling shareholders.

### 4. CASH AND CASH EQUIVALENTS

	As at August 31, 2016	As at May 31, 2016
	\$	\$
Cash	1,232,221	1,269,698
Investment redeemable at any time	-	103,142
<b>Cash and cash equivalents</b>	<b>1,232,221</b>	<b>1,372,840</b>

The balance on flow-through financing not spent according to the restrictions imposed by the December 31, 2015 financing represents \$144,444 as at August 31, 2016 and is included in cash and cash equivalents. The Corporation has to dedicate these funds to Canadian mining properties exploration.

### 5. EXPLORATION AND EVALUATION ASSETS

	As at Aug. 31, 2016	As at May 31, 2016
	\$	\$
Mineral properties acquisition costs	6,184,865	6,198,012
Exploration and evaluation expenditures capitalized	11,475,705	11,318,776
<b>Total exploration and evaluation assets</b>	<b>17,660,570</b>	<b>17,516,788</b>



# Geomega Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

### 5. EXPLORATION AND EVALUATION ASSETS (CONT'D)

Mineral properties acquisition costs	As at May 31, 2015	Additions	Disposal	Impairment <sup>1)</sup>	As at May 31, 2016
	\$	\$	\$	\$	\$
Montviel	6,928,012	5,928	-	(832,013)	6,101,927
Anik	48,410	119	-	-	48,529
McDonald	21,962	10,522	-	(2,957)	29,527
Rivière à l'aigle	6,036	3,480	-	-	9,516
Lac Storm	939	-	-	-	939
3G	790	-	-	-	790
Maryse	-	1,517	-	-	1,517
Gaspard	-	1,658	-	-	1,658
Buckingham	2,172	1,437	-	-	3,609
	<b>7,008,321</b>	<b>24,661</b>	<b>-</b>	<b>(834,970)</b>	<b>6,198,012</b>

1) Some claims were dropped and the Company impaired partially the property.

Mineral Properties acquisition costs	As at May 31, 2016	Additions	Disposal	Impairment <sup>1)</sup>	As at Aug. 31, 2016
	\$	\$	\$	\$	\$
Montviel	6,101,927	2,029	-	(17,653)	6,086,303
Anik	48,529	2,267	-	-	50,796
McDonald	29,527	3,819	-	-	33,346
Rivière à l'aigle	9,516	-	-	-	9,516
Lac Storm	939	-	-	-	939
3G	790	-	-	-	790
Maryse	1,517	-	-	-	1,517
Gaspard	1,658	-	-	-	1,658
Buckingham (note 5.1)	3,609	-	(3,609)	-	-
	<b>6,198,012</b>	<b>8,115</b>	<b>(3,609)</b>	<b>(17,653)</b>	<b>6,184,865</b>

1) Some claims were dropped and the Company impaired partially the property.

Exploration and evaluation expenditures capitalized	As at May 31, 2015	Additions	Tax credits	Government grants	As at May 31, 2016
	\$	\$	\$	\$	\$
Montviel	10,886,787	643,043	(12,558)	(198,496)	11,318,776
	<b>10,886,787</b>	<b>643,043</b>	<b>(12,558)</b>	<b>(198,496)</b>	<b>11,318,776</b>

Exploration and evaluation expenditures capitalized	As at May 31, 2016	Additions	Tax credits	Government grants	As at Aug 31, 2016
	\$	\$	\$	\$	\$
Montviel	11,318,776	180,813	-	(23,884)	11,475,705
	<b>11,318,776</b>	<b>180,813</b>	<b>-</b>	<b>(23,884)</b>	<b>11,475,705</b>

# Geomega Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

### 5. EXPLORATION AND EVALUATION ASSETS (CONT'D)

#### 5.1 Buckingham property (Graphite)

On April 6, 2016, the Company signed a property purchase agreement with Saint Jean Carbon Inc. ("Saint Jean") whereby Saint Jean acquired a 100%-interest in the Buckingham mining property. Under the terms of the agreement, the Company received 1,500,000 common shares of Saint Jean valued at \$75,000 as per the Exchange price on the day the Company received the shares. The Company retains a 0.75% net output returns royalty on the property that was measured at a symbolic value.

### 6. LIABILITY RELATED TO THE PREMIUM ON FLOW THROUGH SHARES

	As at Aug. 31, 2016	As at May 31, 2016
	\$	\$
Balance, beginning of period	98,442	-
Addition, net of issue costs	-	272,545
Reduction related to qualifying exploration expenditures	(50,500)	(174,103)
<b>Liability related to the premium on flow through shares</b>	<b>47,942</b>	<b>98,442</b>

### 7. WARRANTS

Changes in the Corporation's warrants are as follow:

	Three months ended August 31, 2016			Year ended May 31, 2016		
	Number of warrants	Carrying Value	Weighted average exercise price	Number of warrants	Carrying Value	Weighted average exercise price
		\$	\$		\$	\$
Opening	12,104,131	559,010	0.16	6,957,304	700,225	0.40
Issued	-	-	-	7,013,493	260,005	0.12
Issuance Costs	-	-	-	-	(8,195)	-
Expired	-	-	-	(1,866,666)	(393,025)	0.90
	<b>12,104,131</b>	<b>559,010</b>	<b>0.16</b>	<b>12,104,131</b>	<b>559,010</b>	<b>0.16</b>

Warrants outstanding as at August 31, 2016 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
1,662,500	0.21	November 4, 2016 <sup>1)</sup>
2,264,138	0.25	November 4, 10 and 2016 <sup>1)</sup>
164,000	0.21	December 3, 2016
1,302,778	0.23	June 19, 2017
5,710,715	0.09	February 22, 2018
1,000,000	0.15	July 1, 2019
<b>12,104,131</b>		

1) An extension request was submitted to the Exchange

## Geomega Resources Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

#### 8. BROKER OPTIONS

Changes in the Corporation's broker options are as follow:

	Three months ended August 31, 2016			Year ended May 31, 2016		
	Number of broker options	Carrying Value	Weighted average exercise price	Number of broker options	Carrying Value	Weighted average exercise price
		\$	\$		\$	\$
Opening	389,875	23,595	0.16	424,167	119,910	0.47
Issued	-	-	-	229,875	9,195	0.09
Expired	-	-	-	(264,167)	(105,510)	0.60
	<b>389,875</b>	<b>23,595</b>	<b>0.16</b>	<b>389,875</b>	<b>23,595</b>	<b>0.16</b>

Broker warrants outstanding as at August 31, 2016 are as follows:

Number of broker options	Exercise price	Expiry date
	\$	
160,000	0.25	November 20, 2016
229,875	0.09	June 30, 2017
<b>389,875</b>		

#### 9. STOCK OPTIONS

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

	Three months ended August 31, 2016		Year ended May 31, 2016	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
		\$		\$
Balance, beginning	3,145,000	0.40	3,320,000	0.60
Granted	-	-	1,090,000	0.07
Expired	(150,000)	2.08	(1,122,500)	0.68
Forfeited	-	-	(142,500)	0.26
<b>Balance, end</b>	<b>3,145,000</b>	<b>0.32</b>	<b>3,145,000</b>	<b>0.40</b>
Balance, end exercisable	2,206,250	0.42	2,181,250	0.54

# Geomega Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

### 9. STOCK OPTIONS (CONT'D)

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
		\$	
325,000	325,000	1.50	September 30, 2016 (not exercised at the expiry date)
100,000	100,000	0.45	July 19, 2017
200,000	200,000	0.42	October 30, 2017
225,000	225,000	0.15	June 28, 2018
225,000	225,000	0.16	July 22, 2018
225,000	225,000	0.17	September 19, 2018
120,000	120,000	0.30	January 23, 2019
385,000	288,750	0.26	September 17, 2019
100,000	75,000	0.14	January 23, 2020
300,000	75,000	0.09	September 13, 2020
790,000	197,500	0.07	November 22, 2020
<b>2,995,000</b>	<b>2,056,250</b>		

### 10. NON CONTROLLING INTEREST

On June 3, 2016, the Company 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 Company now owns 96.16% of Innord.

The institutional investors were granted different options to exchange their shares according to different outcomes relating to the phase 1A of the rare earth separation process, at the latest January 1, 2018. The options are as follow:

- If the phase 1A conclusion is positive, the investors can request the Company to buy back 50% of the shares for a total of \$250,000 cash;
- If the phase 1A conclusion is negative or the separation process is sold or a change of control of the Company occurs, the investors can request the Company to buy back 100% of the shares by issuing its own shares for a value of \$500,000; and
- If there is no economic benefits (no processing plant built on the James Bay territory or no announcement of Montviel mine at the latest June 3, 2021), the investors can request the Company to buy back 100% of the shares for a total of \$500,000 cash, or to buy back 100% of the shares by issuing its own shares for a value of \$500,000.

The positive conclusion of phase 1A is defined as follows: to reach a capacity of one kilogram per day for the rare earth separation process.

Not controlling the outcome of phase 1A, the Company recorded a \$500,000 liability related to share exchange rights corresponding to the option where the investors would exchange their shares in Innord against shares of the Company.

## Geomega Resources Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

Three months ended August 31, 2016

(Unaudited)

#### 10. NON CONTROLLING INTEREST (CONT'D)

	Three months ended August 31, 2016
	\$
Balance beginning	-
Exchange options granted to SDBJ and ARBJ	500,000
Initial discounting using a rate of 8 %	(57,276)
	442,724
Accretion for the period	8,387
<b>Liability related to exchange rights</b>	<b>451,111</b>

The difference between the total investment in Innord of \$250,000 and the non-controlling interest of 3.84% established at \$7,986 was recorded as a gain on dilution reducing directly the deficit in the equity attributable to Geomega Resources Inc.

#### 11. EXPLORATION AND EVALUATION EXPENSES

	Three months ended	
	August 31, 2016	August 31, 2015
	\$	\$
Salaries, geology and prospection	47,942	110,034
Lodging and travel expenses	6,769	35,653
Analysis	1,952	19,312
Drilling	-	9,900
Geophysics	-	9,118
Supplies and equipment	2,395	10,816
Taxes, permits and insurance	942	52
<b>Exploration and evaluation expenses before tax credits</b>	<b>60,000</b>	<b>194,885</b>
Tax credits, net	-	-
<b>Exploration and evaluation expenses</b>	<b>60,000</b>	<b>194,885</b>