



# GEOMEGA RESOURCES INC.

## CONDENSED INTERIM FINANCIAL STATEMENTS

**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2012**

(In Canadian Dollars)

(Unaudited)

### NOTICE TO READER

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

**GEOMEGA RESSOURCES INC.**  
**Condensed Interim Statements of Financial Position**  
(In Canadian Dollars)  
(Unaudited)

|   | November 30,<br>2012 | May 31,<br>2012   |
|---|----------------------|-------------------|
| Note  | \$                   | \$                |
| <b>ASSETS</b>                                       |                      |                   |
| <b>Current</b>                                      |                      |                   |
| Cash  | 1,965,307            | 3,285,042         |
| Sales tax receivable                                | 148,023              | 264,904           |
| Tax credits receivable                              | 3 2,509,628          | 2,334,650         |
| Prepaid expenses and deposits                       | 246,909              | 283,549           |
| <b>Current assets</b>                               | <b>4,869,867</b>     | <b>6,168,145</b>  |
| <b>Non-current</b>                                  |                      |                   |
| Tax credits receivable                              | 3 508,664            | —                 |
| Exploration and evaluation assets                   | 4 12,803,210         | 11,628,219        |
| Property and equipment                              | 5 493,981            | 605,172           |
| <b>Non-current assets</b>                           | <b>13,805,855</b>    | <b>12,233,391</b> |
| <b>Total assets</b>                                 | <b>18,675,722</b>    | <b>18,401,536</b> |
| <b>LIABILITIES</b>                                  |                      |                   |
| <b>Current</b>                                      |                      |                   |
| Trade and other payables                            | 6 643,561            | 463,220           |
| Flow-through share liability                        | 7 508,200            | —                 |
| Current portion of obligations under capital leases | 8 111,160            | 185,203           |
| Debt  | 9 686,199            | 1,415,605         |
| <b>Current liabilities</b>                          | <b>1,949,120</b>     | <b>2,064,028</b>  |
| <b>Non-current</b>                                  |                      |                   |
| Obligations under capital leases                    | 8 99                 | 17,907            |
| <b>Total liabilities</b>                            | <b>1,949,219</b>     | <b>2,081,935</b>  |
| <b>SHAREHOLDERS' EQUITY</b>                         |                      |                   |
| Share capital                                       | 10 21,319,090        | 19,759,206        |
| Warrants  | 11 324,089           | 324,089           |
| Brokers' options                                    | 12 623,607           | 588,957           |
| Stock options                                       | 13 1,589,532         | 1,504,136         |
| Contributed surplus                                 | 502,897              | 156,559           |
| Deficit   | (7,632,712)          | (6,013,346)       |
| <b>Total equity</b>                                 | <b>16,726,503</b>    | <b>16,319,601</b> |
| <b>Total liabilities and equity</b>                 | <b>18,675,722</b>    | <b>18,401,536</b> |

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

Going concern (Note 1)

Commitments (Notes 8 and 17)

Subsequent event (Note 18)

Approved on Behalf of the Board:

"signed"  
Simon Britt  
Director

"signed"  
Jean-Charles Potvin  
Director

# GEOMEGA RESSOURCES INC.

## Condensed Interim Statements of Loss and Comprehensive Loss

(In Canadian Dollars)

(Unaudited)

|   | Note | Three-Month Period Ended |                   | Six-Month Period Ended |                   |
|---|------|--------------------------|-------------------|------------------------|-------------------|
|   |      | November 30,             |                   | November 30,           |                   |
|   |      | 2012                     | 2011              | 2012                   | 2011              |
|   |      | \$                       | \$                | \$                     | \$                |
| <b>EXPENSES</b>   |      |                          |                   |                        |                   |
| Salaries and employee benefits  |      | 388,012                  | 244,017           | 708,112                | 348,291           |
| Exploration and evaluation expenses   | 14   | 100,911                  | 254,751           | 230,666                | 849,880           |
| Professional fees   |      | 219,529                  | 219,788           | 333,584                | 262,198           |
| Travel, conference and investor relations                                       |      | 38,973                   | 109,738           | 113,175                | 233,683           |
| Telecommunication   |      | 5,380                    | 2,002             | 9,961                  | 3,639             |
| Administration  |      | 10,116                   | 13,443            | 19,475                 | 20,011            |
| Transfer agency and regulatory fees   |      | 21,260                   | 16,031            | 28,245                 | 32,160            |
| Rent  |      | 6,820                    | 6,615             | 13,506                 | 13,088            |
| Training  |      | 1,100                    | 7,582             | 5,695                  | 12,391            |
| Insurance, taxes and permits  |      | 6,702                    | 8,718             | 9,706                  | —                 |
| Bad debts   |      | —                        | —                 | —                      | 11,425            |
| Depreciation of property and equipment  |      | 6,100                    | 6,596             | 16,529                 | 11,614            |
| Impairment of exploration and evaluation assets                                 | 4    | 28,080                   | —                 | 28,080                 | —                 |
| <b>Loss before under noted items</b>  |      | <b>832,983</b>           | <b>889,281</b>    | <b>1,516,734</b>       | <b>1,798,380</b>  |
| Interest income   |      | —                        | (11,982)          | —                      | (22,694)          |
| Finance cost  |      | 28,147                   | 9,041             | 102,632                | 12,051            |
| <b>Loss and comprehensive loss for the period</b>                               |      | <b>861,130</b>           | <b>886,340</b>    | <b>1,619,366</b>       | <b>1,787,737</b>  |
| <b>Basic and diluted loss per share</b>   |      | <b>(0.03)</b>            | <b>(0.03)</b>     | <b>(0.05)</b>          | <b>(0.04)</b>     |
| <b>Weighted average number of common shares outstanding - Basic and diluted</b> |      | <b>29,747,739</b>        | <b>21,498,251</b> | <b>29,509,632</b>      | <b>22,130,163</b> |

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

# GEOMEGA RESSOURCES INC.

## Condensed Interim Statement of Changes in Equity

(In Canadian Dollars)

(Unaudited)

|  | Notes | Share Capital<br>\$ | Warrants<br>\$ | Brokers'<br>Options<br>\$ | Stocks Options<br>\$ | Contributed<br>Surplus<br>\$ | Deficit<br>\$      | Total Equity<br>\$ |
|--|-------|---------------------|----------------|---------------------------|----------------------|------------------------------|--------------------|--------------------|
| <b>As at May 31, 2011</b>                  |       | 11,870,947          | -              | -                         | -                    | 767,654                      | (2,374,548)        | 10,264,053         |
| Loss and comprehensive loss for the period |       | -                   | -              | -                         | -                    | -                            | (1,787,737)        | (1,787,737)        |
| Share-based payments                       |       | -                   | -              | -                         | 158,227              | -                            | -                  | 158,227            |
| Private placements                         | 10    | 4,999,999           | -              | 518,787                   | -                    | -                            | -                  | 5,518,786          |
| Share issue costs                          | 10    | (1,141,097)         | -              | -                         | -                    | -                            | -                  | (1,141,097)        |
| Pre-development agreement                  | 10    | 225,000             | -              | -                         | -                    | -                            | -                  | 225,000            |
| Exercise of stocks options                 | 13    | 244,000             | -              | -                         | -                    | (104,000)                    | -                  | 140,000            |
| Exercise of brokers' options               | 12    | 106,909             | -              | -                         | -                    | -                            | -                  | 106,909            |
| Exercise of warrants                       |       | 109,930             | -              | -                         | -                    | (6,339)                      | -                  | 103,591            |
| <b>As at November 30, 2011</b>             |       | <b>16,415,688</b>   | <b>-</b>       | <b>518,787</b>            | <b>158,227</b>       | <b>657,315</b>               | <b>(4,162,285)</b> | <b>13,587,732</b>  |
| <b>As at May 31, 2012</b>                  |       | <b>19,759,206</b>   | <b>324,089</b> | <b>588,957</b>            | <b>1,504,136</b>     | <b>156,559</b>               | <b>(6,013,346)</b> | <b>16,319,601</b>  |
| Loss and comprehensive loss for the period |       | -                   | -              | -                         | -                    | -                            | (1,619,366)        | (1,619,366)        |
| Share-based payments                       | 13    | -                   | -              | -                         | 431,734              | -                            | -                  | 431,734            |
| Private placements                         | 12    | 1,767,150           | -              | 34,650                    | -                    | -                            | -                  | 1,801,800          |
| Share issue costs                          | 12    | (224,466)           | -              | -                         | -                    | -                            | -                  | (224,466)          |
| Shares issued - Oriana                     | 10    | 17,200              | -              | -                         | -                    | -                            | -                  | 17,200             |
| Forfeited options                          | 11    | -                   | -              | -                         | (346,338)            | 346,338                      | -                  | -                  |
| <b>As at November 30, 2012</b>             |       | <b>21,319,090</b>   | <b>324,089</b> | <b>623,607</b>            | <b>1,589,532</b>     | <b>502,897</b>               | <b>(7,632,712)</b> | <b>16,726,503</b>  |

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

# GEOMEGA RESSOURCES INC.

## Condensed Interim Statement of Cash Flows

(In Canadian Dollars)

(Unaudited)

|   | Note | Three-month period ended |                    | Six-month period ended |                    |
|---|------|--------------------------|--------------------|------------------------|--------------------|
|   |      | November 30,<br>2012     | 2011               | November 30,<br>2012   | 2011               |
|   |      | \$                       | \$                 | \$                     | \$                 |
| <b>OPERATING ACTIVITIES</b>                           |      |                          |                    |                        |                    |
| Loss and comprehensive loss for the period            |      | (861,130)                | (886,340)          | (1,619,366)            | (1,787,737)        |
| Adjustments for :                                     |      |                          |                    |                        |                    |
| Share-based payments                                  |      | 177,088                  | 112,844            | 369,703                | 145,261            |
| Depreciation of property and equipment                | 5    | 6,100                    | 6,597              | 16,529                 | 11,614             |
| Accretion expense - debt                              | 9    | 1,762                    | —                  | 37,457                 | —                  |
| Finance cost  |      | 22,137                   | —                  | 22,137                 | —                  |
| Impairment of exploration and evaluation assets       | 4    | 28,080                   | —                  | 28,080                 | —                  |
| Changes in non-cash working capital items:            |      |                          |                    |                        |                    |
| Sales tax receivable                                  |      | (12,663)                 | 43,168             | 116,881                | (55,407)           |
| Tax credits receivable                                |      | (373,118)                | (680,350)          | (683,642)              | (21,199)           |
| Prepaid expenses and deposits                         |      | 90,256                   | 98,929             | 36,640                 | 41,448             |
| Trade and other payables                              |      | 135,017                  | (250,961)          | 180,341                | (245,139)          |
| <b>Cash flows used in operating activities</b>        |      | <b>(786,471)</b>         | <b>(1,556,113)</b> | <b>(1,495,240)</b>     | <b>(1,911,159)</b> |
| <b>INVESTING ACTIVITIES</b>                           |      |                          |                    |                        |                    |
| Investments redeemed                                  |      | —                        | 1,305,704          | —                      | 3,126,514          |
| Investments   |      | —                        | (11,839)           | —                      | (4,022,552)        |
| Additions to property and equipment                   |      | —                        | (243,231)          | —                      | (263,190)          |
| Additions to exploration and evaluation assets        |      | (1,440,859)              | —                  | (1,029,178)            | (1,345,663)        |
| <b>Cash flows (used) from to investing activities</b> |      | <b>(1,440,859)</b>       | <b>1,050,634</b>   | <b>(1,029,178)</b>     | <b>(2,504,891)</b> |
| <b>FINANCING ACTIVITIES</b>                           |      |                          |                    |                        |                    |
| Issuance of shares and warrants, net of issue costs   |      | 2,085,534                | —                  | 2,085,534              | 4,431,603          |
| Exercise of warrants                                  |      | —                        | 34,866             | —                      | 103,591            |
| Repayment of debt                                     | 9    | —                        | —                  | (789,000)              | —                  |
| Payments on obligations under capital leases          | 8    | (46,478)                 | (52,187)           | (91,851)               | (124,218)          |
| Exercise of stocks options                            |      | —                        | —                  | —                      | 140,000            |
| <b>Cash flows from (used) to financing activities</b> |      | <b>2,039,056</b>         | <b>(17,321)</b>    | <b>1,204,683</b>       | <b>4,550,976</b>   |
| <b>Net change in cash</b>                             |      | <b>(188,274)</b>         | <b>(522,800)</b>   | <b>(1,319,735)</b>     | <b>134,926</b>     |
| <b>Cash, beginning of the period</b>                  |      | <b>1,344,134</b>         | <b>1,082,276</b>   | <b>3,285,042</b>       | <b>46,952</b>      |
| <b>Cash, end of the period</b>                        |      | <b>1,155,860</b>         | <b>559,476</b>     | <b>1,965,307</b>       | <b>181,878</b>     |
| <b>Additional information:</b>                        |      |                          |                    |                        |                    |
| Interest received                                     |      | —                        | 18,839             | —                      | 26,656             |
| Interest paid   |      | (14,815)                 | (20,620)           | (44,978)               | (22,694)           |

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

**GEOMEGA RESOURCES INC.**  
**Notes to the Condensed Interim Financial Statements**  
**November 30, 2012**  
(in Canadian Dollars)  
(Unaudited)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Geomega Resources Inc. (the “Company”) is incorporated under the Canada Business Corporations Act and is engaged in the acquisition, the exploration and evaluation of mining properties in Canada. The Company’s shares are listed on the TSX Venture Exchange under symbol GMA. The address of the Company’s registered office and principal place of business is 475 Victoria avenue, Saint-Lambert, Quebec, Canada, J4P 2J1. These unaudited condensed interim financial statements were approved by the Company’s Board of Directors on January 17, 2013.

These condensed interim 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.

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 following paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These condensed interim 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.

Management estimates that the working capital as at November 30, 2012 will not be sufficient to meet the Company’s obligations and budgeted expenditures through May 31, 2013. 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**

*Statement of Compliance*

These unaudited condensed interim 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, these unaudited condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards for complete financial statements for year end reporting purposes.

*Basis of Presentation*

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended May 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies, methods of computation and presentation applied in these unaudited condensed interim financial statements are consistent with those of the previous financial year ended May 31, 2012.

*New Standards Not Yet Adopted and Interpretations Issued But Not Yet Effective*

There are no relevant changes in accounting standards applicable to future periods other than as disclosed in the most recent annual audited financial statements as at and for the year ended May 31, 2012.

**GEOMEGA RESOURCES INC.**  
**Notes to the Condensed Interim Financial Statements**  
**November 30, 2012**  
(Expressed in Canadian Dollars)  
(Unaudited)

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**3. TAX CREDITS RECEIVABLE**

|                           | <b>November 30,<br/>2012</b> | May 31,<br>2012 |
|---------------------------|------------------------------|-----------------|
|                           | <b>\$</b>                    | <b>\$</b>       |
| Tax credits for resources | <b>2,637,769</b>             | 1,950,079       |
| Credits on duties         | <b>380,523</b>               | 384,571         |
|                           | <b>3,018,292</b>             | 2,334,650       |
| <u>Current portion :</u>  |                              |                 |
| Tax credits for resources | <b>2,209,729</b>             | 1,950,079       |
| Credits on duties         | <b>299,899</b>               | 384,571         |
|                           | <b>2,509,628</b>             | 2,334,650       |

**4. EXPLORATION AND EVALUATION**

**Montviel**

The Montviel property comprises 216 mining claims totalling 11,998 ha. The property carries a 2% net output royalty to NioGold Mining Corporation.

**Sydney property**

The Sydney property comprises 169 mining claims totalling 9,789 ha.

**Emilie property**

The Émilie property comprises 48 mining claims totalling 2,585 ha.

**Oriana property**

The Oriana property comprises 280 mining claims totalling 15,570 ha.

**Other properties**

The others properties were acquired by map designation. Following a review of the mineral properties, the Company decided during November 2012, to write-off a total of 8 properties totalling \$28,080 as no further exploration was planned on the properties. The remaining carrying value for the other properties is \$71,032 as at November 30, 2012.

# GEOMEGA RESOURCES INC.

## Notes to the Condensed Interim Financial Statements

November 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

### 4. EXPLORATION AND EVALUATION ASSETS (continued)

|   | May 31, 2012 | November 30, 2012 |
|---|--------------|-------------------|
| Mineral properties                                  | 7,261,320    | <b>7,337,519</b>  |
| Exploration and evaluation expenditures capitalized | 4,366,899    | <b>5,465,691</b>  |
| Total exploration and evaluation assets             | 11,628,219   | <b>12,803,210</b> |

#### MINERAL PROPERTIES

|               | May 31,<br>2011 | Additions | Impairment | May 31,<br>2012 | Additions      | Impairment      | November 30,<br>2012 |
|---------------|-----------------|-----------|------------|-----------------|----------------|-----------------|----------------------|
| <b>QUEBEC</b> | <b>\$</b>       | <b>\$</b> | <b>\$</b>  | <b>\$</b>       | <b>\$</b>      |                 | <b>\$</b>            |
| Montviel (i)  | 6,812,129       | 239,198   | -          | 7,051,327       | <b>1,341</b>   | -               | <b>7,052,668</b>     |
| Pump Lake     | 263,000         | 18,670    | (281,670)  | -               | -              | -               | -                    |
| Sydney (ii)   | 11,655          | 2,862     | (8,508)    | 6,009           | -              | -               | <b>6,009</b>         |
| Émilie (iii)  | 166,018         | 5,359     | (165,908)  | 5,469           | -              | -               | <b>5,469</b>         |
| Oriana (iv)   | 89,192          | 41,602    | (5,530)    | 125,264         | <b>77,077</b>  | -               | <b>202,341</b>       |
| Others (v)    | 54,966          | 18,285    | -          | 73,251          | <b>25,861</b>  | <b>(28,080)</b> | <b>71,032</b>        |
|               | 7,396,960       | 325,976   | (461,616)  | 7,261,320       | <b>104,279</b> | <b>(28,080)</b> | <b>7,337,519</b>     |

#### EXPLORATION AND EVALUATION EXPENDITURES CAPITALIZED

|               | May 31,<br>2011 | Additions | Tax Credits<br>Receivable | Impairment | May 31,<br>2012 | Additions        | Tax Credits<br>Receivable | November 30,<br>2012 |
|---------------|-----------------|-----------|---------------------------|------------|-----------------|------------------|---------------------------|----------------------|
| <b>QUEBEC</b> | <b>\$</b>       | <b>\$</b> | <b>\$</b>                 | <b>\$</b>  | <b>\$</b>       | <b>\$</b>        | <b>\$</b>                 | <b>\$</b>            |
| Montviel (i)  | -               | 6,068,593 | (1,701,694)               | -          | 4,366,899       | <b>1,723,271</b> | <b>(624,479)</b>          | <b>5,465,691</b>     |



**GEOMEGA RESOURCES INC.**  
**Notes to the Condensed Interim Financial Statements**  
**November 30, 2012**  
(Expressed in Canadian Dollars)  
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**5. PROPERTY AND EQUIPMENT**

|                                       | Leasehold<br>Improvements | Office<br>equipment | Vehicles | Exploration and Evaluation<br>Equipment |           | Total     |
|---------------------------------------|---------------------------|---------------------|----------|---|-----------|-----------|
|                                       |                           |                     |          | Field<br>Equipment<br>and Base<br>Camp  | Warehouse |           |
|                                       | \$                        | \$                  | \$       | \$                                      | \$        | \$        |
| <b>Year ended May 31, 2012</b>        |                           |                     |          |   |           |           |
| Opening net book value                | 1,828                     | 15,131              | 29,553   | 4,175                                   | -         | 50,687    |
| Additions                             | -                         | 18,069              | 24,324   | 537,833                                 | 159,388   | 739,614   |
| Depreciation                          | (784)                     | (10,807)            | (14,954) | (152,287)                               | (6,297)   | (185,129) |
| Closing net book value                | 1,044                     | 22,393              | 38,923   | 389,721                                 | 153,091   | 605,172   |
| <b>As at May 31, 2012</b>             |                           |                     |          |   |           |           |
| Cost                                  | 2,350                     | 37,365              | 59,454   | 542,008                                 | 159,388   | 800,565   |
| Accumulated depreciation              | (1,306)                   | (14,972)            | (20,531) | (152,287)                               | (6,297)   | (195,393) |
| Net book value                        | 1,044                     | 22,393              | 38,923   | 389,721                                 | 153,091   | 605,172   |
| <b>Period ended November 30, 2012</b> |                           |                     |          |   |           |           |
| Opening net book value                | 1,044                     | 22,393              | 38,923   | 389,721                                 | 153,091   | 605,172   |
| Depreciation                          | (392)                     | (6,227)             | (9,909)  | (90,334)                                | (4,329)   | (111,191) |
| Closing net book value                | 652                       | 16,166              | 29,014   | 299,387                                 | 148,762   | 493,981   |
| <b>As at November 30, 2012</b>        |                           |                     |          |   |           |           |
| Cost                                  | 2,350                     | 37,365              | 59,454   | 542,008                                 | 159,388   | 800,565   |
| Accumulated depreciation              | (1,698)                   | (21,199)            | (30,440) | (242,621)                               | (10,626)  | (306,584) |
| Net book value                        | 652                       | 16,166              | 29,014   | 299,387                                 | 148,762   | 493,981   |

The field equipment and base camp includes equipment capitalized under finance lease with a net book value of \$240,168 as at November 30, 2012 (\$313,493 – May 31, 2012).

Depreciation of property and equipment related to specific exploration projects is being capitalized as exploration and evaluation (“E&E”) assets. Depreciation of property and equipment not related to E&E assets is recorded on the statement of loss and comprehensive loss under depreciation of property and equipment or under exploration and evaluation expenses. An amount of \$16,529 (\$11,614 - 2011) was expensed to depreciation while an amount of \$94,662 (Nil – 2011) was capitalized as E&E assets during the six-month period ended November 30, 2012.

**6. TRADE AND OTHER PAYABLES**

|  | <b>November 30,<br/>2012</b> | May 31,<br>2012 |
|--|------------------------------|-----------------|
|  | \$                           | \$              |
| Trade accounts payable                 | <b>343,420</b>               | 180,015         |
| Salaries and source deductions payable | <b>81,095</b>                | 49,866          |
| Accruals                               | <b>219,046</b>               | 233,339         |
|  | <b>643,561</b>               | 463,220         |

**GEOMEGA RESOURCES INC.**  
**Notes to the Condensed Interim Financial Statements**  
**November 30, 2012**  
(Expressed in Canadian Dollars)  
(Unaudited)

**7. FLOW-THROUGH SHARE LIABILITY**

|   | <b>November 30,<br/>2012</b> | May 31,<br>2012 |
|---|------------------------------|-----------------|
|   | <b>\$</b>                    | \$              |
| Balance, beginning of period  | -                            | -               |
| Addition during the period <sup>(i)</sup>                                     | <b>508,200</b>               | -               |
| Reduction related to the incurrence of qualifying<br>exploration expenditures | -                            | -               |
| Balance, end of period  | <b>508,200</b>               | -               |

(i) The addition represents the excess of the proceeds received from flow-through shares issued over the fair market value of the shares issued. On November 22, 2012, 4,620,000 flow-through common shares were issued at a price of \$0.50 per share for total proceeds of \$2,310,000.

**8. OBLIGATIONS UNDER CAPITAL LEASES**

|   | <b>November 30,<br/>2012</b> | May 31,<br>2012 |
|---|------------------------------|-----------------|
|   | <b>\$</b>                    | \$              |
| Obligation under capital lease (base camp), 8%, payable in monthly instalments, maturing in May 2013. At the end of the term, the Company can buy the camp at a price of \$100.   | <b>31,539</b>                | 61,740          |
| Obligation under capital lease (base camp), 8%, payable in monthly instalments, maturing in May 2013. At the end of term, the Company can buy the camp at a price of \$100.       | <b>12,476</b>                | 24,728          |
| Obligation under capital lease, 11% (base camp), payable in monthly instalments, maturing in July 2013. At the end of the term, the Company can buy the camp at a price of \$100. | <b>67,244</b>                | 116,642         |
|   | <b>111,259</b>               | 203,110         |
| Current portion of obligations under capital leases   | <b>111,160</b>               | 185,203         |
| Non-current portion   | <b>99</b>                    | 17,907          |

The instalments on the obligation under capital leases for the next two years are as follows:

|   | <b>\$</b>      |
|---|----------------|
| 2013  | 114,915        |
| 2014  | 100            |
|   | 115,015        |
| Interest included in minimum lease payments | (3,756)        |
|   | <b>111,259</b> |

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**9. DEBT**

On March 16, 2012, SIDEX, Limited Partnership ("SIDEX") granted a \$1,500,000 loan to the Company which bears interest at an annual rate of 8%. The loan is secured by a hypothec on the universality of the Company's tax credits receivable for the fiscal years ended in 2011 and 2012 related to mineral exploration from Revenu Quebec. The loan must be repaid on the earlier of December 31, 2013 or upon the receipt of the tax credits. On July 3, 2012, the Company reimbursed \$789,000 following the reception of fiscal 2011 tax credits for resources.

In connection with the loan, the Company issued 400,000, non-transferable common share purchase warrants entitling SIDEX to subscribe 400,000 common shares at a price of \$1.25 per share for a period of 12 months. On March 16, 2012, a fair value of \$53,073 was allocated to the warrants.

Using discounted cash flows pricing models and an estimated 15% interest rate prevailing at the date of issuance for instruments with similar conditions and risk, the loan was evaluated at its fair value of the debt instrument, and the residual value was allocated to the warrants. The Company determined that the fair value of the debt instrument is \$686,199 as at November 30, 2012 (\$1,415,605 – May 31, 2012) and accrued interest of \$9,480 has been included in trade and other payables.

The Company incurred costs of \$34,000 in connection with the debt, of which \$32,980 has been allocated to the debt and \$1,020 to the warrants, based on their respective fair value.

**10. SHARE CAPITAL**

(a) Authorized Share Capital

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

(b) Issued

|                                    | <b>Number of<br/>Shares</b> | <b>Amount<br/>\$</b> |
|------------------------------------|-----------------------------|----------------------|
| Balance - May 31, 2011             | 19,561,690                  | 11,870,947           |
| Private placement (i)              | 2,127,659                   | 4,999,999            |
| Share issue costs (i)              | -                           | (1,141,097)          |
| Pre-Development Agreement (ii)     | 150,000                     | 225,000              |
| Exercise of stocks options         | 400,000                     | 244,000              |
| Exercise of brokers' options       | -                           | 106,909              |
| Exercise of warrants               | 123,693                     | 109,930              |
| Balance – November 30, 2011        | 22,363,042                  | 16,415,688           |
|                                    | <b>Number of<br/>Shares</b> | <b>Amount<br/>\$</b> |
| <b>Balance - May 31, 2012</b>      | <b>29,274,113</b>           | <b>19,759,206</b>    |
| <b>Share issued – Oriana (iii)</b> | <b>40,000</b>               | <b>17,200</b>        |
| <b>Private placement (iv)</b>      | <b>4,620,000</b>            | <b>1,767,150</b>     |
| <b>Share issue costs (iv)</b>      | <b>-</b>                    | <b>(224,466)</b>     |
| <b>Balance - November 30, 2012</b> | <b>33,934,113</b>           | <b>21,319,090</b>    |

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**10. SHARE CAPITAL (Continued)**

(i) On July 8, 2011, the Company completed a brokered private placement and issued 2,127,659 units at a price of \$2.35 per unit for total gross proceeds of \$4,999,999. Issue costs totalling \$1,139,426 (including an amount of \$518,787 representing the value of brokers' options) were recorded as a reduction of share capital. Each unit consisted of one common share and one warrant. Each warrant entitles its holder to acquire one common share of the Company at a price of \$2.85 until July 8, 2013. The Company paid cash commission of \$328,781 and issued 134,750 brokers' options allowing the holder to acquire 134,750 units with the same terms as the private placement until July 8, 2013.

(ii) On October 20, 2011, the Company signed a Pre-Development Agreement for its Montviel Rare Earths Project with the Grand Council of the Crees and The Cree First Nation of Waswanipi. Pursuant the agreement, the Company issued 150,000 common shares of the Company (attributed value of \$225,000 and issue costs of \$1,671).

(iii) On October 24, 2012, the Company issued 40,000 common shares under the option agreement regarding Oriana property (value of \$17,200).

(iv) On November 22, 2012, the Company completed a brokered flow-through private placement and issued 4,620,000 common shares at \$0.50 each for gross proceeds of \$2,310,000. The flow-through premium was estimated at \$508,200 and recorded as flow-through share liability. In relation with this placement, the Company paid a cash commission of \$224,466 to the brokers and issued 231,000 non-transferable brokers' options (valued at \$34,650) allowing the holder to acquire one common share of the Company at a price of \$0.50 until May 22, 2014.

**11. WARRANTS**

The following tables summarize the warrants outstanding as at November 30, 2012. Each warrant entitles the holder to subscribe to one common share.

|  | Number of warrants | Fair Value<br>\$ | Weighted Average<br>Exercise Price<br>\$ |
|--|--------------------|------------------|--|
| Balance - May 31, 2011                 | 3,619,975          | 479,020          | 0.95                                     |
| Issued                                 | 4,667,432          | 74,223           | 1.86                                     |
| Exercised                              | (951,886)          | (72,595)         | 0.59                                     |
| Expired                                | (1,956,985)        | (156,559)        | 0.55                                     |
| Balance - May 31, 2012                 | 5,378,536          | 324,089          | 1.95                                     |
| Expired                                | (711,104)          | -                | 1.39                                     |
| <b>Balance as at November 30, 2012</b> | <b>4,667,432</b>   | <b>324,089</b>   | <b>1.87</b>                              |

| Expiration date | Number of<br>warrants | Weighted<br>Average<br>Exercise Price<br>\$ |
|-----------------|-----------------------|---|
| March 2013      | 400,000               | 1.25  |
| July 2013       | 2,127,659             | 2.85  |
| September 2013  | 1,952,273             | 1.00  |
| December 2012   | 187,500               | 1.00  |
|                 | <b>4,667,432</b>      |   |

There was no issue or exercise of warrants during the six month period ended November 30, 2012.

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**12. BROKERS' OPTIONS**

The number of outstanding brokers' options as at November 30, 2012 which could be exercised for an equivalent number of units or shares is as follows:

|  | <b>Number<br/>of<br/>brokers'<br/>options<br/>for units*</b> | <b>Fair Value</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> | <b>Number of<br/>brokers'<br/>options for<br/>common shares</b> | <b>Fair Value</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> |
|--|--|-------------------|---|---|-------------------|---|
| Balance - May 31, 2011                 | -  | -                 | -   | -   | -                 | -   |
| Issued                                 | 134,750  | 70,170            | 2.35  | 225,187   | 518,787           | 0.55  |
| Balance - May 31, 2012                 | 134,750  | 70,170            | 2.35  | 225,187   | 518,787           | 0.55  |
| Issued                                 | -  | -                 | -   | 231,000   | 34,650            | 0.50  |
| <b>Balance – November 30,<br/>2012</b> | 134,750  | 70,170            | 2.35  | 456,187   | 553,437           | 0.53  |

\*Each unit consists of one common share and one warrant to acquire one common share.

In connection with the brokered private placement completed on November 22, 2012, the Company issued 231,000 brokers' options allowing the holder to acquire an equivalent number of common shares at a price of \$0.50 until May 22, 2014. The fair value of the brokers' options was estimated at \$34,650. When granted, the fair value of the brokers' options, based on the fair value measured, indirectly, by reference to the fair value of the equity instruments granted (the fair value of services received cannot be estimated reliably), is recorded as an increase of the brokers' options and decrease of share capital.

The fair value of the brokers' options granted of \$0.16 for each option for a total of \$34,650 was estimated using the Black Scholes model and based on the following weighted average assumptions:

|   |                  |
|---|------------------|
| Average share price at date of grant    | <b>\$0.39</b>    |
| Dividend yield                          | <b>NIL</b>       |
| Expected weighted volatility            | <b>117%</b>      |
| Risk-free interest average rate         | <b>1.11%</b>     |
| Expected average life                   | <b>1.5 years</b> |
| Average exercise price at date of grant | <b>\$0.50</b>    |

There was no exercise of brokers' options during the six month period ended November 30, 2012.

**13. STOCK OPTIONS**

The Company has established a stock option plan ("the Plan") whereby the Board of Directors (the "Board") may from time to time grant options to purchase common shares to employees, officers, directors and consultants, for such terms and at such exercise prices as may be determined by the Board in accordance with the terms of the plan.

The Plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance under the Plan is limited to a maximum of 10% of the common shares outstanding and the maximum number of common shares which may be reserved for issuance to any one option may not exceed 5% of the common shares outstanding at the date of grant. These options may be exercised for a period of 5 years after the grant date and they vest gradually over a period of 24 months from the day of grant, at a rate of one-quarter per six-month period.

The stock option exercise price is established by the Board and may not be lower than the market price of the common shares at the time of grant.

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**13. STOCK OPTIONS (Continued)**

On July 20, 2012, the Company granted to an officer a total of 100,000 stock options at an exercise price of \$0.45 expiring on July 20, 2017.

On October 30, 2012, the Company granted to directors, officers and employees a total of 830,000 stock options at an exercise price of \$0.42 expiring on October 30, 2017.

All stock-based compensation will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the stock options. The Company's stock options are as follows at November 30, 2012:

|                                       | Number of<br>Options | Fair Value<br>\$ | Weighted<br>Average<br>Exercise Price<br>\$ |
|---------------------------------------|----------------------|------------------|---|
| Outstanding - May 31, 2011            | 1,145,000            | 240,500          | 0.67  |
| Granted                               | 1,573,540            | 1,387,069        | 1.67  |
| Exercised                             | (400,000)            | (104,000)        | 0.35  |
| Forfeited                             | (40,000)             | (19,433)         | 0.90  |
| <b>Outstanding - May 31, 2012</b>     | <b>2,278,540</b>     | <b>1,504,136</b> | <b>1.41</b>                                 |
| Granted                               | 930,000              | -                | 0.42  |
| Forfeited                             | (295,000)            | (346,338)        | 1.65  |
| Stock-based compensation              | -                    | 431,734          | -   |
| <b>Outstanding- November 30, 2012</b> | <b>2,913,540</b>     | <b>1,589,532</b> | <b>0.99</b>                                 |

| Range of Exercise Prices                | Options Outstanding  |   |                           | Options Exercisable                  |   |
|---|----------------------|---|---------------------------|--------------------------------------|---|
|   | Number of<br>Options | Weighted<br>Average<br>Exercise Price<br>\$ | Remaining<br>Life (years) | Number of<br>Options                 | Weighted<br>Average<br>Exercise Price<br>\$ |
| 0.10 to 1.00                            | 1,655,000            | 0.44  | 1.64                      | 665,000                              | 0.44  |
| 1.01 to 2.00                            | 1,028,540            | 1.51  | 3.58                      | 599,000                              | 1.51  |
| 2.01 to 3.00                            | 150,000              | 2.08  | 1.52                      | 94,000                               | 2.08  |
| 3.01 to 4.00                            | 80,000               | 3.91  | 3.30                      | 68,000                               | 3.90  |
|   | <u>2,913,540</u>     |   |                           | <u>1,426,000</u>                     |   |
|   |                      |   |                           | Period Ended<br>November 30,<br>2012 | Year Ended<br>May 31, 2012                  |
| Average share price at date of grant    |                      |   |                           | <b>\$0.42</b>                        | \$1.67                                      |
| Dividend yield                          |                      |   |                           | <b>NIL</b>                           | NIL   |
| Expected weighted volatility            |                      |   |                           | <b>117%</b>                          | 119%  |
| Risk-free interest average rate         |                      |   |                           | <b>1.37%</b>                         | 1.25%                                       |
| Expected average life                   |                      |   |                           | <b>3.75 years</b>                    | 3.75 years                                  |
| Average exercise price at date of grant |                      |   |                           | <b>\$0.32</b>                        | \$1.67                                      |

In total, \$431,734 of stock-based compensation was recognized during the six-month period ended November 30, 2012 with \$369,703 included in the statement of loss and comprehensive loss and \$62,031 capitalized in E&E assets (respectively \$145,261 and \$12,966 for 2011).

There was no exercise of stock options during the six-month period ended November 30, 2012.

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**14. EXPLORATION AND EVALUATION EXPENSES**

|  | <b>Three-Month Period Ended<br/>November 30</b> |                | <b>Six-Month Period Ended<br/>November 30</b> |                  |
|--|---|----------------|---|------------------|
|  | <b>2012</b>                                     | <b>2011</b>    | <b>2012</b>                                   | <b>2011</b>      |
|  | <b>\$</b>                                       | <b>\$</b>      | <b>\$</b>                                     | <b>\$</b>        |
| Salaries, geology and prospection          | 73,335  | 79,873         | 201,657                                       | 521,493          |
| Lodging and travel expenses                | 18,916  | 45,252         | 39,595  | 181,697          |
| Geophysics and geochemistry                | -   | 77,027         | -   | 160,171          |
| Analysis                                   | 45,237  | 66,560         | 59,453  | 262,279          |
| Drilling                                   | -   | 22,095         | -   | 84,682           |
| Field preparation and equipment            | 24,810  | 113,359        | 73,296  | 139,609          |
| Taxes, permits and insurances              | 954   | 5,125          | 1,191   | 5,125            |
|  | <u>163,252</u>                                  | <u>409,291</u> | <u>375,192</u>                                | <u>1,355,056</u> |
| Exploration and evaluation expenses        |   |                |   |                  |
| Tax credits receivable                     | (62,341)  | (154,540)      | (144,526)                                     | (505,176)        |
| <b>Exploration and evaluation expenses</b> | <u>100,911</u>                                  | <u>254,751</u> | <u>230,666</u>                                | <u>849,880</u>   |

**15. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potential common shares such as stock options, brokers' options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of stock options, brokers' options and warrants issued that could potentially dilute earnings per share in the future are given in notes 11, 12 and 13.

|   | <b>Three-Month Period Ended<br/>November 30</b> |             | <b>Six-Month Period Ended<br/>November 30</b> |              |
|---|---|-------------|---|--------------|
|   | <b>2012</b>                                     | <b>2011</b> | <b>2012</b>                                   | <b>2011</b>  |
| Loss and comprehensive loss                   | \$ 861,130                                      | \$ 886,340  | \$ 1,619,366                                  | \$ 1,787,737 |
| Weighted average number of shares outstanding | 29 747 739                                      | 21,498,251  | 29 509 632                                    | 22,130,163   |
| Basic and diluted loss per share              | \$0.03  | \$ 0.03     | \$ 0.05                                       | \$ 0.04      |

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**16. RELATED PARTY TRANSACTIONS**

**Transactions with key management personnel**

Key management personnel of the Company are members of the Board of Directors, as well as the President and CEO, the Chief Financial Officer, the Secretary and the Vice-President, exploration. Key management personnel remuneration includes the following expenses:

|                                    | <b>Three-Month Period Ended</b> |             | <b>Six-Month Period Ended</b> |             |
|------------------------------------|---------------------------------|-------------|-------------------------------|-------------|
|                                    | <b>November 30</b>              |             | <b>November 30</b>            |             |
|                                    | <b>2012</b>                     | <b>2011</b> | <b>2012</b>                   | <b>2011</b> |
|                                    | <b>\$</b>                       | <b>\$</b>   | <b>\$</b>                     | <b>\$</b>   |
| Short-term employee benefits       |                                 |             |                               |             |
| Salaries including benefits        | 205,178                         | 100,000     | 325,178                       | 150,964     |
| Professional fees                  | -                               | 28,400      | -                             | 60,625      |
| Total short-term employee benefits | 205,178                         | 128,400     | 325,178                       | 211,589     |
| Stock-based compensation           | 149,888                         | 99,836      | 350,417                       | 132,253     |
| Total remuneration                 | 355,066                         | 228,236     | 675,595                       | 343,842     |

**17. COMMITMENTS**

a) The Company's future minimum operating lease payments are as follows:

|                   | <b>Minimum Lease Payments Due</b> |                     |                      |              |
|-------------------|-----------------------------------|---------------------|----------------------|--------------|
|                   | <b>Within 1 year</b>              | <b>1 to 5 years</b> | <b>After 5 years</b> | <b>Total</b> |
|                   | <b>\$</b>                         | <b>\$</b>           | <b>\$</b>            | <b>\$</b>    |
| November 30, 2012 | 25,179                            | -                   | -                    | 25,179       |

The Company leases its offices under a lease agreement expiring in September 2013.

The minimum lease payments recognized as an expense during the reporting period amounted to \$6,820 (\$13,088 for the same period in 2011). No sublease payment or contingent rent payment was made or received. The Company's operating lease agreement does not contain any contingent rent clauses, renewal options or escalation clauses or any restrictions, such as those concerning dividends, additional debt, and further leasing. No sublease income is expected as all assets held under the lease agreement are used exclusively by the Company.

b) As at November 30, 2012, the Company have to incur \$2,310,000 in qualifying exploration expenditures by December 2013 to meet its flow-through liability as described in note 7. At this time, Management anticipates meeting that obligation and as a result, no additional provisions are required.

**18. SUBSEQUENT EVENT**

On December 5, 2012, the Company closed the second tranche of its brokered flow-through private placement by issuing 756,000 common shares priced at \$0.50 for gross proceeds of \$378,000. As part of the transaction, the company issued 37,800 non-transferable brokers' options allowing the holder to acquire one common share of the Company at a price of \$0.50 until June 5, 2014.