



Innovative, sustainable engineering

## **GEOMEGA RESOURCES INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2014**

### **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 RESOURCES INC.**  
**INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited, in Canadian Dollars)

	Note	November 30, 2014 \$	May 31, 2014 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	1, 3	1,891,130	2,399,775
Sales tax receivable		98,739	126,836
Tax credits receivable	4	77,000	433,674
Prepaid expenses and other		80,125	55,495
<b>Current assets</b>		<b>2,146,994</b>	<b>3,015,780</b>
<b>Non-current</b>			
Tax credits receivable	4	231,982	92,092
Exploration and evaluation assets	5	17,473,523	16,812,378
Property and equipment		233,430	277,526
<b>Non-current assets</b>		<b>17,938,935</b>	<b>17,181,996</b>
<b>Total assets</b>		<b>20,085,929</b>	<b>20,197,776</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables		278,526	609,251
Obligations under finance leases		42,432	53,912
Flow-through share liability	6	94,444	30,480
<b>Current liabilities</b>		<b>415,402</b>	<b>693,643</b>
<b>Non-current</b>			
Obligations under finance leases		20,222	34,826
<b>Total liabilities</b>		<b>435,624</b>	<b>728,469</b>
<b>EQUITY</b>			
Share capital	7	26,525,147	25,337,856
Warrants	8	704,928	620,253
Broker options	9	119,910	110,046
Stock options		1,617,352	1,556,330
Contributed surplus		1,515,887	1,464,563
Deficit		(10,832,919)	(9,619,741)
<b>Total equity</b>		<b>19,650,305</b>	<b>19,469,307</b>
<b>Total liabilities and equity</b>		<b>20,085,929</b>	<b>20,197,776</b>

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

Going concern (Note 1)  
Subsequent event (Note 12)

*Approved on Behalf of the Board:*

*/s/ "Simon Britt"*

Simon Britt  
Director

*/s/ "Gilles Gingras"*

Gilles Gingras  
Director

**GEOMEGA RESOURCES INC.**  
**INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited, in Canadian Dollars, except number of common shares)

	Note	Three Months Ended November 30,		Six Months Ended November 30,	
		2014	2013	2014	2013
		\$	\$	\$	\$
<b>EXPENSES</b>					
Salaries, employee benefits and share-based compensation		204,446	184,686	356,266	305,942
Exploration and evaluation expenses, net of tax credits	11	362,423	707	613,908	31,755
Research expenses, net of tax credits		5,536	—	12,953	—
Professional fees		49,216	41,404	136,296	116,695
Travel, conference and investor relations		67,120	18,606	111,326	22,285
Telecommunications		2,806	3,835	5,477	7,256
Administration		7,127	3,656	10,422	5,882
Transfer agency and regulatory fees		21,720	21,057	44,565	36,357
Rent		7,235	7,025	14,329	13,912
Insurance, taxes and permits		5,930	4,674	11,505	10,533
Depreciation of property and equipment		—	3,114	3,114	6,488
Loss on disposal of property and equipment		—	—	—	3,930
<b>Loss before under noted items</b>		<b>733,559</b>	<b>288,764</b>	<b>1,320,161</b>	<b>561,035</b>
Interest income		(3,401)	(1,166)	(8,936)	(14,864)
Finance costs		2,592	293	15,971	79,094
Other income		—	(4,980)	—	(34,200)
<b>Loss before income taxes</b>		<b>732,750</b>	<b>282,911</b>	<b>1,327,196</b>	<b>591,065</b>
Recovery of deferred income taxes	6	(85,088)	(96,551)	(114,018)	(203,433)
<b>Loss and comprehensive loss for the period</b>		<b>647,662</b>	<b>186,360</b>	<b>1,213,178</b>	<b>387,632</b>
<b>Basic and diluted loss per share</b>		<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.01)</b>
Weighted average number of common shares outstanding - Basic and diluted		51,828,261	36,305,201	50,846,245	35,640,431

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

**GEOMEGA RESOURCES INC.**  
**INTERIM STATEMENTS OF CHANGES IN EQUITY**

(Unaudited, in Canadian Dollars)

<b>Six Months Ended November 30</b>		<b>Share Capital</b>	<b>Warrants</b>	<b>Broker Options</b>	<b>Stock Options</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
As at May 31, 2013		21,648,139	22,170	628,143	1,609,364	794,692	(8,354,330)	16,348,178
Loss and comprehensive loss for the period		-	-	-	-	-	(387,632)	(387,632)
Share-based compensation		-	-	-	235,591	(242,937)	-	(7,346)
Private placements		526,035	175,345	-	-	-	-	701,380
Issue costs		(40,357)	(13,452)	-	-	-	-	(53,809)
Extension of warrants		-	35,023	-	-	-	(35,023)	-
Expired broker options		-	-	(588,957)	-	588,957	-	-
Expired stock options		-	-	-	(351,772)	351,772	-	-
<b>As at November 30, 2013</b>		<b>22,133,817</b>	<b>219,086</b>	<b>39,186</b>	<b>1,493,183</b>	<b>1,492,484</b>	<b>(8,776,985)</b>	<b>16,600,771</b>
<b>As at May 31, 2014</b>		<b>25,337,856</b>	<b>620,253</b>	<b>110,046</b>	<b>1,556,330</b>	<b>1,464,563</b>	<b>(9,619,741)</b>	<b>19,469,307</b>
Loss and comprehensive loss for the period		-	-	-	-	-	(1,213,178)	(1,213,178)
Share-based compensation		-	-	-	72,787	-	-	72,787
Private placements	7	933,959	181,131	-	-	-	-	1,115,090
Issue costs	7	(64,574)	(8,677)	14,400	-	-	-	(58,851)
Shares issued - Anik	5, 7	15,150	-	-	-	-	-	15,150
Exercise of warrants	7, 8	302,756	(52,756)	-	-	-	-	250,000
Expired warrants	8	-	(35,023)	-	-	35,023	-	-
Expired stock options		-	-	-	(11,765)	11,765	-	-
Expired broker options	9	-	-	(4,536)	-	4,536	-	-
<b>As at November 30, 2014</b>		<b>26,525,147</b>	<b>704,928</b>	<b>119,910</b>	<b>1,617,352</b>	<b>1,515,887</b>	<b>(10,832,919)</b>	<b>19,650,305</b>

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

**GEOMEGA RESOURCES INC.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited, in Canadian Dollars)

		Three Months Ended November 30,		Six Months Ended November 30,	
		2014	2013	2014	2013
	Note	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>					
Loss for the period		(647,662)	(186,360)	(1,213,178)	(387,632)
Adjustments for:					
Share-based compensation	10	48,178	44,424	62,048	(12,969)
Depreciation of property and equipment		—	3,114	3,114	6,488
Recovery of deferred income taxes	6	(85,088)	(96,551)	(114,018)	(203,433)
Loss on disposal of Property and Equipment		—	—	—	3,930
Accretion expense - debt		—	—	—	62,188
Changes in non-cash working capital items:					
Sales tax receivable		(2,259)	(5,183)	28,097	71,273
Tax credits receivable		29,352	80,887	29,352	488,545
Prepaid expenses and other		(24,126)	2,926	(24,630)	5,374
Trade and other payables		(334,321)	(18,085)	(218,948)	90,072
<b>Cash flows from (used) in operating activities</b>		<b>(1,015,926)</b>	<b>(174,828)</b>	<b>(1,448,163)</b>	<b>123,836</b>
<b>INVESTING ACTIVITIES</b>					
Additions of exploration and evaluation assets		(286,888)	(922,291)	(750,632)	(1,217,768)
Tax credit received		241,544	538,960	241,544	2,226,336
Additions of property and equipment		(1,304)	(2,464)	(1,304)	(6,312)
Disposal of property and equipment		—	—	—	15,000
<b>Cash flows from (used) in investing activities</b>		<b>(46,648)</b>	<b>(385,795)</b>	<b>(510,392)</b>	<b>1,017,256</b>
<b>FINANCING ACTIVITIES</b>					
Issuance of units and shares, net of issue costs		1,225,994	647,571	1,225,994	647,571
Exercise of warrants		—	—	250,000	—
Payments on obligations under finance leases		(13,253)	—	(26,084)	(17,753)
Repayment of debt		—	—	—	(1,461,000)
<b>Cash flows from (used) financing activities</b>		<b>1,212,741</b>	<b>647,571</b>	<b>1,449,910</b>	<b>(831,182)</b>
<b>Net change in cash and cash equivalents</b>		<b>150,167</b>	<b>86,948</b>	<b>(508,645)</b>	<b>309,910</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>1,740,963</b>	<b>660,817</b>	<b>2,399,775</b>	<b>437,855</b>
<b>Cash and cash equivalents, end of the period</b>		<b>1,891,130</b>	<b>747,765</b>	<b>1,891,130</b>	<b>747,765</b>
<b>Additional information</b>					
Interest received		939	630	6,474	13,966
Interest paid		(5,077)	—	(15,573)	(25,923)
Addition of exploration and evaluation assets included in trade and other payables		78,071	—	102,088	—
Share issue cost included in trade and other payables		3,104	—	3,104	—
Depreciation of property and equipment included in trade and other payables		8,584	48,827	42,286	97,517

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

**GEOMEGA RESOURCES INC.**  
**Notes to Condensed Interim Financial Statements**  
**November 30, 2014**  
(Unaudited, in Canadian Dollars)

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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 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 23, 2015.

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 six months ended November 30, 2014, the Company reported a loss of \$1,213,178 and an accumulated deficit of \$10,832,919 at that date. As at November 2014, the Company had working capital of \$1,731,592 and cash and cash equivalents of \$1,891,130 of which \$265,321 is reserved for the flow-through expenses that the Company must incur before December 31, 2015. Management estimates that the working capital will not be sufficient to meet the Company’s obligations and commitments and budgeted expenditures through November 30, 2015. 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. These 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**

*Statement of Compliance*

These 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 condensed interim financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year end reporting purposes.

**GEOMEGA RESOURCES INC.**  
**Notes to Condensed Interim Financial Statements**  
**November 30, 2014**  
(Unaudited, in Canadian Dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Basis of Presentation*

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended May 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB and the condensed interim financial statements for the three months ended August 31, 2014. 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, 2014.

**3. CASH AND CASH EQUIVALENTS**

	<b>November 30, 2014</b>	May 31, 2014
	\$	\$
Cash	<b>41,130</b>	134,775
Investments redeemable at any time	<b>1,850,000</b>	2,265,000
	<b>1,891,130</b>	2,399,775
<u>Less : cash reserved for qualifying exploration expenditures</u>	<b>265,321</b>	596,109
Cash and cash equivalents	<b>1,625,809</b>	1,803,666

**4. TAX CREDITS RECEIVABLE**

	<b>November 30, 2014</b>	May 31, 2014
	\$	\$
Tax credits for resources	<b>126,213</b>	56,775
Credits on duties refundable for losses	<b>105,769</b>	391,991
Investments tax credits for research and development	<b>77,000</b>	77,000
	<b>308,982</b>	525,766
<u>Less: Non-current portion of tax credits receivables</u>	<b>231,982</b>	92,092
Current portion of tax credits receivables	<b>77,000</b>	433,674

Tax credit for resources and credit on duties refundable for losses are related to qualifying mineral exploration expenses incurred in the province of Québec. The investment tax credits are related to expenditure on research and development incurred by the Company.

**GEOMEGA RESOURCES INC.**  
**Notes to Condensed Interim Financial Statements**  
**November 30, 2014**  
(Unaudited, in Canadian Dollars)

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**5. EXPLORATION AND EVALUATION ASSETS**

**Montviel property (Rare Earth Elements)**

The Company 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 164 mining claims totalling 9,113 hectares as at November 30, 2014. The property carries a 2% net output royalty to NioGold Mining Corporation.

**Anik property (Gold)**

The Company owns 100% of the Anik property, located 40 km south of the town of Chapais. The Anik property consisted of 151 claims totalling 8,060 hectares as at November 30, 2014.

On August 26, 2014, the Company signed a purchase and sale agreement to acquire one (1) mining claim located in the North-East of Anik property for \$2,000 in cash and 30,000 common shares of the Company. The Company's common shares were issued on September 8, 2014 for a value of \$9,750. On September 22, 2014, the Company signed a purchase and sale agreement to acquire six (6) mining claim located in the surrounding area of Anik property for \$2,000 in cash and 30,000 common shares of the Company. The Company's common shares were issued on October 9, 2014 for a value of \$5,400.

**McDonald property (Gold)**

The Company owns 100% of the McDonald property, located 30 km east of the Montviel property. The McDonald property consisted of 207 claims totalling 9,880 hectares as at November 30, 2014.

**Buckingham property (Graphite)**

The Company owns 100% of the Buckingham property, located in the town of Buckingham, Québec. The Buckingham property consisted of 13 claims as at November 30, 2014.

**La Trève property (Base metals)**

The Company owns 100% of the La Trève property, located 12 km north of the town of Chapais. The La Trève property comprised 19 claims as at November 30, 2014.

**Curières property (Graphite)**

The Company owns 100% of the Curières property, located 10 km north of the town of l'Ascension. The Curières property consisted of 10 claims as at November 30, 2014.



**GEOMEGA RESOURCES INC.**  
**Notes to Condensed Interim Financial Statements**  
**November 30, 2014**  
(Unaudited, in Canadian Dollars)

**5. EXPLORATION AND EVALUATION ASSETS (continued)**

<b>MINERAL PROPERTIES</b>							
<b>QUÉBEC</b>	Montviel	Anik	McDonald	Buckingham	La Trève	Curières	Total
May 31, 2013	7,053,482	19,682	18,278	1,365	3,942	1,050	7,097,799
Additions	4,882	555	8,419	807	102	645	15,410
Impairment	(125,000)	-	(9,350)	-	(4,044)	(1,695)	(140,089)
<b>May 31, 2014</b>	<b>6,933,364</b>	<b>20,237</b>	<b>17,347</b>	<b>2,172</b>	-	-	<b>6,973,120</b>
<b>Additions</b>	<b>4,951</b>	<b>25,056</b>	<b>2,847</b>	-	-	-	<b>32,854</b>
<b>November 30, 2014</b>	<b>6,938,315</b>	<b>45,293</b>	<b>20,194</b>	<b>2,172</b>	-	-	<b>7,005,974</b>

**EXPLORATION AND EVALUATION EXPENDITURES CAPITALIZED**

<b>QUÉBEC</b>	Montviel
May 31, 2013	7,255,800
Additions	2,479,276
Tax credits, net	104,182
<b>May 31, 2014</b>	<b>9,839,258</b>
<b>Additions</b>	<b>682,403</b>
<b>Tax credits, net</b>	<b>(54,112)</b>
<b>November 30, 2014</b>	<b>10,467,549</b>

	<b>November 30, 2014</b>	May 31, 2014
Mineral properties	<b>7,005,974</b>	6,973,120
Exploration and evaluation expenditures capitalized	<b>10,467,549</b>	9,839,258
<b>Total exploration and evaluation assets</b>	<b>17,473,523</b>	16,812,378

**GEOMEGA RESOURCES INC.**  
**Notes to Condensed Interim Financial Statements**  
**November 30, 2014**  
(Unaudited, in Canadian Dollars)

**6. FLOW-THROUGH SHARE LIABILITY**

	<b>November 30, 2014</b>	May 31, 2014
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	<b>30,480</b>	203,433
Addition during the year, net of issue costs <sup>(i)</sup>	<b>177,982</b>	106,827
Reduction related qualifying exploration expenditures being incurred	<b>(114,018)</b>	(279,780)
Balance, end of period	<b>94,444</b>	30,480

(i) The addition for the period represents the excess of the proceeds received from flow-through shares issued over the fair market value of the shares issued, net of issue costs. For the six months ended November 30, 2014, the Company recorded a liability of \$177,982 following the issuance of flow-through shares on November 20, 2014. The flow-through share liability is reduced as the Company incurs qualifying flow-through expenses.

**7. 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 Shares</b>	<b>Carrying Value \$</b>
<b>Balance – May 31, 2014</b>	<b>49,401,283</b>	<b>25,337,856</b>
<b>Private placements</b>	<b>6,528,277</b>	<b>933,959</b>
<b>Issue costs</b>	-	<b>(64,574)</b>
<b>Shares issued - Anik</b>	<b>60,000</b>	<b>15,150</b>
<b>Exercise of warrants</b>	<b>1,000,000</b>	<b>302,756</b>
<b>Balance – November 30, 2014</b>	<b>56,989,560</b>	<b>26,525,147</b>

**Six Months Ended November 30, 2014**

In November 2014, the Company completed a private placement and issued 4,528,277 units at a price of \$0.18 per unit for gross proceeds of \$815,090. Each unit consisted of one common share and one-half warrant. Each warrant entitles its holder to acquire one common share of the Company at a price of \$0.25 until November 20, 2016 at the latest. An amount of \$633,959 was allocated to share capital and \$181,131 was allocated to the value of the warrants. Issue costs totaling \$39,048 were recorded as a reduction of share capital and warrants, \$30,371 and \$8,677 respectively.

On November 20, 2014, the Company completed a brokered flow-through private placement and issued 2,000,000 flow-through shares at a price of \$0.25 for gross proceeds of \$500,000. The flow-through premium was estimated at \$200,000 and recorded as flow-through share liability. In relation with this placement, the Company paid a cash commission of \$40,000 to the broker (total issue costs of \$55,044 of which \$22,018 was allocated to the flow-through share liability) and issued 160,000 non-transferable broker options (valued at \$14,400) allowing the holder to acquire one common share of the Company at a price of \$0.25 until November 20, 2016.

On September 8, 2014, the Company issued 30,000 common shares under the acquisition of one (1) mining claim located in the North-East of Anik property (valued at \$9,750 and issue costs of \$907).

On September 22, 2014, the Company issued 30,000 common shares under the acquisition of six (6) mining claims located in the surrounding area of Anik property (valued at \$5,400 and issue costs of \$270).

**GEOMEGA RESOURCES INC.**  
**Notes to Condensed Interim Financial Statements**  
**November 30, 2014**  
(Unaudited, in Canadian Dollars)

**7. SHARE CAPITAL (continued)**

During the six months ended November 30, 2014, 1,000,000 common shares were issued following the exercise of warrants at a price of \$0.25. The weighted average share price at the exercise date for all warrants exercised during the six month period was \$0.33 per share.

**8. WARRANTS**

The following tables summarize the warrants outstanding as at November 30, 2014. Each warrant entitles the holder to subscribe to one common share.

	Number of warrants	Carrying Value \$	Weighted Average Exercise Price \$
Balance - May 31, 2013	4,267,432	22,170	1.92
Issued	6,905,428	733,080	0.40
Issue costs	-	(80,912)	-
Exercised	(1,090,312)	(66,938)	0.23
Expired	(2,315,159)	(22,170)	2.70
Extended	-	35,023	1.00
<b>Balance - May 31, 2014</b>	<b>7,767,389</b>	<b>620,253</b>	<b>0.57</b>
<b>Issued</b>	<b>2,264,138</b>	<b>181,131</b>	<b>0.25</b>
<b>Issue costs</b>	<b>-</b>	<b>(8,677)</b>	<b>-</b>
<b>Exercised</b>	<b>(1,000,000)</b>	<b>(52,756)</b>	<b>0.25</b>
<b>Expired</b>	<b>(1,952,273)</b>	<b>(35,023)</b>	<b>1.00</b>
<b>Balance – November 30, 2014</b>	<b>7,079,254</b>	<b>704,928</b>	<b>0.40</b>

Expiration date	Number of warrants	Weighted Average Exercise Price \$
December 2014	121,950	0.25
September 2015	1,866,666	0.90
November 2016	1,662,500	0.21
November 2016	2,264,138	0.25
December 2016	164,000	0.21
July 2018	1,000,000	0.15
	<u>7,079,254</u>	

During the six months ended November 30, 2014, 1,000,000 warrants were exercised (valued at \$52,576) and 1,952,273 warrants expired unexercised (valued at \$35,023).

In connection with the private placement completed in November 2014, the Company issued 2,264,138 warrants allowing the holder to acquire an equivalent number of common shares of the Company at a price \$0.25 until November 20, 2016 at the latest. The warrants were recorded at a value of \$172,454 (\$181,131 less the issue costs of \$8,677) based on the Black-Scholes model using the following weighted average assumptions: risk-free interest rate of 1.01%, expected life of 2 years, annualized volatility rate of 146% and dividend rate of 0%.

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**8. WARRANTS (continued)**

On January 31, 2014, the Company obtained all regulatory approvals to issue 1,000,000 purchase warrants to Dr. Pouya Hajiani, a Company's employee, in exchange of all rights, title and interest in two patents related to the Rare Earth Elements (REE) physical separation process. The warrants become exercisable upon demonstration of high purity (>99%) separation in a pilot plant using the REE physical separation process no later than July 1, 2018 ("performance criteria"). Each warrant entitles Dr. Hajiani to acquire to one common share at an exercise price of \$0.15 expiring July 1, 2018. The intrinsic fair value of the exercisable warrants shall not exceed \$5 million at the time they become exercisable, in which case the number of warrants will be reduced. For the six months ended November 30, 2014, no warrants were exercisable since the demonstration of the high purity separation in a pilot plant has not been completed yet and no expense for these warrants was recorded as the performance criteria has not been met.

**9. BROKER OPTIONS**

The number of outstanding broker options as at November 30, 2014 which could be exercised for an equivalent number of units or shares is as follows:

	<b>Number of broker options for units</b>	<b>Carrying Value \$</b>	<b>Weighted Average Exercise Price \$</b>	<b>Number of broker options for common shares</b>	<b>Carrying Value \$</b>	<b>Weighted Average Exercise Price \$</b>
Balance - May 31, 2013	134,750	518,787	2.35	493,987	109,356	0.52
Issued	242,400	14,544	0.17	264,167	105,510	0.60
Exercised	(242,400)	(14,544)	0.17	(60,000)	(9,000)	0.50
Expired	(134,750)	(518,787)	2.35	(396,187)	(95,820)	0.55
<b>Balance – May 31, 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>301,967</b>	<b>110,046</b>	<b>0.59</b>
<b>Issued</b>				<b>160,000</b>	<b>14,400</b>	<b>0.25</b>
<b>Expired</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(37,800)</b>	<b>(4,536)</b>	<b>0.50</b>
<b>Balance – November 30, 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>424,167</b>	<b>119,910</b>	<b>0.47</b>

<b>Expiration date</b>	<b>Number of broker options for common shares</b>	<b>Weighted Average Exercise Price \$</b>
September 2015	174,367	0.60
October 2015	89,800	0.60
November 2016	160,000	0.25
	<u>424,167</u>	

In connection with the private placement completed in November 2014, the Company issued 160,000 broker options allowing the holder to acquire an equivalent number of common shares at a price of \$0.25 until November 20, 2016. The fair value of the broker options was estimated at \$14,400. When granted, the fair value of the broker 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 broker options and decrease of share capital.

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**9. BROKER OPTIONS (continued)**

The average fair value of the broker options of \$14,400 (\$105,510 as of May 31, 2014) was estimated using the Black-Scholes model and based on the following weighted average assumptions:

	<b>Six Months Ended November 30, 2014</b>	Year Ended May 31, 2014
Average share price at date of grant	<b>\$0.15</b>	\$0.62
Dividend yield	<b>NIL</b>	NIL
Expected weighted volatility	<b>146 %</b>	148 %
Risk-free interest rate	<b>1.01 %</b>	1.06 %
Expected average life	<b>2 years</b>	1.5 years
Average exercise price at date of grant	<b>\$0.25</b>	\$0.60

During the six months ended November 30, 2014, there was no exercise of broker options.

**10. STOCK OPTIONS**

The Company has 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 optionee 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. The exercise price is the closing price of the Company's common shares the day before the stock options are granted.

On September 17, 2014, the Company granted to directors, officers and employees a total of 710,000 stock options at an exercise price of \$0.26 expiring on September 17, 2014.

All share-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, 2014:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price \$</b>
Outstanding - May 31, 2013	2,843,540	1.00
Granted	855,000	0.18
Expired	(550,155)	1.53
Forfeited	(365,885)	0.98
<b>Outstanding - May 31, 2014</b>	<b>2,782,500</b>	<b>0.81</b>
<b>Granted</b>	<b>710,000</b>	<b>0.26</b>
<b>Expired</b>	<b>(37,500)</b>	<b>0.42</b>
<b>Outstanding - November 30, 2014</b>	<b>3,455,000</b>	<b>0.59</b>

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**10. STOCK OPTIONS (continued)**

Range of Exercise Price (\$)	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Exercise Price \$	Remaining Life (years)	Number of Options	Weighted Average Exercise Price \$
0.10 to 1.00	2,680,000	0.29	3.24	1,542,500	0.34
1.01 to 2.00	625,000	1.51	1.84	625,000	1.51
2.01 to 3.00	150,000	2.08	1.75	150,000	2.08
	<u>3,455,000</u>			<u>2,317,500</u>	

The weighted average assumptions to calculate the fair value of the stock options granted using the Black-Scholes model are as follows:

	Six Months Ended November 30, 2014	Year Ended May 31, 2014
Average share price at date of grant	\$0.26	\$0.19
Dividend yield	NIL	NIL
Expected weighted volatility	132 %	121 %
Risk-free interest rate	1.58 %	1.58 %
Expected average life	3.75 years	3.75 years
Average exercise price at date of grant	\$0.26	\$0.19

The underlying expected volatility was determined by reference to historical data of Company's shares over a period of time since its listing on the TSX Venture Exchange. In total, \$72,787 of share-based compensation was recognized during the six months ended November 30, 2014 with \$62,048 included in the statement of loss and comprehensive loss and \$10,739 capitalized in exploration and evaluation assets ((\$12,969) and \$5,622 respectively for 2013).

During the six months ended November 30, 2014, there was no exercise of stock options.

**11. EXPLORATION AND EVALUATION EXPENSES**

	Three Months Ended November 30,		Six Months Ended November 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Salaries, geology and prospection	156,804	503	294,243	25,883
Lodging and travel expenses	67,668	-	114,137	890
Geophysics	64,174	-	64,174	-
Analysis	63,143	-	104,593	1,797
Drilling	88,508	-	88,508	-
Supplies and equipment	28,968	-	54,180	1,027
Taxes, permits and insurance	1,186	-	2,101	-
Mineral properties cost	525	204	525	2,158
<b>Exploration and evaluation expenses before tax credits</b>	<b>470,976</b>	<b>707</b>	<b>722,461</b>	<b>31,755</b>
Tax credits, net	(108,553)	-	(108,553)	-
<b>Exploration and evaluation expenses</b>	<b>362,423</b>	<b>707</b>	<b>613,908</b>	<b>31,755</b>

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**12. SUBSEQUENT EVENT**

- a) On January 23, 2015, the Company granted to an officer and to employees a total of 100,000 stock options at an exercise price of \$0.14 expiring on January 23, 2020.