



GEOMEGA RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MAY 31, 2016 AND 2015



August 31, 2016

Independent Auditor's Report

To the Shareholders of GéoMégA Resources Inc.

We have audited the accompanying consolidated financial statements of GéoMégA Resources Inc., which comprise the consolidated statements of financial position as at May 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of GéoMégA Resources Inc. as at May 31, 2016 and 2015 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about GéoMégA Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A123642

GEOMEGA RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in Canadian Dollars)

	Note	May 31, 2016 \$	May 31, 2015 \$
ASSETS			
Current			
Cash and cash equivalents	5	1,372,840	454,671
Sales tax receivable		24,765	35,534
Tax credits and government grants receivable	6	54,612	225,980
Prepaid expenses and other		22,395	55,921
Current assets		1,474,612	772,106
Non-current			
Tax credits receivable		-	129,208
Exploration and evaluation assets	7	17,516,788	17,895,108
Property and equipment	8	199,280	241,759
Non-current assets		17,716,068	18,266,075
Total assets		19,190,680	19,038,181
LIABILITIES			
Current			
Trade and other payables		515,096	392,931
Obligations under finance leases		-	34,826
Flow-through share liability	9	98,442	-
Total current liabilities		613,538	427,757
EQUITY			
Share capital	10	28,138,731	26,525,148
Warrants	11	559,010	700,225
Broker options	12	23,595	119,910
Stock options	13	1,134,067	1,663,131
Contributed surplus		2,616,232	1,529,238
Deficit		(13,894,493)	(11,927,228)
Total equity		18,577,142	18,610,424
Total liabilities and equity		19,190,680	19,038,181

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

Going concern (Note 1)
 Commitments (Notes 21 & 22)
 Subsequent events (Note 23)

Approved on Behalf of the Board:
 /s/ "Kiril Mugerma"

Kiril Mugerma
 President and CEO

/s/ "Gilles Gingras"

Gilles Gingras
 Director

GEOMEGA RESOURCES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(in Canadian Dollars, except number of common shares)

	Note	Year Ended May 31,	
		2016 \$	2015 \$
EXPENSES			
Salaries, employee benefits and share-based compensation	14	452,631	601,418
Directors fees, net of adjustment for a settlement in shares	10, 14	(17,500)	174,500
Exploration and evaluation expenses, net of tax credits	15	406,812	1,115,537
Research expenses, net of tax credits		25,866	12,722
Professional fees		237,891	238,251
Travel, conferences and investor relations		32,610	196,720
Administration		32,435	37,706
Filing fees		71,558	67,298
Rent		27,680	28,942
Insurance, taxes and permits		40,810	25,104
Depreciation of property and equipment	8	-	7,442
Write-off of exploration and evaluation assets	7	834,970	11,850
Loss before under noted items		2,145,763	2,517,490
Interest income		(4,731)	(15,329)
Finance costs		7,137	19,741
Other income		(6,801)	-
Loss before income taxes		2,141,368	2,521,902
Deferred income tax recovery	16	(174,103)	(214,415)
Loss and comprehensive loss for the year		1,967,265	2,307,487
Basic and diluted loss per share	19	(0.03)	(0.04)
Weighted average number of common shares outstanding - Basic and diluted		66,599,246	53,909,487

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

GEOMEGA RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in Canadian Dollars)

	Note	Share Capital	Warrants	Broker Options	Stock Options	Contributed Surplus	Deficit	Total Equity
		\$	\$	\$	\$	\$	\$	\$
As at May 31, 2014		25,337,856	620,253	110,046	1,556,330	1,464,563	(9,619,741)	19,469,307
Loss and comprehensive loss for the year		-	-	-	-	-	(2,307,487)	(2,307,487)
Share-based compensation		-	-	-	133,167	-	-	133,167
Shares issued for private placements	10, 11	933,959	181,131	-	-	-	-	1,115,090
Share issuance costs	10, 11, 12	(64,573)	(8,677)	14,400	-	-	-	(58,850)
Shares issued for the acquisition of exploration and evaluation assets	10	15,150	-	-	-	-	-	15,150
Shares issued for the exercise of warrants	10, 11	302,756	(52,756)	-	-	-	-	250,000
Expiration of warrants	11	-	(39,726)	-	-	34,383	-	(5,343)
Expiration of stock options		-	-	-	(26,366)	26,366	-	-
Expiration of broker options	12	-	-	(4,536)	-	3,926	-	(610)
As at May 31, 2015		26,525,148	700,225	119,910	1,663,131	1,529,238	(11,927,228)	18,610,424
As at May 31, 2015		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 year		-	-	-	-	-	(1,967,265)	(1,967,265)
Share-based compensation		-	-	-	59,395	-	-	59,395
Shares issued for private placements	10, 11	1,644,866	260,005	-	-	-	-	1,904,871
Share issuance costs	10, 11, 12	(57,533)	(8,195)	9,195	-	-	-	(56,533)
Shares for debt	10	26,250	-	-	-	-	-	26,250
Expiration of warrants	11	-	(393,025)	-	-	393,025	-	-
Expiration of stock options	13	-	-	-	(588,459)	588,459	-	-
Expiration of broker options	12	-	-	(105,510)	-	105,510	-	-
As at May 31, 2016		28,138,731	559,010	23,595	1,134,067	2,616,232	(13,894,493)	18,577,142

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

GEOMEGA RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian Dollars)

	Year Ended May 31,	2016	2015
Note	\$	\$	\$
OPERATING ACTIVITIES			
Loss for the year		(1,967,265)	(2,307,487)
Adjustments for:			
Share-based compensation	13	56,738	117,943
Gain from settlement in shares for debt	10	(151,250)	-
Depreciation of property and equipment	8	-	7,442
Write-off of exploration and evaluation assets		834,970	11,850
Deferred income tax recovery	16	(174,103)	(214,415)
Changes in non-cash working capital items:			
Sales tax receivable		10,769	91,302
Tax credits receivable		(101,929)	(133,857)
Prepaid expenses and other		33,526	(426)
Trade and other payables		164,463	(47,953)
Cash flows used in operating activities		(1,294,081)	(2,475,601)
INVESTING ACTIVITIES			
Acquisition of exploration and evaluation assets		(451,758)	(1,160,626)
Government grants	6, 7	179,318	-
Tax credit received		389,949	299,899
Acquisition of property and equipment		(17,562)	(30,859)
Cash flows from (used) in investing activities		99,947	(891,586)
FINANCING ACTIVITIES			
Proceeds from issuance of units and shares, net of issue costs		2,147,129	1,225,995
Proceeds from exercise of warrant		-	250,000
Payments on obligations under finance leases		(34,826)	(53,912)
Cash flows from financing activities		2,112,303	1,422,083
Net change in cash and cash equivalents		918,169	(1,945,104)
Cash and cash equivalents, beginning of the year		454,671	2,399,775
Cash and cash equivalents, end of the year		1,372,840	454,671
Additional information			
Interest received		6,273	17,279
Interest paid		(4,326)	(18,874)
Acquisition of exploration and evaluation assets included in trade and other payables		154,450	45,498

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

GEOMEGA RESOURCES INC.
Notes to Consolidated Financial Statements
May 31, 2016
(expressed in Canadian Dollars)

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 75 Mortagne Boulevard, Boucherville, Quebec, Canada, J4B 6Y4. These audited consolidated financial statements were approved by the Company’s Board of Directors on August 31, 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 of 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 12 months from the end of the reporting period. For the year ended May 31, 2016, the Company reported a loss of \$1,967,265 and an accumulated deficit of \$13,894,493. As of May 31, 2016, the Company had working capital of \$861,075 and cash and cash equivalents of \$1,372,840 of which \$295,328 is reserved for the flow-through expenses. Management estimates that the working capital will not be sufficient to meet the Company’s obligations and commitments and budgeted expenditures through May 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. 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. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the *International Financial Reporting Standards* (“IFRS”) as issued by the *International Accounting Standards Board* (“IASB”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

These financial statements have been prepared on a historical cost basis. The Company has elected to present the statement of comprehensive loss in a single statement.

Consolidation

In March 2015, the Company incorporated a private wholly owned subsidiary, Innord Inc. (“Innord”), incorporated under the Canada Business Corporations Act and which specializes in research and development. The consolidated financial statements include the accounts of the Company and Innord. All intra-group transactions, balances, income and expenses are eliminated during consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The functional and presentation currency of the Company and Innord is the Canadian dollar.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term liquid investments with original maturities of 3 months or less or cashable at any time without penalties.

Exploration and evaluation expenditures

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

Expenditures incurred on activities that precede exploration for and evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

Mining rights are recorded at acquisition cost or at its recoverable amount in the case of a devaluation caused by an impairment of value. Mining rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into commercial production. Proceeds from the sale of mineral properties are applied as a reduction of the related carrying costs and any excess or shortfall is recorded as a gain or loss in the statement of loss and comprehensive loss.

E&E also typically include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. Generally, expenditures relating to exploration and evaluation activities are expensed as incurred. Capitalization of exploration and evaluation expenditures commences when a mineral resource estimate has been obtained for an area of interest.

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

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

When a mine project moves into the development phase, E&E are capitalized to mine development costs. An impairment test is performed before reclassification and any impairment loss is recognized in the statement of loss and comprehensive loss.

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

Cash flows attributable to capitalized exploration and evaluation costs are classified as investing activities in the statement of cash flows.

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

GEOMEGA RESOURCES INC.
Notes to Consolidated Financial Statements
May 31, 2016
(expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

Property and equipment

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

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

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

Leasehold improvements	Lease term
Office equipment	3 years
Vehicles	3 years
Field equipment and base camp related to exploration and evaluation activities	3 to 5 years
Warehouse related to exploration and evaluation activities	15 years

Depreciation of property and equipment, if related to exploration activities, is expensed or capitalized to exploration and evaluation expenditures according to the capitalization policy of exploration and evaluation expenditures. For those which are not related to exploration and evaluation activities, depreciation expense is recognized directly in the statement of loss and comprehensive loss.

The depreciation expense for each period is recognized in the statement of loss and comprehensive loss except for certain items of property and equipment related to exploration and evaluation activities where the depreciation expense is included in the carrying amount of an exploration and evaluation asset when it relates to a specific exploration and evaluation project. In the case of certain items of property and equipment related to exploration and evaluation activities on a project that has not reached the phase at which the Company capitalizes its exploration and evaluation expenses, the depreciation expense is recognized in the statement of loss and comprehensive loss. Depreciation of an asset ceases when it is classified as held for sale (or included in a disposal group that is classified as held for sale) or when it is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

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

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

Tax credits and mining rights receivable

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment tax credits

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

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

Government grants

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

Impairment of non-financial assets

Property and equipment and exploration and evaluation assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. E&E assets are reviewed by area of interest. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

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

Provisions, contingent liabilities and contingent assets

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

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

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

GEOMEGA RESOURCES INC.
Notes to Consolidated Financial Statements
May 31, 2016
(expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Flow-through shares

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

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset have expired, or when the financial asset and all substantial risks and rewards have been transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets categorized as loans, receivables and financial liabilities at amortized cost are measured initially at fair value taking into consideration transactions costs. Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs or interest income. The Company's financial assets are all categorized as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less a provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents fall into this category of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

All financial assets are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Financial liabilities

The Company's financial liabilities include trade and other payables, obligations under finance leases and debt. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

All interest-related charges and accretion expenses on debt are reported in the statement of loss and comprehensive loss within finance costs when applicable.

Current income and mining taxes

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

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

Deferred income and mining taxes

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

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

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

Changes in deferred tax assets or liabilities are recognized as deferred income tax recovery in the statement of loss and comprehensive loss, except where they relate to items that are recognized directly in equity, in which case the related deferred tax is also recognized in equity.

As management intends to realize the carrying value of its assets and settle the carrying value of its liabilities through the sale of its exploration and evaluation assets, the related deferred tax has been calculated accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic and diluted loss per share

The calculation of loss per share is based on the weighted average number of shares outstanding for each period. The basic loss per share is calculated by dividing the loss attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the period.

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

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

Equity

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

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

Issuance of units

Proceeds from unit placements are allocated between shares and warrants issued using the Black-Scholes valuation model used to determine the value of warrants issued.

Equity-settled share-based compensation

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

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

All equity settled share-based compensation (except broker options) are ultimately recognized as an expense in the statement of loss and comprehensive loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to stock options, in equity. Equity settled share-based compensation to broker, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to broker options in equity.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the statement of loss and comprehensive loss or capitalized as an exploration and evaluation asset depending on the nature of the payment, on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses are charged to the statement of loss and comprehensive loss capitalized as an exploration and evaluation asset depending on the nature of the payment, as incurred.

The Company leases certain equipment. Leases of equipment for which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased equipment or the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance costs. The corresponding rental obligations, net of finance charges, are included in obligation under finance leases. The interest element of the finance cost is charged to the statement of loss and comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Company.

Employee benefits

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

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

Segment reporting

The Company currently has one operating segment, the exploration and evaluation of mineral resources.

Accounting standards issued but not yet effective

The Company has not yet adopted certain standards, interpretations to existing standards and amendments that have been issued but have an effective date of later than June 1, 2016. Many of these updates are not relevant to the Company and are therefore not discussed herein.

IFRS 9, Financial instruments

In November 2009 and October 2010, IASB issued the first phase of IFRS 9. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes a third category of evaluation financial assets (those measured at fair value through other comprehensive income) and only one impairment model based on expected losses.

IFRS 9 replaces the multiple category and measurement models that currently apply to assets and financial liabilities with a single model with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on the entity's business model and the characteristics of contractual cash flows of the financial asset or financial liability. The standard also introduces limited changes relating to financial liabilities and a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard applies to fiscal years beginning on or after January 1, 2018, with earlier application is permitted. Management is currently evaluating the impact of this standard on the consolidated financial statements of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer (“lessee”) and the supplier (“lessor”). IFRS 16 replaces IAS 17, Leases (“IAS 17”), and related interpretations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in the statement of loss and comprehensive loss.

The new standard is effective for annual periods beginning on or after January 1, 2019 with an early adoption permitted if IFRS 15 *Revenue from contracts with customers* is also applied. Management has not yet evaluated the impact that this new standard will have on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

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

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

Going concern

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

Impairment of non-financial assets

Assets are reviewed for an indication of impairment at each statement of financial position date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities, significant drop in commodity prices, an expiry of the right to explore in the specific area during the period or in the near future with no expectation of renewal, the fact that substantive exploration and evaluation expenditures in a specific area are neither budgeted nor planned, the fact that exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the fact that the entity has decided to discontinue such activities in the specific area, or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Accounting for research and development activities

The Company must apply its judgment in determining which activities relating to extraction methods and treatment processes should be accounted for as research and development under IAS 38 or as exploration and evaluation assets under IFRS 6 Exploration for and Evaluation of Mineral Resources (“IFRS 6”). The Company conducts a combination of research activities to develop an extraction and metallurgical process for the Montviel property and to develop other technological applications, such as separation of rare earth oxides. The Company determined that the activities directly related to the Montviel property are within the scope of IFRS 6 and the other technological applications are within the scope of IAS 38.

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4. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

The Company applies the criteria listed in IAS 38 to determine if research and development costs should be capitalized or expensed. As at May 31, 2016, all expenses incurred by the Company within the scope of IAS 38 were expensed as the Company is in the research phase and not the development phase.

Income taxes and recoverability of potential deferred tax assets

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

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

The refundable credit for resources and refundable credit on mining duties (the “tax credits”) for the current period and prior periods are measured at the amount the Company expects to recover from the tax authorities as at the closing date. However, uncertainties remain as to the interpretation of tax rules and the amount and timing of the recovery of such tax credits. To determine whether the expenses it incurs are eligible, the Company must exercise considerable judgment and interpretation, which makes the recovery of tax credits uncertain. Accordingly, there may be a significant difference between the recorded amount of tax credits receivable and the actual amount of tax credits received following the tax authorities’ review of issues whose interpretation is uncertain. Should such a difference arise, an adjustment would have to be made to tax credits receivable and provisions may potentially need to be recognized for previous tax credits received by the Company. It may take considerable time for the tax administration to render its decisions on issues related to tax credits, and it can therefore take a long time to recover tax credits. Tax credits that the Company expects to recover within more than one year are classified as non-current assets. The amounts recognized in the financial statements are based on the Company’s best estimates and according to its best judgment, as stated above. However, given the uncertainty inherent in obtaining the approval of the relevant tax authorities, the amount of tax credits that will actually be recovered or the amount to be repaid, as well as the timing of such recovery or repayment, could differ materially from the accounting estimates, which would affect the Company’s financial position and cash flows.

5. CASH AND CASH EQUIVALENTS

	May 31, 2016	May 31, 2015
	\$	\$
Cash	1,269,698	74,671
Investments redeemable at any time	103,142	380,000
Cash and cash equivalents	1,372,840	454,671

As at May 31, 2016, the Company is committed under a flow-through share agreement to spend \$295,328 by December 31, 2016 on eligible exploration and evaluation expenses.

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6. TAX CREDITS AND GOVERNMENT GRANTS RECEIVABLE

	May 31, 2016	May 31, 2015
	\$	\$
Tax credits for resources	-	179,745
Refundable credit on mining duties	35,435	127,527
Investment tax credits for research and development	-	47,916
Government grants	19,177	-
	54,612	355,188
Less: Non-current portion of tax credits receivable	-	129,208
Current portion of tax credits receivable	54,612	225,980

Tax credit for resources and refundable credit on mining duties are related to qualifying mineral exploration expenses incurred in the province of Québec. The investment tax credits and government grants are related to expenditure on research and development incurred by the Company's subsidiary, Innord.

7. EXPLORATION AND EVALUATION ASSETS

Montviel property (Rare Earth Elements and Niobium)

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 148 mining claims totalling 9,053 hectares as at May 31, 2016.

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

During the year ended May 31, 2016, the Company abandoned 15 mineral claims acquired in November 2010. Accordingly, the Company wrote off an amount of \$832,013, which represents their acquisition and renewal costs.

During the year ended May 31, 2015, the Company abandoned 10 mineral claims acquired in July 2003 and October 2011. Accordingly, the Company wrote off an amount of \$11,850, which represents their acquisition and renewal costs.

Anik property (Gold)

The Company owns 100% of the Anik property, located 40 km south of the town of Chapais. The Anik property comprises 151 claims totalling 8,452 hectares as at May 31, 2016.

McDonald property (Gold)

The Company owns 100% of the McDonald property, located 30 km east of the Montviel property. The McDonald property comprises 163 claims totalling 9,033 hectares as at May 31, 2016.

During the year ended May 31, 2016, the Company abandoned 54 mineral claims acquired in November 2010. Accordingly, the Company wrote off an amount of \$2,957, which represents their acquisition and renewal costs.

Rivière à l'aigle property (Gold)

The Company owns 100% of the Rivière à l'aigle property, located 60 km south of the town of Chapais. The Rivière à l'aigle property comprises 161 claims totalling 9,026 hectares as at May 31, 2016.

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7. EXPLORATION AND EVALUATION ASSETS (continued)

Lac Storm property (Gold)

The Company owns 100% of the Lac Storm property, located 100 km north of the Montviel property. The Lac Storm property comprises 17 claims totalling 923 hectares as at May 31, 2016.

3G property (Gold)

The Company owns 100% of the 3G property, located 40 km east of the Montviel property. The 3G property comprises 11 claims totaling 609 hectares as at May 31, 2016.

Maryse property (Gold)

The Company acquired 100% of the Maryse property, located 30 km of the town of Chapais. The Maryse property comprises 8 claims totalling 444 hectares as at May 31, 2016.

Gaspard property (Gold)

The Company acquired 100% of the Gaspard property in 2016, located 40 km east of the Montviel property. The Gaspard property comprises 30 claims totalling 1,679 hectares as at May 31, 2016.

Buckingham property (Graphite)

The Company owns 100% of the Buckingham property, located in the town of Buckingham, Québec. The Buckingham property consists of 13 claims totaling 782 hectares as at May 31, 2016. Please see subsequent events (note 23).

MINERAL PROPERTIES

QUEBEC	Montviel	Anik	McDonald	Rivière à l'aigle	Lac Storm	3G	Maryse	Gaspard	Buckingham	Total
May 31, 2014	6,933,364	20,237	17,347	-	-	-	-	-	2,172	6,973,120
Additions	6,498	28,173	4,615	6,036	939	790	-	-	-	47,051
Write-offs	(11,850)	-	-	-	-	-	-	-	-	(11,850)
May 31, 2015	6,928,012	48,410	21,962	6,036	939	790	-	-	2,172	7,008,321
Additions	5,926	119	10,522	3,480	-	-	1,517	1,658	1,437	24,661
Write-offs	(832,013)	-	(2,957)	-	-	-	-	-	-	(834,970)
May 31, 2016	6,101,925	48,529	29,527	9,516	939	790	1,517	1,658	3,609	6,198,012

EXPLORATION AND EVALUATION EXPENDITURES CAPITALIZED

QUEBEC	Montviel
May 31, 2014	9,839,258
Additions	1,052,065
Tax credits, net	(4,536)
May 31, 2015	10,886,787
Additions	643,043
Tax credits, net	(12,558)
Government grants	(198,496)
May 31, 2016	11,318,776

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7. EXPLORATION AND EVALUATION ASSETS (continued)

	May 31, 2016	May 31, 2015
Mineral properties	6,198,012	7,008,321
Capitalized exploration and evaluation expenditures capitalized	11,318,776	10,886,787
Total exploration and evaluation assets	17,516,788	17,895,108

During the year ended May 31, 2016, the Company's subsidiary Innord obtained government grants from Société du Plan Nord (\$150,000) and National Research Council Canada (\$48,496) for research and development activities.

8. PROPERTY AND EQUIPMENT

	Leasehold Improvements \$	Office equipment \$	Vehicles \$	Exploration and Evaluation Equipment		Total \$
				Field Equipment and Camp \$	Warehouse \$	
Year ended May 31, 2015						
Opening net book value	-	6,138	-	135,611	135,777	277,526
Additions	-	1,304	-	29,555	-	30,859
Depreciation	(260)	(7,442)	-	(53,261)	(5,923)	(66,626)
Closing net book value	-	-	-	111,905	129,854	241,759
As at May 31, 2015						
Cost	2,350	47,324	59,454	646,791	159,388	915,307
Accumulated depreciation	(2,350)	(47,324)	(59,454)	(534,886)	(29,534)	(673,548)
Closing net book value	-	-	-	111,905	129,854	241,759
Year ended May 31, 2016						
Opening net book value	-	-	-	111,905	129,854	241,759
Additions	-	-	-	17,562	-	17,562
Depreciation	-	-	-	(40,563)	(19,478)	(60,041)
Closing net book value	-	-	-	88,904	110,376	199,280
As at May 31, 2016						
Cost	2,350	47,324	59,454	664,353	159,388	932,869
Accumulated depreciation	(2,350)	(47,324)	(59,454)	(575,449)	(49,012)	(733,589)
Closing net book value	-	-	-	88,904	110,376	199,280

Depreciation of property and equipment related to exploration and evaluation assets is being capitalized in exploration and evaluation assets. Depreciation of property and equipment not related to exploration and evaluation 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 \$60,041 (\$59,184 – 2015) was capitalized as exploration and evaluation assets during the year ended May 31, 2016.

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9. FLOW-THROUGH SHARE LIABILITY

	May 31, 2016	May 31, 2015
	\$	\$
Balance, beginning of year	-	30,480
Addition during the year, net of issue costs ⁽ⁱ⁾	272,545	177,982
Reduction related to qualifying exploration expenditures	(174,103)	(208,462)
Balance, end of year	98,442	-

(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 year ended May 31, 2016, the Company recorded a liability of \$272,545 (\$177,982 – 2015) following the issuance of flow-through shares on June and December 2015. The flow-through share liability is reduced as the Company incurs qualifying flow-through expenses.

10. SHARE CAPITAL

(a) Authorized Share Capital

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

(b) Issued

	Number of Shares	Carrying Value \$
Balance – May 31, 2014	49,401,283	25,337,856
Private placements	6,528,277	933,959
Share issuance costs	-	(64,573)
Shares issued – Anik	60,000	15,150
Exercise of warrants	1,000,000	302,756
Balance – May 31, 2015	56,989,560	26,525,148
	Number of	Carrying Value
	Shares	\$
Balance – May 31, 2015	56,989,560	26,525,148
Private placements	20,069,152	1,644,866
Share for debt	375,000	26,250
Share issuance costs	-	(57,533)
Balance – May 31, 2016	77,433,712	28,138,731

Year Ended May 31, 2016

On February 23, 2016, the Company completed the final tranche of a private placement consisting of 11,421,429 units at a price of \$0.07 per unit for aggregate gross proceeds of \$799,500, of which 9,571,429 units were held in escrow pending TSX Venture Exchange approval (“Exchange”) of the final documentation. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to acquire one additional common share at a price of \$0.09 per share for a period of 24 months from February 23, 2016. The Company has the right to force the exercise of the warrants if, after the restricted period on resale of four months and one day, the volume weighted average market price of the common shares exceeds \$0.50 for 10 consecutive days. Warrants holders will have 30 days to exercise the warrants following the receipt of notice of the Company, failing which the warrants will expire automatically. Exchange approval for the units held in escrow was received on June 2, 2016.

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10. SHARE CAPITAL (continued)

On December 30, 2015 the Company completed a first tranche of a private placement consisting of 3,434,167 flow-through shares at a price of \$0.09 per flow-through share for aggregate gross proceeds of \$309,075. The flow-through shares acquired by the subscribers are subject to a hold period of 4 months plus one day from the closing date, ended on May 2, 2016, except as permitted by applicable securities legislation and the rules of TSX Venture Exchange. In connection with this private placement, the Company paid a cash finder's fee in an amount of \$20,689 and issued 229,875 non-transferable brokers options to acquire such number of common shares at a price of \$0.09, exercisable for a period of 18 months, which common shares would subsequently be and subject to a hold period of 4 months plus one day from the closing date.

In December 2015, the Company completed an agreement to issue shares for debt with the directors of the Company. In consideration for settlement of a total combined debt of \$177,500 owing to the directors by the Company, the Company issued the independent directors of the Company a total of 375,000 common shares for \$26,250, representing the fair value of the shares at the date of issuance.

On July 6, 2015, the Company completed the final tranche of a private placement consisting of 1,294,444 units at a price of \$0.18 per unit for aggregate gross proceeds of \$233,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to acquire one additional common share at a price of \$0.23 per share for a period of 24 months from July 6, 2015. The Company has the right to force the exercise of the warrants if, after the restricted period on resale of four months and one day, the volume weighted average market price of the common shares exceeds \$0.50 for 10 consecutive days. Warrants holders will have 30 days to exercise the warrants following the receipt of notice of the Company, failing which the warrants will expire automatically.

On June 19, 2015 the Company completed a first tranche of a private placement consisting of 1,311,112 units at a price of \$0.18 per unit and 2,608,000 flow-through shares at a price of \$0.23 per flow-through Share for aggregate gross proceeds of \$835,840. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to acquire one additional common share at a price of \$0.23 per share for a period of 24 months from June 19, 2015.

Year Ended May 31, 2015

During the year ended May 31, 2015, 1,000,000 common shares were issued in connection with 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 period was \$0.25 per share.

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 consists 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.

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. As part of this placement, the Company paid a cash commission of \$40,000 to the broker and issued 160,000 non-transferable broker options allowing the holder to acquire one common share of the Company at a price of \$0.25 until November 20, 2016.

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

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

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11. WARRANTS

The following tables summarize the warrants outstanding as at May 31, 2016. Each warrant entitles the holder to subscribe to one common share.

	Number of warrants	Carrying Value \$	Weighted Average Exercise Price \$
Balance - May 31, 2014	7,767,389	620,253	0.57
Issued	2,264,138	181,131	0.25
Issuance costs	-	(8,677)	-
Exercised	(1,000,000)	(52,756)	0.25
Expired	(2,074,223)	(39,726)	0.96
Balance – May 31, 2015	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
Balance – May 31, 2016	12,104,131	559,010	0.16

Expiration date	Number of warrants	Weighted Average Exercise Price \$
November 2016	1,662,500	0.21
November 2016	2,264,138	0.25
December 2016	164,000	0.21
June 2017	1,302,778	0.23
February 2018	5,710,715	0.09
July 2019	1,000,000	0.15
	<u>12,104,131</u>	

Year Ended May 31, 2016

In connection with the private placement completed in June 2015, the Company issued 1,302,778 warrants allowing the holder to acquire an equivalent number of common shares of the Company at a price \$0.23 until June 19, 2017 at the latest. The warrants were recorded at a value of \$100,815 (\$104,223 less the issuance costs of \$3,408) based on the Black-Scholes model using the following weighted average assumptions: risk-free interest rate of 0.59%, expected life of 2 years, annualized volatility rate of 146% and dividend rate of 0%.

In connection with the private placement completed in February 2016, the Company issued 5,710,715 warrants allowing the holder to acquire an equivalent number of common shares of the Company at a price \$0.09 until February 22, 2018 at the latest. The warrants were recorded at a value of \$166,535 (\$171,322 less the issuance costs of \$4,787) based on the Black-Scholes model using the following weighted average assumptions: risk-free interest rate of 0.45%, expected life of 2 years, annualized volatility rate of 125% and dividend rate of 0%.

During the year ended May 31, 2016, a total of 1,866,666 warrants expired without being exercised (valued at \$393,025).

On August 26, 2015, the Company agreed to extend to July 1, 2019 the term of the 1,000,000 share purchase warrants held by Dr. Pouya Hajiani, PhD., an employee, and issued in consideration for all rights, title and interest in two patents related to the Company's rare earth elements physical separation process. In addition, the intrinsic fair value of the warrants shall no longer be capped at \$5 million at the time they become exercisable. All other terms and conditions of the warrants remain unchanged.

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11. WARRANTS (continued)

Year Ended May 31, 2015

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. The warrants were recorded at a value of \$172,454 (\$181,131 less the issuance costs of \$8,677) based on the Black-Scholes model using the following weighted average assumptions: risk-free interest rate of 1.00%, expected life of 2 years, annualized volatility rate of 134% and dividend rate of 0%.

During the year ended May 31, 2015, 1,000,000 warrants were exercised valued at \$52,756 and 2,074,223 warrants have expired valued at \$39,726.

12. BROKER OPTIONS

The number of outstanding broker options as at May 31, 2016 which could be exercised for an equivalent number of units or shares is as follows:

	Number of broker options for common shares	Carrying Value \$	Weighted Average Exercise Price \$
Balance – May 31, 2014	301,967	110,046	0.59
Issued	160,000	14,400	0.25
Expired	(37,800)	(4,536)	0.50
Balance – May 31, 2015	424,167	119,910	0.47
Issued	229,875	9,195	0.09
Expired	(264,167)	(105,510)	0.60
Balance – May 31, 2016	389,875	23,595	0.16

Expiration date	Number of broker options for common shares	Weighted Average Exercise Price \$
November 2016	160,000	0.25
June 2017	229,875	0.09
	<u>389,875</u>	

Year Ended May 31, 2016

In connection with the private placement completed in December 2015, the Company issued 229,875 broker options allowing the holder to acquire an equivalent number of common shares at a price of \$0.09 until June 30, 2017. The fair value of the broker options was estimated at \$9,195. 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 in broker's options and decrease of share capital.

The average fair value of the broker options issued of \$9,195 (\$14,400 for the year ended May 31, 2015) was estimated using the Black-Scholes model and based on the following weighted average assumptions:

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12. BROKER OPTIONS (Continued)

	Year Ended May 31,	
	2016	2015
Average share price at date of grant	\$0.06	\$0.15
Dividend yield	NIL	NIL
Expected weighted volatility	142 %	140 %
Risk-free interest rate	0.48 %	1.01 %
Expected average life	1.5 years	2 years
Average exercise price at date of grant	\$0.09	\$0.25

During the year ended May 31, 2016, there was no exercise of broker options.

13. 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 November 23, 2015, the Company granted to directors, officers and employees a total of 790,000 stock options at an exercise price of \$0.07 per share for a period of 5 years.

On September 14, 2015, the Company granted to an officer a total of 300,000 stock options at an exercise price of \$0.085 per share for a period of 5 years.

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 as at May 31, 2016:

	Number of Options	Weighted Average Exercise Price \$
Outstanding - May 31, 2014	2,782,500	0.81
Granted	810,000	0.25
Expired	(146,875)	0.40
Forfeited	(125,625)	0.27
Outstanding – May 31, 2015	3,320,000	0.60
Granted	1,090,000	0.07
Expired	(1,122,500)	0.68
Forfeited	(142,500)	0.26
Outstanding – May 31, 2016	3,145,000	0.40

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13. 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	2,670,000	0.18	3.24	1,706,250	0.22
1.01 to 2.00	325,000	1.50	0.33	325,000	1.50
2.01 to 3.00	150,000	2.08	0.24	150,000	2.08
	<u>3,145,000</u>			<u>2,181,250</u>	

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

	Year Ended May 31,	
	2016	2015
Average share price at date of grant	\$0.07	\$0.25
Dividend yield	NIL	NIL
Expected weighted volatility	130 %	129 %
Risk-free interest rate	0.75 %	1.60 %
Expected average life	3.75 years	3.75 years
Average exercise price at date of grant	\$0.07	\$0.25

The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of time since its listing on the TSX Venture Exchange. In total, \$59,396 of share-based compensation was recognized during the year ended May 31, 2016 with \$56,738 included in the statement of loss and comprehensive loss and \$2,658 capitalized in exploration and evaluation assets (\$117,943 and \$15,224 respectively in 2015).

During the year ended May 31, 2016, there was no exercise of stock options.

14. EMPLOYEE REMUNERATION

	Year Ended May 31,	
	2016	2015
	\$	\$
Wages, salaries	587,365	870,417
Professional fees	48,801	29,000
Benefits	54,264	64,338
Share-based payments	59,396	133,167
	749,826	1,096,922
Less: Salaries capitalized in exploration and evaluation assets	(312,037)	(305,780)
Less: Share-based payments capitalized in exploration and evaluation assets	(2,658)	(15,224)
Salaries and employee benefits expense	435,131	775,918

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15. EXPLORATION AND EVALUATION EXPENSES

	Year Ended May 31,	
	2016	2015
	\$	\$
Salaries, geology and prospection	251,873	485,798
Lodging and travel expenses	70,436	178,583
Geophysics and geochemistry	23,437	64,174
Analysis	49,870	226,037
Drilling	9,900	243,825
Supplies and equipment	15,389	74,408
Taxes, permits and insurance	3,711	8,908
Mineral properties cost	(562)	696
Exploration and evaluation expenses before tax credits	424,054	1,282,426
Tax credits, net	(17,242)	(166,889)
Exploration and evaluation expenses	406,812	1,115,537

16. INCOME TAXES

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

	Year Ended May 31,	
	2016	2015
	\$	\$
Deferred income tax recovery		
Amortization of flow-through share liability	(174,103)	(208,462)
Deferred income tax recovery	-	(5,953)
Total recovery of deferred income taxes	(174,103)	(214,415)

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

	Year Ended May 31,	
	2016	2015
	\$	\$
Loss before income taxes	2,141,368	2,521,902
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 26.9%	(576,028)	(678,392)
Increase (decrease) in income taxes resulting from the following:		
Non-deductible items	15,263	31,752
Non-taxable tax credit	6,809	(8,079)
Renounced exploration and evaluation expenses	164,516	294,853
Amortization of flow-through share liability	(174,103)	(208,462)
Adjustment from prior year	(6,449)	17,596
Unrecognized temporary differences	395,889	336,317
Deferred income tax recovery	(174,103)	(214,415)

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16. INCOME TAXES (Continued)

The ability to realize the tax benefits is dependent upon a number of factors, including the future profitability of operations. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Accordingly, some deferred tax assets have not been recognized; these deferred tax assets not recognized amount to \$2,103,789 (\$1,639,726 in 2015).

As at May 31, 2016 and 2015, significant components of the Company's deferred income tax assets and liabilities are as follows:

	2016	2015
	\$	\$
Deferred income tax assets:		
Intangible assets	4,301	4,625
Property and equipment	73,648	66,865
Deductible share issue expenses	94,702	213,149
Operating losses carried forward	2,771,956	2,284,399
Total deferred income tax assets	2,944,607	2,569,038
Deferred income tax liabilities		
Grants	(48,237)	-
Exploration and evaluation assets	(839,415)	(929,312)
Total deferred income tax assets non recognized	2,103,789	1,639,726

As at May 31, 2016, expiration dates of losses available to reduce future years' income for tax purposes are:

	Federal	Provincial
	\$	\$
2036	1,755,296	1,755,296
2035	2,008,304	2,008,304
2034	1,483,287	1,483,287
2033	2,046,750	2,444,550
2032	1,839,477	1,943,591
2031	563,968	563,968
2030	16,391	16,391
2029	1,718	1,718
Total	9,715,191	10,217,105

17. FINANCIAL ASSETS AND LIABILITIES

Objectives and policies concerning financial risk management

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

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17. FINANCIAL ASSETS AND LIABILITIES (Continued)

Financial risks

The principal financial risks to which the Company is exposed as well as its policies concerning the management of these financial risks are detailed as follows:

Interest rate risk

The Company has cash balances and the Company's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of May 31, 2016, the Company had \$103,142, expiring November 23, 2016 and redeemable at any time without penalty, invested with a Canadian chartered bank bearing interest at fixed rate. The collateral investment is held with a major Canadian bank and bear a fixed-rate interest of 0.6%. The other financial assets and liabilities of the Company do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk. A variation of plus or minus 1% change in the rates would not have a material impact on the assets and liabilities and net loss of the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future debt or equity financings, asset sales or exploration option agreements, off-take or forward sales agreements, the granting of royalties or a combination thereof. The Company's liquidity and operating results may be adversely affected by delays in receiving the tax credits receivable from the Quebec government (or securing financing against the tax credit) and if the Company's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company has historically generated cash flow primarily from its financing activities. As at May 31, 2016, the Company had cash and cash equivalents of \$1,372,840 to settle current financial liabilities of \$613,538. All of the Company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (note 1).

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk is equivalent to the carrying value of financial assets exposed to credit risk, less any impairment. The Company is subject to credit risk through cash and cash equivalents. The Company reduces its credit risk by maintaining its cash and cash equivalents in Canadian chartered bank accounts from which management believes the risk of loss is minimal.

Fair value of financial instruments

The carrying value of cash and cash equivalents, trade and other payables and obligations under finance leases are considered to be a reasonable approximation of fair their value because of the short-term maturity and contractual terms of these instruments.

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17. FINANCIAL ASSETS AND LIABILITIES (Continued)

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

	May 31, 2016		May 31, 2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets				
<i>Loans and receivables</i>				
Cash and cash equivalents	1,372,840	1,372,840	454,671	454,671
Sales tax receivable	24,765	24,765	35,534	35,534
Tax credits and government grants receivable	54,612	54,612	355,188	355,188
Financial liabilities				
<i>Financial liabilities measured at amortized cost</i>				
Trade and other payables	515,096	515,096	392,931	392,931
Obligations under finance leases	-	-	34,826	34,826

18. CAPITAL MANAGEMENT

The Company's objective in managing capital is to safeguard its ability to continue its operations as well as its exploration and evaluation programs. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell mining rights to improve its financial performance and flexibility. There was no change to the capital management since the last reporting period.

The Company's capital is composed of equity. As at May 31, 2016, the Company's capital totalled \$18,577,142 (\$18,610,424 in 2015). Changes that occurred during the years ended May 31, 2016 and 2015 are shown in the statements of shareholders equity.

19. 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, broker 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 warrants, broker options and stock options issued that could potentially dilute earnings per share in the future are given in Notes 11, 12 and 13.

20. RELATED PARTY TRANSACTIONS

Key Management Personnel Remuneration

Key management personnel of the Company include the Directors, the President and Chief Executive Officer, the Chief Financial Officer, the Vice-President Exploration and the Chief Technology Officer. Key management personnel remuneration includes the following expenses:

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20. RELATED PARTY TRANSACTIONS (continued)

	Years Ended May 31,	
	2016	2015
	\$	\$
Short-term employee benefits		
Salaries	508,798	553,200
Benefits	34,848	32,894
Professional fees	48,801	29,000
Total short-term employee benefits	592,446	615,094
Share-based compensation	48,221	119,957
Total remuneration	640,667	735,051

Transaction with related parties

On April 30, 2012, a partner of Lavery de Billy LLP (“Lavery”) was appointed to the Company’s Board of Directors as the Company’s Corporate Secretary. During the year ended May 31, 2016, the Company incurred legal fees for \$155,344 (\$132,629 in 2015) to Lavery. Except for the settlement in shares for debt (Note 10), all transactions with related parties have occurred in the normal course of business of the Company and are based on normal commercial terms.

Allowance for Termination or Change of Control

There are certain employment agreements between key management and the Company that contain a termination provision and a change of control provision. If the provision for termination without cause or change of control involving adverse changes to duties assigned to key management had occurred as at May 31, 2016, the amounts payable for the executive team would have totalled \$224,525 and \$713,100 respectively. In the case of termination for cause, no compensation will be paid.

21. COMMITMENTS

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

	Minimum Lease Payments Due			
	Within 1 year	1 to 5 years	After 5 years	Total
	\$	\$	\$	\$
May 31, 2016	32,155	6,490	-	38,646

The Company leases an office under a lease agreement expiring in March 2017. Under this lease, the Company has 90 days to terminate the agreement. The Company also has two operating leases for field equipment, one expiring in June 2017 and one in January 2018. 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.

22. CONTINGENCY

During the year ended May 31, 2016, a claim concerning the departure of a senior executive was filed against the Company. In the opinion of management, this claim is unfounded and, accordingly, no provision has been recorded in these consolidated financial statements.

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23. SUBSEQUENT EVENTS

- a) On March 3, 2016, the Company announced that the Société du Plan Nord (“SPN”), the Société de développement de la Baie-James (“SDBJ”) and the Administration régionale Baie-James (“ARBJ”), will be investing in Innord. With this injection of funds, Innord should receive a total of \$500,000 from the SPN, the SDBJ and the ARBJ. An initial portion of \$150,000 out of a total potential grant of \$250,000 was received from the SPN during the year ended May 31, 2016. The remaining balance to be received is subject to meeting certain conditions. A total equity investment of \$250,000 was received from SDBJ and ARBJ in June 2016, when the transaction closed.

- b) On April 6, 2016, the Company signed a property purchase agreement with Saint Jean Carbon Inc. (“Saint Jean”) whereby Saint Jean will acquire a 100%-interest in the Buckingham mining property. The property consists of 13 claims located in southwestern Quebec. Under the terms of the agreement, the Company will receive 1,500,000 common shares of Saint Jean subject to TSX Venture Exchange approval. The Company will retain a 0.75% Net Output Returns Royalty on the property. This transaction closed June 9, 2016.