Geomega Resources Inc.

Unaudited Condensed Interim Consolidated Financial Statements

Three month ended August 31, 2017

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

Geomega Resources Inc.
Consolidated Statements of Financial Position
(Unaudited, in Canadian Dollars)

	Note	As at August 31 2017	As at May 31 2017
		$	$
Assets			
Current assets			
Cash and cash equivalents		280,659	80,690
Accounts receivable		14,377	203,613
Sales tax receivable		40,514	21,420
Tax credits and government grant receivable		66,476	66,383
Prepaid expenses and others		16,702	24,523
Current assets		418,728	396,629
Non-current assets			
Investment in an associate	5	1,454,369	1,537,681
Property and equipment		179,833	184,127
Non-current assets		1,634,202	1,721,808
Total assets		**2,052,930**	**2,118,437**
Liabilities			
Current liabilities			
Trade and other payables		415,046	439,994
Liability related to share exchange rights	10	487,200	477,840
Total current liabilities		902,246	917,834
Non-current liabilities			
Convertible debentures	6	172,971	-
Total Liabilities		**1,075,217**	**-**
Equity			
Share capital		28,210,935	28,210,935
Equity component of convertible debentures	6	7,049	-
Warrants	7	746,279	691,579
Broker options	8	-	8,195
Stock options		403,179	413,604
Contributed surplus		3,481,436	3,442,881
Deficit		(31,859,521)	(31,558,230)
Equity attributable to Geomega Resources Inc.'s shareholders		989,357	1,208,964
Non-controlling interests		(11,644)	(8,361)
Total equity		**977,713**	**1,200,603**
Total liabilities and equity		**2,052,930**	**2,118,437**

Going concern (Note 1), subsequent events (Note 12)
The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Geomega Resources Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Unaudited, in Canadian Dollars)

	Note	Three months ended August 31 2017	2016 (adjusted note 2)
		$	$
Operating Expenses			
Salaries, employee benefits, settlement and share-based compensation		34,080	72,128
Directors fees, net of adjustment for a settlement in shares		(36,250)	18,750
Exploration and evaluation expenses, net of tax credits	11	68,263	176,006
Professional fees		109,859	94,646
Travel conference and investor relations		686	7,675
Administration		2,665	4,895
Filing fees		4,710	5,978
Rent		12,063	15,769
Insurance, taxes and permits		9,106	15,273
Operating loss		(205,182)	(411,120)
Other income (expenses)			
Interest income (expense)		-	(536)
Finance costs		(10,869)	(8,387)
Share of loss of associate	5	(83,312)	-
		(94,181)	(8,923)
Net loss - continuing operations before income taxes		(299,363)	(420,043)
Deferred income taxes recovery		-	50,500
Net loss - continuing operations		(299,363)	(369,543)
Net income - discontinued operations	4,11	-	25,962
Net loss		**(299,363)**	**(343,581)**
Other comprehensive loss			
Unrealized loss due to change in value of marketable securities		-	(22,500)
Other comprehensive loss		-	(22,500)
Comprehensive loss		**(299,363)**	**(366,081)**
Net loss attributable to:			
Geomega Resources Inc. shareholders		(296,080)	(339,406)
Non-controlling interests		(3,283)	(4,175)
Net loss – continuing operations attributable to:			
Geomega Resources Inc. shareholders		(296,080)	(365,368)
Non-controlling interests		(3,283)	(4,175)
Comprehensive loss attributable to:			
Geomega Resources Inc. shareholders		(296,080)	(361,906)
Non-controlling interests		(3,283)	(4,175)
Basic and diluted loss per share		(0.004)	(0.004)
Basic and diluted loss per share – continuing operations		(0.004)	(0.005)
Basic and diluted income per share – discontinued operations		0.000	0.003
Weighted average number of basic and diluted outstanding shares		78,258,049	77,433,712

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

Geomega Resources Inc.
Consolidated Statements of Changes in Equity
(Unaudited, in Canadian Dollars)

	Note	Number of shares outstanding	Capital stock	Warrants	Broker Options	Stock Options	Contributed surplus	Deficit	Accumulated other comprehensive loss	Equity attributable to Geomega Resources Inc.	Non-controlling interest	Total equity
			$	$	$	$	$	$	$	$	$	$
Balance at May 31, 2016, as adjusted		77,433,712	28,138,731	559,010	23,595	1,134,067	2,616,232	(31,411,281)	-	1,060,354	-	1,060,354
Net loss		-	-	-	-	-	-	(339,406)	-	(339,406)	(4,175)	(343,581)
Other comprehensive loss		-	-	-	-	-	-	-	(22,500)	(22,500)	-	(22,500)
Comprehensive loss		-	-	-	-	-	-	(339,406)	(22,500)	(361,906)	(4,175)	(366,081)
Investment in Innord by non-controlling interest	10	-	-	-	-	-	-	242,014		242,014	7,986	250,000
Liability related to share exchange rights	10	-	-	-	-	-	-	(442,724)		(442,724)	-	(442,724)
Expired and forfeited stock options		-	-	-	-	(208,366)	208,366	-		-	-	-
Balance at August 31, 2016 adjusted		**77,433,712**	**28,138,731**	**559,010**	**23,595**	**925,701**	**2,824,598**	**(31,951,397)**	**(22,500)**	**497,738**	**3,811**	**501,549**

	Note	Number of shares outstanding	Capital stock	Equity component of convertible debentures	Warrants	Broker Options	Stock Options	Contributed surplus	Deficit	Equity attributable to Geomega Resources Inc.	Non-controlling interest	Total equity
			$	$	$	$	$	$	$	$	$	$
Balance at May 31, 2017		78,258,049	28,210,935	-	691,579	8,195	413,604	3,442,881	(31,558,230)	1,208,964	(8,361)	1,200,603
Net loss		-	-	-	-	-	-	-	(296,080)	(296,080)	(3,283)	(299,363)
Other comprehensive loss		-	-	-	-	-	-	-	-	-	-	-
Comprehensive loss		-	-	-	-	-	-	-	(296,080)	(296,080)	(3,283)	(299,363)
Issuance of convertible debentures	6	-	-	7,049	49,489	-	-	-	-	56,538	-	56,538
Shared-based compensation		-	-	-	-	-	19,935	-	-	19,935	-	19,935
Expired and forfeited stock options		-	-	-	-	-	(30,360)	30,360	-	-	-	-
Extended warrants	7	-	-	-	5,211	-	-	-	(5,211)	-	-	-
Expired broker options	8	-	-	-	-	(8,195)	-	8,195	-	-	-	-
Balance at August 31, 2017		**78,258,049**	**28,210,935**	**7,049**	**746,279**	**-**	**403,179**	**3,481,436**	**(31,859,521)**	**989,357**	**(11,644)**	**977,713**

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

Geomega Resources Inc.

Consolidated Statements of Cash Flows

(Unaudited, in Canadian Dollars)

	Note	Three months ended August 31 2017	2016 (adjusted note 2)
		$	**$**
Operating activities			
Net loss relating to continuing operations		(299,363)	(369,543)
Net income relating to discontinued operations	4	-	25,962
Net loss		(299,363)	(343,581)
Adjustments for:			
Share-based compensation		19,935	12,031
Depreciation		15,694	16,227
Gain from exploration and evaluation properties disposal	4	-	(75,000)
Finance costs		10,869	8,387
Share of loss of associate	5	83,312	-
Deferred income tax recovery		-	(50,500)
Changes in non-cash working capital items			
Accounts receivable		189,236	-
Sales tax receivable		(19,094)	(11,748)
Tax credits receivable		(93)	25,383
Prepaid expenses and other		7,821	(3,069)
Trade and other payables		(31,948)	31,251
Cash flows used in operating activities		**(23,631)**	**(390,619)**
Investing activities			
Additions of property and equipment		(11,400)	-
Cash flows from in investing activities		**(11,400)**	**-**
Financing activities			
Financing convertible debentures, net of transaction fees	6	235,000	
Contribution of non-controlling shareholders	10	-	250,000
Cash flows from in financing activities		**235,000**	**250,000**
Net change in cash and cash equivalents		199,969	(140,619)
Cash and cash equivalents – beginning		80,690	1,372,840
Cash and cash equivalents – ending		**280,659**	**1,232,221**
Additional information			
Interest received		-	409
Interest paid		-	-
Convertible debenture issuance costs included in trade and other payables	6	7,000	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Geomega Resources Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act and is engaged in the acquisition, exploration and evaluation of mining properties in Canada. The Corporation's shares are listed on the TSX Venture Exchange (the "Exchange") under symbol GMA. The address of the Corporation's registered office and principal place of business is 75, de Mortagne Boulevard, Boucherville, Quebec, Canada, J4B 6Y4. These unaudited condensed interim consolidated financial statements (the "Financial Statements") were approved by the Corporation's Board of Directors on October 19, 2017.

The Corporation 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 ("E&E") assets is dependent upon the ability of the Corporation to obtain necessary financing to pursue the exploration and evaluation on its mining properties.

These Financial Statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. For the three months ended August 31, 2017, the Corporation reported a net loss of $299,363 and has accumulated a deficit of $31,859,521 up to that date. As at August 31, 2017, the Corporation had a negative working capital of $483,518.

Management estimates that the working capital will not be sufficient to meet the Corporation's obligations and commitments and budgeted expenditures through August 31, 2018. These circumstances lend a significant doubt as to the ability of the Corporation 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 Corporation's ability to continue as a going concern as described in the preceding paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Financial Statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

Any funding shortfall may be met in the future in a number of ways including but not limited to, the issuance of new equity or debt financing. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Corporation or that they will be available on terms which are acceptable to the Corporation. If management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

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

2.2 Basis of Presentation

The Financial Statements should be read in conjunction with the annual financial statements for the year ended May 31, 2017, which have been prepared in accordance with IFRS. The accounting policies, methods of computation and presentation applied in the Financial Statements are consistent with those of the previous financial year ended May 31, 2017, except for the policies described below.

Convertible debentures
The liability, equity and other (when applicable) components of convertible debentures are presented separately on the statement of financial position, starting from initial recognition. The Corporation determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. Subsequently, the liability component is then increased by accretion of the discounted amounts to reach the nominal value of the convertible debenture at maturity which is recorded in the statement of income as finance cost.

The carrying amount of other components (when applicable), such as warrants, for example, is obtained by deducting the nominal value of the debentures and the present value of future capital payments at the prevailing market rate for a convertible debenture without warrants.

The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible debenture, and is presented in Equity as an equity component of convertible debenture. The equity component is not re-measured subsequent to initial recognition, except on conversion or expiry.

The transaction costs are distributed between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

Change in accounting policy
The Corporation had historically capitalized expenditures on E&E activities after they had reached a certain stage under *IFRS 6 - Exploration and Evaluation of Mineral Resources*.

During Fiscal year ended May 31, 2017, the Corporation adopted a voluntary change in accounting policy with respect to E&E expenses. The Corporation's new policy is to expense E&E expenses in the statement of income (loss) until such time as the technical feasibility and commercial viability has been established that supports the future development of the property, and such development receives the Board of Directors approval.

The Corporation has determined that such a voluntary change in accounting policy results in consolidated financial statements providing more relevant information as well as bringing the Corporation in line with a similar accounting policy adopted by its peers.

(Unaudited, in Canadian Dollars)

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

This change has been applied to all the Corporations E&E activities on all properties.

In accordance with *IAS 8 – Accounting policies, changes in accounting estimates and errors* as of May 31, 2017, the change in accounting policy has been made retrospectively and the comparatives have been adjusted accordingly to all periods presented, as if the policy had always been applied.

The following tables summarises the impact of the change in accounting policy on affected line items within the Corporation's consolidated comparative statements of loss and comprehensive loss and cash flows, respectively for the three months period ended August 31, 2016:

Consolidated statements of loss and comprehensive loss:

	Three months ended August 31, 2016		
	As Previously reported	**Impact**	**Adjusted**
	$	**$**	**$**
E&E expenses, net of tax credits	17,048	158,958	176,006
E&E expenses, discontinued operations	42,952	6,086	49,038
Impairment of E&E assets	17,653	(17,653)	-
Net loss	197,799	145,782	343,581
Comprehensive loss	220,299	145,782	366,081
Basic and diluted loss per share	(0.003)	(0.001)	(0.004)

Consolidated statement of cash flows:

	Three months ended August 31, 2016			
	As Previously reported	**Transfer to discontinued activities**	**Impact**	**Adjusted**
	$		**$**	**$**
Operating activities				
Net loss relating to continuing operations	197,799	(42,952)	214,696	369,543
Impairment of E&E assets	17,653	-	(17,653)	-
Trade and other payables	77,199	-	(45,948)	31,251
Investing activities				
Additions of E&E assets	(189,991)	-	189,991	-

3. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

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

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

(Unaudited, in Canadian Dollars)

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

In preparing the Financial Statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended May 31, 2017, except for the new judgements and estimates described below.

Carrying value of the components of the convertible debentures
The liability and equity components of convertible debentures are presented separately on the statement of financial position starting from initial recognition. The Corporation determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have an associated conversion option. The prevailing market rate used for the calculation and the identification of similar liability of comparable credit status and providing substantially the same cash flows that do not have an associated conversion option is a significant estimate of the Corporation and a change in the rate could impact the carrying value of the liability component and consequently of the equity component and also impacts the accretion expense which is recorded over the term of the convertibles debentures.

4. DISCONTINUED OPERATIONS AND SALE OF GOLD ASSETS

On March 24, 2017, the Company divested of its interest in its gold mining titles. As a result, the Company has presented the Financial Statements to segregate the discontinued operations related to the gold assets from those balances relating to the Company's continuing operations for the period up to March 24, 2017

Income from discontinued operations consists of the following:

	Three months ended August 31, 2017	Three months ended August 31, 2016
	$	$
E&E expenses, net of tax credits	-	(49,038)
Gain in disposal of E&E properties – Buckingham	-	75,000
Net income - discontinued operations	**-**	**25,962**

5. INVESTMENT IN AN ASSOCIATE CORPORATION

Kintavar Exploration Inc. ("Kintavar") is the Corporation's only associate and it is material to the group. Kintavar's share capital consists solely of ordinary shares, which are held directly by the Corporation. Kintavar is incorporated in Canada where are its exploration and evaluation activities on gold bearing properties, which are not strategic to the Corporation's own activities, are carried out. The proportion of ownership interest is the same as the proportion of voting rights held. The investment in Kintavar is accounted for under the equity method and its fair value as August 31, 2017 is $3,035,714 (17,857,143 shares at $0.17). The Corporation categorized the fair value measurement in Level 1, as it is derived from quoted prices in active markets.

(Unaudited, in Canadian Dollars)

5. INVESTMENT IN AN ASSOCIATE CORPORATION (CONT'D)

	Three months ended August 31, 2017	Year ended May 31, 2017
	$	$
Balance at beginning of period	1,537,681	-
Acquisitions	-	1,537,681
Share of net loss	(83,312)	-
Balance at end of period	**1,454,369**	**1,537,681**

The following common shares issued by Kintavar to the Corporation are subject to resale restriction periods as follows:

- 2,678,571 common shares, 6 months following final approval by the Exchange (released);
- 2,678,571 common shares, 12 months following final approval by the Exchange;
- 2,678,571 common shares, 18 months following the final approval of the Exchange;
- 2,678,571 common shares, 24 months following final approval by the Exchange;
- 2,678,571 common shares, 30 months following final approval by the Exchange; and
- 2,678,574 common shares, 36 months following final approval by the Exchange.

6. CONVERTIBLE DEBENTURES

	Three months ended August 31, 2017	Year ended May 31, 2017
	$	$
Balance at beginning of period	-	-
Addition, net	171,462	-
Accretion expense	1,509	-
Balance at end of period	**172,971**	-

On August 11, 2017, the Corporation closed a first tranche of $235,000 of a non-brokered private placement of units, each unit is comprised of one unsecured convertible debenture in the principal amount of $1,000 and 5,000 warrants. The convertible debentures have a two year maturity date and bear an interest of 10% per annum, compounded quarterly and payable quarterly in arrears. The Corporation has the option to pay such interest by delivering such number of common shares as may be required, at an issue price per share based upon the 20-day volume weighted average price ("VWAP") of the Corporation's common shares on the Exchange on the due date of the quarterly interest payment. Any such interest payment in common shares shall be subject to the approval of the TSXV.

Each warrant will entitle the holder to purchase one common share at a price of $0.10 per share for a period of twelve months from the closing and thereafter at a price of $0.12 per share until the date which is twenty-four months from the closing.

The convertible debentures will be convertible into common shares at the option of the holder at any time prior to the maturity date based on the following conversion price, subject to adjustment in certain events: (i) at a price of $0.10 per common share if converted during the period of twelve months from the closing of the Offering; and (ii) at a price of $0.12 per common share if converted during period following the twelve month anniversary of the closing until the date which is twenty-four months from the closing.

(Unaudited, in Canadian Dollars)

6. CONVERTIBLE DEBENTURES (CONT'D)

The convertible debentures will be subject to redemption, in whole or in part, by the Corporation should the Corporation realize gross proceeds from a subsequent private placement of securities or as a result of the exercise of the warrants in an amount equal to the gross proceeds of the Offering at any time following the closing of the Offering upon giving the holders of the Convertible Debentures not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the convertible debentures plus all accrued and unpaid interest up to and including the redemption date plus a redemption premium as follows: (i) 10% during the first six months following the closing of the Offering; (ii) 5% from the six month anniversary of the closing to the twelve month anniversary following the closing; (iii) 3% following the twelve month anniversary following the closing until the Maturity Date. A holder of convertible debentures may elect to convert its convertible debentures by providing the Corporation with a written notice to that effect within five business days of the receipt by the holder of the redemption notice.

When initially recorded, the proceeds received amounted to $235,000 for the convertible debentures. Of this amount, the debt, warrants and equity components represents respectively $178,462, $49,489 and $7,049. The debt component was evaluated first using an effective rate of 14% corresponding to a rate that the Corporation would have obtained for a similar financing without the conversion option. Subsequently, the Corporation evaluated the fair value of the 1,175,000 warrants by deducting the nominal value of the debentures and the present value of future capital payments using an effective rate of 12% corresponding to a rate that the Corporation would have obtained for a convertible debenture without warrants. The residual was attributed to the equity component and is presented in the shareholder's equity.

In connection with this transaction, the Corporation paid $7,000 in fees, which were recorded as a reduction of the convertible debenture.

7. WARRANTS

Changes in the Corporation's warrants are as follow:

	Three months ended August 31, 2017			Year ended May 31, 2017		
	Number of warrants	Carrying Value	Weighted average exercise price	Number of warrants	Carrying Value	Weighted average exercise price
		$	$		$	$
Opening	12,104,131	691,579	0.16	12,104,131	559,010	0.16
Issued (note 6)	1,175,000	49,489	0.10	-	-	-
Extended	-	5,211	-	-	132,569	-
	13,279,131	**746,279**	**0.15**	**12,104,131**	**691,579**	**0.16**

(Unaudited, in Canadian Dollars)

7. WARRANTS (CONT'D)

Warrants outstanding as at August 31, 2017 are as follows:

Number of warrants	Exercise price	Expiry date
	$	
1,302,778	0.23	June 19, 2018 (extended)
5,710,715	0.09	February 22, 2018
1,662,500	0.21	November 4, 2018 (extended)
2,264,138	0.25	November 4, 10 and 2018 (extended)
164,000	0.21	December 3, 2018 (extended)
1,000,000	0.15	July 1, 2019 (note 11.1)
1,175,000	Year 1: 0.10 Year 2: 0.12	August 11, 2019 (note 6)
13,279,131		

On June 8, 2017, the 1,302,778 warrants due to expire on June 19, 2017 have been extended by one year. The total cost of the warrant extension is $5,211 which has been recorded under warrants and the offsetting entry is recorded in the deficit. The fair value of the warrants extension was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follow for the two periods respectively: no expected dividend yield, 87.2% and 37.8% expected volatility, 0.65% and 0.53% risk-free interest rate and 1.04 and 0.04 years warrant expected life.

On August 26, 2015, the Corporation agreed to extend to July 1, 2019 the term of the 1,000,000 warrants held by the Chief Technology Officer, an employee, and issued in consideration for all rights, title and interest in two patents related to the Corporation'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. As per the Patent ownership and royalty agreement signed on August 11, 2017, these 1,000,000 warrants will be cancelled (note 11.1).

8. BROKER OPTIONS

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

	Three months ended August 31, 2017			Year ended May 31, 2017		
	Number of broker options	**Carrying Value**	**Weighted average exercise price**	**Number of broker options**	**Carrying Value**	**Weighted average exercise price**
		$	$		$	$
Opening	204,875	8,195	0.09	389,875	23,595	0.16
Expired	(204,875)	(8,195)	0.09	(160,000)	(14,400)	0.25
Exercised	-	-	-	(25 000)	(1 000)	0.09
	-	**-**	**-**	**204,875**	**8,195**	**0.09**

(Unaudited, in Canadian Dollars)

9. STOCK OPTIONS

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

	Three months ended August 31, 2017		Year ended May 31, 2017	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
		$		$
Balance, beginning	4,450,000	0.14	3,145,000	0.40
Granted	-	-	1,920,000	0.095
Expired	(100,000)	0.45	(562,500)	1.44
Exercised	-	-	(25,000)	0.07
Cancelled	-	-	(27,500)	0.08
Forfeited	-	-	(52,500)	0.09
Balance, end	**4,350,000**	**0.14**	**4,450,000**	**0.14**
Balance, end exercisable	2,730,000	0.16	2,755,000	0.17

The number of options outstanding as of August 31, 2017 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
		$	
200,000	200,000	0.42	October 30, 2017
225,000	225,000	0.15	June 28, 2018
225,000	225,000	0.16	July 22, 2018
225,000	225,000	0.17	September 19, 2018
120,000	120,000	0.30	January 23, 2019
385,000	385,000	0.26	September 17, 2019
30,000	30,000	0.14	January 23, 2020
300,000	300,000	0.09	September 13, 2020
720,000	540,000	0.07	November 22, 2020
1,920,000	480,000	0.095	November 29, 2021
4,350,000	**2,730,000**		

10. NON CONTROLLING INTEREST

On June 3, 2016, the Corporation concluded a subscription agreement with two institutional investors, Société de dévelopement de la Baie-James ("SDBJ") and the Administration régionale Baie-James ("ARBJ") to finance the development of the process prototype to separate mixed rare earth elements concentrate into pure individual rare earth oxides. Each institutional investor invested $125,000 for 2 shares in Innord, for a total of $250,000. As a result, the Corporation now owns 96.16% of Innord.

(Unaudited, in Canadian Dollars)

10. NON CONTROLLING INTEREST (CONT'D)

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

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

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

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

	Three months ended August 31, 2017	Year ended May 31, 2017
	$	$
Balance beginning	477,840	-
Addition - Exchange options discounted granted to SDBJ and ARBJ	-	442,724
Accretion expense	9,360	35,116
Liability related to exchange rights	**487,200**	**477,840**

11. EXPLORATION AND EVALUATION EXPENSES

	Three months ended August 31, 2017	Three months ended August 31, 2016
	$	$
Montviel	68,263	158,958
Gold properties and general exploration	-	17,048
Exploration and evaluation expenses	**68,263**	**176,006**

(Unaudited, in Canadian Dollars)

11. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

Montviel	**Three months ended August 31, 2017**	**Three months ended August 31, 2016**
	$	**$**
Acquisition and maintenance	**898**	**2,029**
Exploration		
Salaries and benefits	-	53,009
Share-based compensation	4,405	2,485
Geology	-	2,401
Assays and drilling	-	3,152
Transport and lodging	353	21,190
Geophysics and Geochemistry	13,272	9,750
Depreciation of property and equipment	2,809	6,493
Taxes, permits and insurances	1,276	448
Billing - rental	(15,495)	-
Total exploration	**6,620**	**98,928**
Evaluation		
Metallurgy and processing	-	8,595
Salaries and benefits - Metallurgy and processing	71,829	63,416
Separation process	11,034	(260)
Depreciation of property and equipment	12,885	10,134
Total Evaluation	**95,748**	**81,885**
Gross E&E expenses	103,266	182,842
Government grants	(35,003)	(23,884)
Mining credits	-	-
Net E&E expenses - Montviel	**68,263**	**158,958**

Gold properties and general exploration	**Three months ended August 31, 2017**	**Three months ended August 31, 2016**
	$	**$**
Acquisition and maintenance	-	6 086
Salaries and benefits	-	47 942
Lodging and travel expenses	-	6 769
Analysis	-	1 952
Supplies and equipment	-	2 395
Taxes, permits and insurance	-	942
E&E expenses before tax credits	-	66 086
Tax credits	-	-
	-	66 086
Transfer to discontinued operations	-	(49 038)
E&E expenses - gold properties and general exploration	**-**	**17 048**

11. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

11.1 Patent ownership and royalty agreement

On August 11, 2017, the Corporation and Innord entered into a patent ownership and royalty agreement with its Chief Technology Officer ("CTO") to insure the long-term development and commercialization of the Corporation's proprietary rare earths extraction and separation technologies. The Agreement will replace the 2013 agreement that granted the CTO 1,000,000 warrants in exchange for the transfer by the CTO of certain intellectual property rights to the Corporation, and which warrants will be cancelled pursuant to the Agreement. On October 19, 2017, the Agreement was approved by the shareholders of the Corporation at the annual meeting of the shareholders and is subject to the final Exchange approval.

The Extraction Royalty and the Separation Royalty (the "Royalties") to be granted to the CTO on commercialization under the Agreement may be summarized as follows:

- Extraction Royalty of 1.5% of the Net Profits for the extraction products. The royalty will increase to 2% if the gross profit margin of the operation ("GPM"), before subtracting the Royalties, is greater than 40% and it will be reduced to 1% if the GPM, before subtracting the Royalties, is less than 15%.
- Separation Royalty of 3% of the Net Sales Revenue for the separation products. The royalty will increase to 4% if the GPM, before subtracting the Royalties, is greater than 40% and it will be reduced to 2.5% if the GPM, before subtracting the Royalties, is less than 15%.

Pursuant to the Agreement, commercialization is deemed to occur at the earliest of:

- Oxide separation at a rate of 50 kg/day of Separation Products in oxide form for at least (i) 10 consecutive business days or (ii) 20 business days during any 2 month period, and the receipt by the Corporation of the full payment of a first order relating to such production.
- Montviel production – if the Corporation's Montviel project has reached 100% of nameplate capacity or 12 months after reaching 60% capacity or after reaching 60% of capacity and no longer ramping up to 100%.

In addition, and in order to secure the long term commitment of the CTO, the Agreement provides that development work not currently covered by the patents that the Corporation has already filed, will be jointly owned by the CTO and the Corporation (for the extraction work) and Innord (for the separation work) until commercialization at which point such rights shall be assigned to the Corporation and Innord, as the case may be. Notwithstanding the CTO's joint ownership rights in respect of new development work described above, the CTO shall not have any right to make, use, sell, dispose, offer for sale, grant licenses, import, export or otherwise distribute products or practice processes covered by one or more claims of the patents or any intellectual property without the prior written consent of the Corporation and/or Innord, which may be withheld in their sole discretion. Nevertheless, if there is a change of control or if there is no commercialization, the CTO would be granted a non-exclusive commercialization licence.

12. SUBSEQUENT EVENTS

12.1 Distribution of Kintavar's shares

Following the Kintavar sell of gold mining properties, the shareholders of the Corporation approved on October 19, 2017 at the annual meeting of shareholders, the distribution, in the form of a return of capital, of a portion of the 17,857,143 Kintavar shares to the Corporation's shareholders.

12. SUBSEQUENT EVENTS (CONT'D)

12.2 Shares for debt

On October 19, 2017, the Corporation's Board of Directors approved the issuance of 948,299 common shares at a deemed price of $0.09 per share, for the settlement of a combined debt of $85,347, of which $65,347 represents the amount due to the current and previous directors for their fees and $20,000 due to the CFO for professional fees. The settlement is subject to the Exchange approval. The Corporation will issue the shares pursuant to the settlement once the issuance has been approved by the Exchange.

12.3 Stock Options Grants

On October 19, 2017, the Corporation granted to its directors, officers, employees and consultants 945,000 options exercisable at $0.09, valid for 5 years. Those options were granted at an exercise price equal to the closing market value of the shares the day of the grant.