Geomega Resources Inc.

Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

September 7, 2017

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, 2017, 2016 and 2015 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended May 31, 2017 and 2016, 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.

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

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, 2017, 2016 and 2015 and its financial performance and cash flows for the years ended May 31, 2017 and 2016 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 LLP[1]

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

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

	Note	As at May 31 2017	As at May 31 2016 (adjusted, note 4)	As at May 31 2015 (adjusted, note 4)
		$	$	$
Assets				
Current assets				
Cash and cash equivalents	6	80,690	1,372,840	454,671
Accounts receivable		203,613	-	-
Sales tax receivable		21,420	24,765	35,534
Tax credits and government grant receivable	7	66,383	54,612	225,980
Prepaid expenses and others		24,523	22,395	55,921
Current assets		396,629	1,474,612	772,106
Non-current assets				
Tax credits receivable		-	-	129,208
Investment in an associate	8	1,537,681	-	-
Property and equipment	9	184,127	199,280	241,759
Non-current assets		1,721,808	199,280	370,967
Total assets		**2,118,437**	**1,673,892**	**1,143,073**
Liabilities				
Current liabilities				
Trade and other payables		439,994	515,096	392,931
Obligations under finance leases		-	-	34,826
Liability related to the premium on flow-through shares	10	-	98,442	-
Liability related to share exchange rights	15	477,840	-	-
Total liabilities		917,834	613,538	427,757
Equity				
Share capital		28,210,935	28,138,731	26,525,148
Warrants	12	691,579	559,010	700,225
Broker options	13	8,195	23,595	119,910
Stock options		413,604	1,134,067	1,663,131
Contributed surplus		3,442,881	2,616,232	1,529,238
Deficit		(31,558,230)	(31,411,281)	(29,822,336)
Equity attributable to Geomega Resources Inc.'s shareholders		1,208,964	1,060,354	715,316
Non-controlling interests		(8,361)	-	-
Total equity		**1,200,603**	**1,060,354**	**715,316**
Total liabilities and equity		**2,118,437**	**1,673,892**	**1,143,073**

Going concern (Note 1), subsequent events (Note 24)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

(s) Kiril Mugerman	*(s) Patrick Godin*
Kiril Mugerman	Patrick Godin
Director, President and CEO	Chairman

Geomega Resources Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended May 31, 2017 and 2016

(in Canadian Dollars, except number of commmon shares)

	Note	Fiscal 2017	Fiscal 2016 (adjusted note 4)
		$	$
Operating Expenses			
Salaries, employee benefits, settlement and share-based compensation	18	326,444	452,631
Directors fees, net of adjustment for a settlement in shares	18	75,000	(17,500)
Exploration and evaluation expenses, net of tax credits	19	545,971	437,917
Research expenses, net of tax credits		-	25,866
Professional fees		297,883	237,891
Travel conference and investor relations		21,246	32,610
Administration		27,766	32,435
Filing fees		52,345	71,558
Rent		47,463	27,680
Insurance, taxes and permits		33,511	40,810
Gain on disposal of property and equipment		(5,000)	-
Operating loss		(1,422,629)	(1,341,898)
Other income (expenses)			
Other income		-	6,801
Interest income (expense)		(536)	4,731
Finance costs		(35,116)	(7,137)
Gain on disposal of marketable securities		76,115	-
		40,463	4,395
Net loss - continuing operations before income taxes		(1,382,166)	(1,337,503)
Deferred income taxes recovery		98,442	174,103
Net loss - continuing operations		**(1,283,724)**	**(1,163,400)**
Net (loss) income - discontinued operations	8,19	1,453,707	(425,545)
Net (loss) income		**169,983**	**(1,588,945)**
Other comprehensive loss			
Unrealized gain due to change in value of marketable securities		147,780	-
Unrealized gain on the value of marketable securities transferred to the statement of loss		(147,780)	-
Other comprehensive loss		-	-
Comprehensive income (loss)		**169,983**	**(1,588,945)**
Net (loss) income attributable to:			
Geomega Resources Inc. shareholders		186,330	(1,588,945)
Non-controlling interests		(16,347)	-
Net loss – continuing operations attributable to:			
Geomega Resources Inc. shareholders		(1,267,377)	(1,163,400)
Non-controlling interests		(16,347)	-
Comprehensive income (loss) attributable to:			
Geomega Resources Inc. shareholders		186,330	(1,588,945)
Non-controlling interests		(16,347)	-
Basic and diluted income (loss) per share		0.002	(0.024)
Basic and diluted loss per share – continuing operations		(0.016)	(0.017)
Basic and diluted income (loss) per share – discontinued operations		0.019	(0.006)
Weighted average number of basic and diluted outstanding shares		77,819,559	66,599,246

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

Geomega Resources Inc.

Consolidated Statements of Changes in Equity

For the years ended May 31, 2017 and 2016

(in Canadian Dollars)

	Note	Number of shares outstanding	Capital stock	Warrants	Broker Options	Stock Options	Contributed surplus	Deficit	Total equity
			$	$	$	$	$	$	$
Balance at May 31, 2015 – as previously reported		56,989,560	26,525,148	700,225	119,910	1,663,131	1,529,238	(11,927,228)	18,610,424
Cumulative effect – exploration and evaluation assets accounting policy change	4	-	-	-	-	-	-	(17,895,108)	(17,895,108)
Balance at May 31, 2015, as adjusted		56,989,560	26,525,148	700,225	119,910	1,663,131	1,529,238	(29,822,336)	715,316
Loss and comprehensive loss for the year		-	-	-	-	-	-	(1,588,945)	(1,588,945)
Share-based compensation		-	-	-	-	59,395	-	-	59,395
Shares issued for private placements		20,069,152	1,644,866	260,005	-	-	-	-	1,904,871
Share issuance costs		-	(57,533)	(8,195)	9,195	-	-	-	(56,533)
Shares issued in debt settlement		375,000	26,250	-	-	-	-	-	26,250
Expired warrants		-	-	(393,025)	-	-	393,025	-	-
Expired stock options		-	-	-	-	(588,459)	588,459	-	-
Expired broker options		-	-	-	(105,510)	-	105,510	-	-
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**

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

Geomega Resources Inc.

Consolidated Statements of Changes in Equity

For the years ended May 31, 2017 and 2016
(in Canadian Dollars)

	Note	Number of shares outstanding	Capital stock	Warrants	Broker Options	Stock Options	Contributed surplus	Deficit	Equity attributable to Geomega Resources Inc.	Non-controlling interest	Total equity
			$	$	$	$	$	$	$	$	$
Balance at May 31, 2016 – as previously reported		77,433,712	28,138,731	559,010	23,595	1,134,067	2,616,232	(13,894,493)	18,577,142	-	18,577,142
Cumulative effect – exploration and evaluation assets accounting policy change	4	-	-	-	-	-	-	(17,516,788)	(17,516,788)	-	(17,516,788)
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) income		-	-	-	-	-	-	186,330	186,330	(16,347)	169,983
Other comprehensive loss		-	-	-	-	-	-	-	-	-	-
Comprehensive income (loss)		-	-	-	-	-	-	186,330	186,330	(16,347)	169,983
Investment in Innord by non-controlling interest		-	-	-	-	-	-	242,014	242,014	7,986	250,000
Liability related to share exchange rights		-	-	-	-	-	-	(442,724)	(442,724)	-	(442,724)
Shared-based compensation		-	-	-	-	93,171	-	-	93,171	-	93,171
Shares issued in consideration for severance pay	18	774,337	65,819	-	-	-	-	-	65,819	-	65,819
Expired and forfeited stock options		-	-	-	-	(812,249)	812,249	-	-	-	-
Exercised stock options		25,000	3,135	-	-	(1,385)	-	-	1,750	-	1,750
Exercised broker options		25,000	3,250	-	(1,000)	-	-	-	2,250	-	2,250
Extended warrants		-	-	132,569	-	-	-	(132,569)	-	-	-
Expired broker options		-	-	-	(14,400)	-	14,400	-	-	-	-
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**

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

Geomega Resources Inc.
Consolidated Statements of Cash Flows
For the years ended May 31, 2017 and 2016
(in Canadian Dollars)

	Note	Fiscal 2017	Fiscal 2016
		$	$
Operating activities			
Net loss relating to continuing operations		(1,283,724)	(1,163,400)
Net income (loss) relating to discontinued operations		1,453,707	(425,545)
Net income (loss)		169,983	(1,588,945)
Adjustments for:			
Share-based compensation		93,171	59,395
Depreciation		57,342	60,041
Severance pay paid in shares		65,819	-
Gain from exploration and evaluation properties disposal		(1,595,881)	-
Gain from settlement in shares for debt		-	(151,250)
Finance costs		35,116	-
Deferred income tax recovery		(98,442)	(174,103)
Gain on disposal of property and equipment		(5,000)	-
Gain on disposal of marketable securities		71,665	-
Unrealized gain on the value of marketable securities (OCI)		(147,780)	-
Changes in non-cash working capital items			
Accounts receivable		(203,613)	-
Sales tax receivable		3,345	10,769
Tax credits receivable		(11,771)	300,576
Prepaid expenses and other		(2,128)	33,526
Trade and other payables		(75,102)	273,415
Cash flows used in operating activities		**(1,643,276)**	**(1,176,576)**
Investing activities			
Proceed from disposal of marketable securities		151,115	-
Costs of acquisition of investment in an associate		(16,800)	-
Additions of property and equipment		(42,189)	(17,562)
Proceed from disposal of property and equipment		5,000	-
Cash flows from in investing activities		**97,126**	**(17,562)**
Financing activities			
Proceeds from issuance of units and shares, net of issue costs		-	2,147,133
Contribution of non-controlling shareholders		250,000	-
Exercise of broker options		2,250	-
Exercise of stock options		1,750	-
Payments on obligations under finance leases		-	(34,826)
Cash flows from in financing activities		**254,000**	**2,112,307**
Net change in cash and cash equivalents		(1,292,150)	918,169
Cash and cash equivalents – beginning		1,372,840	454,671
Cash and cash equivalents – ending		**80,690**	**1,372,840**
Additional information			
Interest received		409	6,273
Interest paid		-	(4,326)

The accompanying notes are an integral part of these 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 audited consolidated financial statements (the "Financial Statements") were approved by the Corporation's Board of Directors on September 7, 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 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 year ended May 31, 2017, the Corporation reported a net income of $169,983 and has accumulated a deficit of $31,558,230 up to that date. As at May 31, 2017, the Corporation had a negative working capital of $521,205.

Management estimates that the working capital will not be sufficient to meet the Corporation's obligations and commitments and budgeted expenditures through May 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. 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

3.1 Basis of measurement

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

3.2 Consolidation

The Financial Statements include the accounts of the Corporation and those of its subsidiary Innord Inc. ("Innord") owned at 96.16% on May 31, 2017 (100% on May 31, 2016). All intra-group transactions, balances, income and expenses are eliminated during consolidation.

3.3 Non-controlling interests

Non-controlling interests represent an equity interest in a subsidiary owned by an outside party. The share of net assets of the subsidiary attributable to the non-controlling interests is presented as a component of equity. Their share of net income or loss and comprehensive income or loss is recognized directly in equity. Changes in the Corporation's ownership interest in the subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.4 Functional and presentation currency

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

3.5 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.

3.6 Investments in an associate

Associates are entities over which the Corporation has significant influence, but not control. The financial results of the Corporation's investments in its associates are included in the Corporation's results according to the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Corporation's share of comprehensive income of associates after the date of acquisition. The Corporation's share of profits or losses is recognized in the statement of income (loss) and its share of other comprehensive income or loss of associates is included in other comprehensive income (loss).

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of income (loss).

The Corporation assesses at each period-end whether there is any objective evidence that its investments in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the statement of income (loss).

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

3.7 Exploration and evaluation expenses

Exploration and evaluation ("E&E") expenses 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.

E&E expenses also include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. Expenditures relating to E&E activities are expensed as incurred.

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 Corporation'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.

The E&E expenses are recorded 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, at which time the mine project moves into the development phase.

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

The Corporation 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 E&E of such property. However, these procedures do not guarantee the Corporation's title, as property title may be subject to unregistered prior agreements, aboriginal claims or noncompliance with regulatory requirements.

3.8 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").

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

3.9 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 Corporation 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 income (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 E&E activities	3 to 5 years
Warehouse related to E&E activities	15 years

Depreciation of property and equipment, if related to exploration activities, is expensed consistently with the policy for E&E expenses. For those which are not related to E&E activities, depreciation expense is recognized directly in the statement of income (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 income (loss).

3.10 Tax credits and mining rights receivable

The Corporation 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 E&E expenses incurred.

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

3.11 Investment tax credits

Investment tax credits are recognized when there is reasonable assurance that the Corporation has complied with, and will continue to comply with, all conditions necessary to obtain such assistance. The Corporation 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.

3.12 Government grants

The Corporation'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 income (loss) depending on the nature of the expenditures).

3.13 Impairment of non-financial assets

Property and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. 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 Corporation 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 income (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.

3.14 Provisions, contingent liabilities and contingent assets

Provisions for environmental restoration, restructuring costs and legal claims, where applicable, are recognized when: (i) the Corporation 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.

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

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 Corporation'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.

The Corporation'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 Corporation's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible, given that the Corporation'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 Corporation 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.

3.15 Flow-through shares

The Corporation finances some E&E expenses 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 income (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.

3.16 Financial instruments

Financial assets and financial liabilities are recognized when the Corporation 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.

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

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.

3.17 Financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in the statement of income (loss) or in other comprehensive income (loss). All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs or interest income. The Corporation'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 Corporation's cash and cash equivalents fall into this category of financial instruments.

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.

3.18 Financial liabilities

The Corporation'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 income (loss) within finance costs when applicable.

3.19 Current income and mining taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income (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.

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

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 Corporation operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

3.20 Deferred income and mining taxes

The Corporation 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 income (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 E&E properties, the related deferred tax has been calculated accordingly.

3.21 Basic and diluted income or loss per share

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

Diluted income or 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 income or 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 income or 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 Corporation 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.

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

3.22 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.

3.23 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.

3.24 Equity-settled share-based compensation

The Corporation 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 Corporation'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 income (loss) 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.

3.25 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 income (loss), 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 income (loss) as incurred.

The Corporation leases certain equipment. Leases of equipment for which the Corporation 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.

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

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 income (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 Corporation.

3.26 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 income (loss) as the employees render services that increase their entitlement. The cost of bonus payments is recognized in the statement of income (loss) when there is a legal or constructive obligation to make such payments as a result of past performance.

3.27 Segment reporting

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

3.28 Accounting standards issued but not yet effective

The Corporation 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, 2017. Many of these updates are not relevant to the Corporation and are therefore not discussed herein.

a) 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 Corporation.

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

b) 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 eliminates 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 income (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. 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 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.

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*, 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 financial statements:

(in Canadian Dollars)

4. CHANGE IN ACCOUNTING POLICY (CONT'D)

Consolidated statements of financial position:

	As at May 31, 2015		
	As Previously reported	**Impact**	**Adjusted**
	$	**$**	**$**
E&E assets	17,895,108	(17,895,108)	-
Deficit	(11,927,228)	(17,895,108)	(29,822,336)

	As at May 31, 2016		
	As Previously reported	**Impact**	**Adjusted**
	$	**$**	**$**
E&E assets	17,516,788	(17,516,788)	-
Deficit	(13,894,493)	(17,516,788)	(31,411,281)

Consolidated statements of income (loss) and comprehensive income (loss):

	Fiscal 2016		
	As Previously reported	**Impact**	**Adjusted**
	$	**$**	**$**
E&E expenses, net of tax credits	-	437,917	437,917
E&E expenses, discontinued operations	406,812	18,733	425,545
Impairment of E&E assets	834,970	(834,970)	-
Net loss and comprehensive loss	1,967,265	(378,320)	1,588,945
Basic and diluted loss per share	(0.030)	0.006	(0.024)

Consolidated statement of cash flows:

	Fiscal 2016			
	As Previously reported	**Transfer to discontinued activities**	**Impact**	**Adjusted**
	$		**$**	**$**
Operating activities				
Net loss relating to continuing operations	1,967,265	(406,812)	(397,053)	1,163,400
Impairment of E&E assets	834,970	-	(834,970)	-
Trade and other payables	164,463	-	4,892	169,355
Investing activities				
Additions of E&E assets	(451,758)	-	451,758	-

5. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the Corporation'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:

Critical judgments

5.1 Going concern

The assessment of the Corporation'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.

5.2 Accounting for research and development activities

The Corporation 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 E&E expenses under IFRS 6. The Corporation 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 Corporation 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.

The Corporation applies the criteria listed in IAS 38 to determine if research and development costs should be capitalized or expensed. As at May 31, 2017, all expenses incurred by the Corporation within the scope of IAS 38 were expensed as the Corporation is in the research phase and not the development phase.

5.3 Income taxes and recoverability of potential deferred tax assets

Periodically, the Corporation evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Corporation believes that it is probable that some portion of the deferred tax assets will fail to be realized, the Corporation 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 Corporation 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 E&E properties, which is an important judgment.

(in Canadian Dollars)

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

5.4 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 Corporation 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 Corporation 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 Corporation. 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 Corporation 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 Corporation'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 Corporation's financial position and cash flows.

5.5 Liability related to share exchange rights

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

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

6. CASH AND CASH EQUIVALENTS

	As at May 31, 2017	**As at May 31, 2016**
	$	**$**
Cash	80,690	1,269,698
Investment redeemable at any time	-	103,142
Cash and cash equivalents	**80,690**	**1,372,840**

The balance on flow-through financing not spent according to the restrictions imposed by the December 31, 2015 financing represented $295,328 as at May 31, 2016 and this balance was fully spent as at December 31, 2016.

(in Canadian Dollars)

7. TAX CREDITS AND GOVERNMENT GRANTS RECEIVABLE

	As at May 31, 2017	As at May 31, 2016
	$	$
Tax credits for resources	15,365	-
Refundable credit on mining duties	38,596	35,435
Government grants	12,422	19,177
	66,383	54,612
Less: Non-current portion of tax credits receivable	-	-
Current portion of tax credits receivable	**66,383**	**54,612**

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 Corporation's subsidiary, Innord.

8. DISCONTINUED OPERATIONS AND SALE OF GOLD ASSETS

On December 8, 2016 the Corporation signed a Gold Claims Sale Agreement (the "Sale Agreement") with a privately owned corporation, Groupe Ressources Géomines Inc. ("Géomines"). The Sale Agreement, which closed on March 24, 2017, concerns all the non-rare earth elements ("non-REE") related assets held by the Corporation and are comprised of the Anik, Rivière à l'Aigle, McDonald, Gaspard, Comptois, Lac Storm, 3G and Maryse properties (the "Gold Asset Sale"). The Gold Asset Sale was done in conjunction with the closing of a transaction between Géomines and Black Springs Capital Corp. ("BSC") pursuant to which BSC acquired all of the outstanding shares of Géomines (the "Acquisition"). Géomines has an exploration portfolio, comprised of the Mitchi property (formerly known as WHN and Boisvert properties) located in the Province of Québec (the "Géomines Properties"). The Acquisition constitute the "Qualifying Transaction" ("QT") of BSC, a capital pool company. On completion of the Acquisition, BSC and Géomines were amalgamated and continued the operations under the Kintavar Exploration Inc. ("Kintavar") name.

In connection with the closing of the Acquisition, BSC obtained the shareholder approval for the consolidation of its share capital on a basis of two pre-consolidated shares (each a "BSC PreShare") for one share of Kintavar.

Under the terms of the Sale Agreement, an all-share transaction, the Corporation received 17,857,143 Kintavar shares for a value of $2,500,000 and the Géomines shareholders received 10,714,286 Kintavar shares for a value of $1,500,000, at a deemed price of $0.14 per share.

A finder's fee of 190,476 Kintavar shares was paid to each of Ansacha Capital Inc., Hexagon Ventures Inc. and Laurentian Bank Securities for being instrumental in introducing the parties.

In December 2016, BSC completed a bridge private placement financing of $110,250 (the "Bridge Financing"), of BSC PreShares at the subscription price of $0.0525 per share. In accordance with the capital restructuring and bridge financing, 4,125,000 Kintavar shares were issued to BSC shareholders at a 1: 2 exchange ratio.

(in Canadian Dollars)

8. DISCONTINUED OPERATIONS AND SELL GOLD ASSETS (CONT'D)

In addition, Géomines and BSC completed a total gross proceeds financing of $2,019,003, of which $937,293 was completed at the same time as the closing. As a result of the financing, 5,635,510 flow-through shares of Kintavar were issued at a price of $ 0.18 per share and 7,175,793 units of Kintavar at $0.14 per unit. Each unit consisting of one share and one-half share purchase warrant, each full warrant entitling the holder to acquire one share of Kintavar at a price of $0.18 per share until March 24, 2019.

Effective on January 1, 2017, Géomines signed an agreement to hire the Corporation as a subcontractor to execute the exploration work on the non-REE properties after January 1, 2017.

On March 24, 2017 and May 31, 2017, the Corporation held 38.75% of 46,079,160 shares issued and outstanding of Kintavar. It should be noted that the president and chief executive officer, the vice-president exploration and the chief financial officer hold similar positions in the Corporation and in Kintavar.

Amount of investment in an associate and gain on disposal of E&E properties

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 May 31, 2017 is $3,125,000 (17,857,143 shares at $0.175). The Corporation categorized the fair value measurement in Level 1, as it is derived from quoted prices in active markets.

Kintavar's financial statements reporting date is December 31. The Corporation applied the equity method, using Kintavar's most recent condensed financial statements as at March 31, 2017.

Summarised financial information of Kintavar presented below reflects the amounts presented in the latter's own financial statements and not the Corporation's share of those amounts. They have been amended to reflect adjustments made by the Corporation when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	As at March 31, 2017
	$
Current assets	1,758,820
Current liabilities	(573,423)
Non-current liabilities	(162,720)
Net assets	1,022,677
Interest held by the Corporation	38.75%
	396,287
Other adjustments	1,141,394
Investment in Kintavar	**1,537,681**

The other adjustment reflects the residual excess of the initial fair value of the investment over the share of Kintavar's underlying identifiable net assets at the time of the acquisition, taking into account the unrealized gain on the disposal of the E&E properties.

(in Canadian Dollars)

8. DISCONTINUED OPERATIONS AND SELL GOLD ASSETS (CONT'D)

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;
- 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.

Upon closing of the QT on March 24, 2017, the gain on disposal of mineral properties was determined as follows:

	$
Proceeds of disposition of E&E properties	2,500,000
Unrealized gain on disposal of E&E properties	(958,710)
Transaction fees	(16,800)
Gain on disposal of exploration and evaluation properties	**1,524,490**

Income (loss) relating to discontinued operations

Income (loss) related to non-REE have been segregated from continuing operations. Income (loss) from discontinued operations consists of the following:

	Fiscal 2017	Fiscal 2016
	$	$
E&E expenses, net of tax credits	(142,174)	(425,545)
Gain in disposal of E&E properties – Kintavar	1,524,490	-
Gain in disposal of E&E properties – Buckingham	71,391	-
Income (loss) relating to discontinued operations	**1,453,707**	**(425,545)**

Cash flows from discontinued operations

Cash flows related to non-REE have been segregated from continuing operations. Net cash flows used in discontinued operations consist of the following:

	Fiscal 2017	Fiscal 2016
	$	$
Cash flows used in operating activities	142,174	425,545
Cash flow used in discontinued operations	**142,174**	**425,545**

(in Canadian Dollars)

9. PROPERTY AND EQUIPMENT

	Leasehold Improve-ments	Office equip-ment	Vehicles	E&E Equipment Field Equipment and Camp	Ware-house	Total
	$	$	$	$	$	$
Fiscal 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**

	Office equip-ment	Vehicles	E&E Equipment Field Equipment and Camp	Ware-house	Total
	$	$	$	$	$
Opening net book value	-	-	88,904	110,376	199,280
Additions	-	-	42,189	-	42,189
Depreciation	-	-	(45,273)	(12,069)	(57,342)
Closing net book value	-	-	85,820	98,307	184,127
As at May 31, 2017					
Cost	**14,984**	**19,324**	**617,023**	**159,388**	**810,719**
Accumulated depreciation	**(14,984)**	**(19,324)**	**(531,203)**	**(61,081)**	**(626,592)**
Closing net book value	**-**	**-**	**85,820**	**98,307**	**184,127**

Depreciation of property and equipment related to E&E properties is being recorded within in E&E expenses. Depreciation of property and equipment is recorded on the statement of income (loss) under depreciation of property and equipment. An amount of $57,342 ($60,041 – 2016) was expensed as E&E expenses during the year ended May 31, 2017.

(in Canadian Dollars)

10. LIABILITY RELATED TO THE PREMIUM ON FLOW THROUGH SHARES

	As at May 31, 2017	As at May 31, 2016
	$	$
Balance, beginning of period	98,442	-
Addition, net of issue costs	-	272,545
Reduction related to qualifying exploration expenditures	(98,442)	(174,103)
Liability related to the premium on flow through shares	**-**	**98,442**

11. SHARE CAPITAL

11.1 Authorized Share Capital

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

11.2 Private placements

On February 23, 2016, the Corporation 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. 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 Corporation 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 Corporation, failing which the warrants will expire automatically. The 5,710,715 warrants issued 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%.

On December 30, 2015, the Corporation 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 Corporation 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.

On July 6, 2015, the Corporation 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 Corporation has the right to force the exercise of the warrants if 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 Corporation, failing which the warrants will expire automatically.

(in Canadian Dollars)

11. SHARE CAPITAL (CONT'D)

On June 19, 2015, the Corporation 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. 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%.

11.3 Share for debt

On December 7, 2016, the Corporation issued 774,337 shares at a price of $0.085 for a total value of $65,819 and paid an amount of $15,000 as part of a settlement with a former senior officer.

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

12. WARRANTS

Changes in the Corporation's warrants are as follow:

	Fiscal 2017			Fiscal 2016		
	Number of warrants	**Carrying Value**	**Weighted average exercise price**	**Number of warrants**	**Carrying Value**	**Weighted average exercise price**
		$	**$**		**$**	**$**
Opening	12,104,131	559,010	0.16	6,957,304	700,225	0.40
Issued	-	-	-	7,013,493	260,005	0.12
Issuance Costs	-	-	-	-	(8,195)	-
Expired	-	-	-	(1,866,666)	(393,025)	0.90
Extended	-	132,569	-	-	-	-
	12,104,131	**691,579**	**0.16**	**12,104,131**	**559,010**	**0.16**

Warrants outstanding as at May 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
12,104,131		

(in Canadian Dollars)

12. WARRANTS (CONT'D)

The 4,090,638 warrants due to expire between November 4, 2016 and December 6, 2016 were extended 2 years. Total costs of the warrant extension amounts to $132,569, recorded under warrants and the offsetting entry was 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 follows for the two periods respectively: no expected dividend yield, 90.2% and 74.2% weighted average expected volatility, 0.50% and 0.53% risk-free interest rate and 2.03 and 0.03 years warrant weighted average expected life.

On June 8, 2017, the 1,302,778 warrants due to expire on June 19, 2017 were extended by one year. The total cost of the warrant extension is $5,211 which will be recorded under warrants and the offsetting entry will be 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 were cancelled (note 24.2).

13. BROKER OPTIONS

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

	Fiscal 2017			Fiscal 2016		
	Number of broker options	**Carrying Value**	**Weighted average exercise price**	**Number of broker options**	**Carrying Value**	**Weighted average exercise price**
		$	**$**		**$**	**$**
Opening	389,875	23,595	0.16	424,167	119,910	0.47
Issued	-	-	-	229,875	9,195	0.09
Expired	(160,000)	(14,400)	0.25	(264,167)	(105,510)	0.60
Exercised	(25 000)	(1 000)	0.09	-	-	-
	204,875	**8,195**	**0.09**	**389,875**	**23,595**	**0.16**

Broker warrants outstanding as at May 31, 2017 are as follows:

Number of broker options	**Exercise price**	**Expiry date**
	$	
204,875	0.09	June 30, 2017 [1)]

1) Not exercised at the expiry date

(in Canadian Dollars)

14. STOCK OPTIONS

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

	Fiscal 2017		Fiscal 2016	
	Number of options	**Weighted Average Exercise Price**	**Number of options**	**Weighted Average Exercise Price**
		$		$
Balance, beginning	3,145,000	0.40	3,320,000	0.60
Granted	1,920,000	0.095	1,090,000	0.07
Expired	(562,500)	1.44	(1,122,500)	0.68
Exercised	(25,000)	0.07	-	-
Cancelled	(27,500)	0.08	-	-
Forfeited	(52,500)	0.09	(142,500)	0.26
Balance, end	**4,450,000**	**0.14**	**3,145,000**	**0.40**
Balance, end exercisable	2,755,000	0.17	2,181,250	0.54

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

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
		$	
100,000	100,000	0.45	July 19, 2017 1)
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	225,000	0.09	September 13, 2020
720,000	540,000	0.07	November 22, 2020
1,920,000	480,000	0.095	November 29, 2021
4,450,000	**2,755,000**		

1) Not exercised at the expiry date

On November 29, 2016, the shareholders of the Corporation renewed the stock option plan which provides that the maximum number of common shares in the capital of the Corporation that may be reserved for issuance under the plan is limited to a maximum of 10% of the common shares outstanding.

On November 29, 2016, the Corporation granted to its directors, officers, employees and consultants 1,920,000 options exercisable at $0.095, valid for 5 years. Those options were granted at an exercise price equal to the closing market value of the shares the previous day of the grant. Total stock-based compensation costs amount to $132,480 for an estimated fair value of $0.069 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, 112% expected volatility, 0.55% risk-free interest rate and 3.75 years options expected life. This expected life was estimated by benchmarking comparable situations for companies that are similar to the Corporation. The expected volatility was determined by calculating the historical volatility of the Corporation's share price back from the date of grant and for a period corresponding to the expected life of the options.

(in Canadian Dollars)

15. 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.

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.

	Fiscal 2017
	$
Balance beginning	-
Exchange options granted to SDBJ and ARBJ	500,000
Initial discounting using a rate of 8 %	(57,276)
	442,724
Accretion for the period	35,116
Liability related to exchange rights	**477,840**

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

16. CAPITAL MANAGEMENT

The Corporation's objective in managing capital is to safeguard its ability to continue its operations as well as its E&E programs. The Corporation 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 Corporation may issue new shares and acquire or sell mining rights to improve its financial performance and flexibility. In addition in Fiscal 2018, the Corporation issued units of convertible debentures (note 24.1).

The Corporation's capital is composed of equity. As at May 31, 2017, the Corporation's adjusted (Note 4) capital totalled $1,200,603 ($1,060,354 as at May 31, 2016).

(in Canadian Dollars)

17. 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, warrants and share exchange rights have not been included, as they would have the effect of decreasing the loss per share from continuing operations. Decreasing the loss per share from continuing operations would be antidilutive.

18. EMPLOYEE REMUNERATION

	Fiscal 2017	Fiscal 2016
	$	$
Wages, salaries	823,307	817,263
Professional fees paid to officers	-	48,801
Benefits	127,935	76,241
Settlement	80,819	-
Share-based compensation	93,171	59,396
	1,125,232	1,001,701
Salaries and benefits recorded in E&E expenses	(651,116)	(563,913)
Share-based payments recorded in E&E expenses	(31,549)	(2,658)
Directors fees	(75,000)	17 500
Remuneration rebilled to Kintavar	(41,123)	-
Salaries, employee benefits, settlement and share-based compensation presented on the statement of income (loss)	**326,444**	**452,631**

19. EXPLORATION AND EVALUATION EXPENSES

	Fiscal 2017	Fiscal 2016
	$	$
Montviel	503,911	437,917
Gold properties and general exploration	42,060	**-**
Exploration and evaluation expenses	**545,971**	**437,917**

(in Canadian Dollars)

19. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

Montviel	**Fiscal 2017**	**Fiscal 2016**
	$	**$**
Acquisition and maintenance	**5,305**	**5,928**
Exploration		
Salaries and benefits	110,251	119,599
Share-based compensation	19,967	2,658
Geology	4,212	19,200
Assays and drilling	9,142	9,760
Transport and lodging	38,570	48,227
Geophysics and Geochemistry	28,805	13,540
Depreciation of property and equipment	12,070	60,043
Taxes, permits and insurances	7,018	13,124
Total exploration	**230,035**	**286,151**
Evaluation		
Mine design	-	47,953
Hydrogeology, Geochemistry,geotechnical and geomechanical	-	4,413
Metallurgy and processing	8,595	65,893
Salaries and benefits - Metallurgy and processing	272,760	192,439
Separation process	79,983	31,278
Depreciation of property and equipment	45,273	-
Other	-	14,916
Total Evaluation	**406,611**	**356,892**
Gross E&E expenses	641,951	648,971
Government grants	(128,379)	(198,496)
Mining credits	(9,661)	(12,558)
Net E&E expenses - Montviel	**503,911**	**437,917**

Gold properties and general exploration	**Fiscal 2017**	**Fiscal 2016**
	$	**$**
Acquisition and maintenance	18,772	18,733
Salaries and benefits	268 105	251,873
Geology and prospection	946	-
Lodging and travel expenses	58,553	70,436
Analysis	16,954	49,870
Drilling	2,155	9,900
Geophysics	76,596	23,437
Supplies and equipment	32,657	15,389
Taxes, permits and insurance	6,007	3,711
Cost of mining properties	-	(562)
Billing according to agreement (Note 22.4)	(287,646)	-
E&E expenses before tax credits	193,099	442,787
Tax credits	(8,865)	(17,242)
	184,234	425,545
Transfer to discontinued operations	(142,174)	(425,545)
E&E expenses - gold properties and general exploration	**42,060**	**-**

(in Canadian Dollars)

19. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

19.1 Montviel property (Rare Earth Elements and Niobium)

The Corporation 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 177 mining claims totalling 9,831 hectares as at May 31, 2017.

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

19.2 Buckingham property (Graphite)

On April 6, 2016, the Corporation signed a property purchase agreement with Saint Jean Carbon Inc. ("Saint Jean") whereby Saint Jean acquired a 100%-interest in the Buckingham mining property. Under the terms of the agreement, the Corporation received 1,500,000 common shares of Saint Jean valued at $75,000 as per the Exchange price on the day the Corporation received the shares, generating a gain on disposal of E&E properties of $75,000. All these shares were sold in Fiscal 2017 and a gain on disposal of marketable securities of $76,115 was realized. The Corporation retains a 0.75% net output returns royalty on the property that was measured at a symbolic value.

20. INCOME TAXES

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

	Fiscal 2017	Fiscal 2016
	$	$
Deferred income tax recovery		
Amortization of flow-through share liability	(98,442)	(174,103)
Total recovery of deferred income taxes	**(98,442)**	**(174,103)**

(in Canadian Dollars)

20. INCOME TAXES (CONT'D)

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

	Fiscal 2017	Fiscal 2016 (adjusted, note 18)
	$	$
(Income) loss before income taxes	(71,541)	1,763,048
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 26.8% (26.9% in Fiscal 2016)	19,173	(474,260)
Increase (decrease) in income taxes resulting from the following:		
Non-deductible items	24,779	15,263
Non-taxable tax credit	3,161	6,809
Disposal – permanent difference interest in Kintavar	258,864	-
Renounced E&E expenses	79,145	165,055
Rate change	95,061	-
Amortization of flow-through share liability	(98,442)	(174,103)
Adjustment from prior year	(9,524)	(6,449)
Unrecognized temporary differences	(470,659)	293,582
Deferred income tax recovery	**(98,442)**	**(174,103)**

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 $6,275,354 ($6,746,013 in 2016).

Significant components of the Corporation's deferred income tax assets and liabilities are as follows:

	As at May 31, 2017	As at May 31, 2016 (adjusted, note 18)
	$	$
Deferred income tax assets:		
Intangible assets	3,940	4,301
Property and equipment	78,149	73,648
Deductible share issue expenses	43,819	94,702
E&E assets	3,139,589	3,849,643
Operating losses carried forward	3,009,857	2,771,956
Total deferred income tax assets	6,275,354	6,794,250
Deferred income tax liabilities		
Grants	-	(48,237)
Total deferred income tax assets non recognized	**6,275,354**	**6,746,013**

(in Canadian Dollars)

20. INCOME TAXES (CONT'D)

As at May 31, 2017, expiration dates of losses available to reduce future years' income for tax purposes are:

	Federal	Provincial
	$	$
2037	1,227,082	1,225,209
2036	1,586,227	1,586,228
2035	1,978,913	1,978,913
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	**10,743,813**	**11,243,855**

21. FINANCIAL ASSETS AND LIABILITIES

Objectives and policies concerning financial risk management

The Corporation 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 Corporation. The Corporation does not enter into agreements for financial instruments, including financial derivatives, for speculation purpose.

21.1 Interest rate risk

The Corporation has cash balances and the Corporation'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 Corporation 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 Corporation do not bear interest. The Corporation 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 Corporation.

21.2 Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation'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 Corporation'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 Corporation'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 Corporation. The Corporation has historically generated cash flow primarily from its financing activities.

(in Canadian Dollars)

21. FINANCIAL ASSETS AND LIABILITIES (CONT'D)

As at May 31, 2017, the Corporation had cash and cash equivalents of $80,690 and accounts receivable (rebilling to Kintavar) of $203,613 to settle current financial liabilities of $439,994. All of the Corporation's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms except for the $500,000 liability related to share exchange rights corresponding to the option where the investors would exchange their shares in Innord according to the different outcomes relating to the phase 1A of the rare earth separation process (Note 15). The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (note 1).

21.3 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 Corporation is subject to credit risk through cash and cash equivalents and accounts receivables. The Corporation 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. In addition, the accounts receivable are with Kintavar held at 38.75% by the Corporation and amounts rebilled should decrease over time as Kintavar needs less the logistic and administrative support from the Corporation.

21.4 Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivables, trade and other payables and liability related to share exchange rights are considered to be a reasonable approximation of fair their value because of the short-term maturity and contractual terms of these instruments.

22. RELATED PARTY TRANSACTIONS

22.1 Key Management Personnel Remuneration

Key management personnel of the Corporation 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:

	Fiscal 2017	**Fiscal 2016**
	$	**$**
Short-term employee benefits		
Salaries, director fees and settlement	567,195	508,798
Benefits	26,847	34,848
Professional fees	98,475	48,801
Total short-term employee benefits	692,516	592,446
Share-based compensation	81,492	48,221
Total remuneration	**774,008**	**640,667**

(in Canadian Dollars)

22. RELATED PARTY TRANSACTIONS (CONT'D)

22.2 Transaction with related parties

In addition to the amounts listed above in the compensation to key management (note 22.1), following are the related party transactions:

In the normal course of operations:

- A firm in which an officer is a partner charged professional fees amounting to $42,721 ($155,344 in Fiscal 16);
- A company controlled by an officer charged professional fees of $53,452 (nil in Fiscal 16) for her staff; and
- As at May 31, 2017, the balance due to the related parties amounted to $60,377 ($187,228 as at May 31, 2016).

Out of the normal course of operations:

- Directors and officers of the Corporation participated in the flow-through private placement of December 30, 2015 for $29,700 and in the private placement of February 23, 2016 for $500,000 (note 11.2). The directors and officers subscribed to the units private placement and the flow-through private placement under the same terms and conditions set forth all subscribers;
- Settlements in share for debt for settlements with a former senior officer and with directors (note 11.3).

22.3 Allowance for Termination or Change of Control

There are certain employment agreements between key management and the Corporation 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, 2017, the amounts payable for the executive team would have totalled $284,025 and $717,600 respectively. In the case of termination for cause, no compensation will be paid.

22.4 Billing according to Kintavar's agreement

	Fiscal 2017	**Fiscal 2016**
	$	**$**
Salaries and employee benefits	41,123	-
Property acquisitions by staking	21,590	-
E&E expenses	287,646	-
Administration expenses	5,741	-
Rent	3,531	-
	359,632	**-**

As at May 31, 2017, the balance from Kintavar amounted to $203,613 (nil as at May 31, 2016).

(in Canadian Dollars)

23. OPERATING LEASE

The Corporation's future minimum operating lease payments are as follows:

	As at May 31, 2017
	$
Within 1 year	10,511
1 to 5 years	-
After 5 years	-
Total	**10,511**

The Corporation leases an office under a lease agreement expiring in March 2018. Under this lease, the Corporation has 30 days to terminate the agreement. The Corporation also has two operating leases for field equipment, one expiring in June 2017 and one in January 2018. The Corporation'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.

24. SUBSEQUENT EVENTS

24.1 Private Placement

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.

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.

24. SUBSEQUENT EVENTS (CONT'D)

Certain members of the board and executive management of the Corporation have participated in this first closing in the aggregate amount of $60,000.

24.2 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. The entering into of the Agreement will be subject to the Exchange approval and the majority of the shareholders.

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.

24.3 Distribution of Kintavar's shares

Following the Kintavar transaction described in Note 8, subject to shareholders approval at the next annual meeting, the Corporation will distribute, in the form of a return of capital, 4,888,003 (subject to usual rounding adjustments) Kintavar shares to the Corporation's shareholders. Each shareholder of the Corporation will receive 0.0625 Kintavar shares for each common share of the Corporation held. After this distribution, the Corporation will hold 12,969,140 of the Kintavar shares, representing 28.15% of 46,079,160 shares issued and outstanding of Kintavar.