



**Euro
Manganese
Inc.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(unaudited)**

Contents

Financial Statements

[Condensed Consolidated Interim Statements of Financial Position](#)

[Condensed Consolidated Interim Statements of Loss and Comprehensive Loss](#)

[Condensed Consolidated Interim Statements of Changes in Shareholders' Equity](#)

[Condensed Consolidated Interim Statements of Cash Flows](#)

Notes to the Condensed Consolidated Interim Financial Statements

[Note 1 - Nature of Operations and Going Concern](#)

[Note 2 - Basis of Preparation](#)

[Note 3 - Significant Accounting Policies, Estimates and Judgments](#)

[Note 4 - Exploration and Evaluation Assets](#)

[Note 5 - Property and Equipment](#)

[Note 6 - EPCS Option and Other Assets](#)

[Note 7 - Deferred Consideration](#)

[Note 8 - Equity](#)

[Note 9 - Related Party Transactions](#)

[Note 10 - Fair Value Measurement of Financial Instruments](#)

[Note 11 - Segmented Information](#)

[Note 12 - Commitments](#)

Condensed Consolidated Interim Statements of Financial Position

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

	Note	December 31, 2019	September 30, 2019
		\$	\$
ASSETS			
Current assets			
Cash		2,235,670	4,084,694
Prepaid expenses		504,885	112,864
Accounts receivable		60,221	45,148
		2,800,776	4,242,706
Non-current assets			
Exploration and evaluation assets	4	1,249,086	1,249,086
Property and equipment	5	460,274	368,952
Other assets	6	236,589	232,794
Option	6	815,000	815,000
Total assets		5,561,725	6,908,538
LIABILITIES			
Current liabilities			
Accounts payable		720,777	581,722
Due to related parties	9	253,726	170,618
Lease liability		36,871	—
Deferred consideration	7	285,674	275,838
		1,297,048	1,028,178
Non-current liabilities			
Lease liability		68,576	—
Total liabilities		1,365,624	1,028,178
EQUITY			
Share capital		23,273,236	22,973,236
Equity reserves		2,298,143	2,182,856
Deficit		(21,375,278)	(19,275,732)
Total shareholders' equity		4,196,101	5,880,360
Total liabilities and shareholders' equity		5,561,725	6,908,538

Nature of Operations and Going Concern (Note 1)

Approved on behalf of the Board of Directors on February 7, 2020

"Marco Romero"

Marco Romero, Director

"John Webster"

John Webster, Director

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

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

Euro Manganese Inc.

(expressed in Canadian dollars, except for number of shares outstanding - unaudited)

	Three Months Ended December 31,	
	2019	2018
	\$	\$
Project evaluation expenses		
Engineering	741,625	626,424
Remuneration	262,995	226,982
Share-based compensation	39,305	40,425
Drilling, sampling and surveys	3,157	208,250
Metallurgical	41,408	148,957
Travel	54,698	40,086
Legal and professional fees	111,742	60,985
Geological	16,496	117,503
Market studies	34,528	54,788
Supplies and rentals	13,010	20,306
	1,318,964	1,544,706
Other expenses		
Remuneration	320,950	329,579
Share-based compensation	75,982	74,789
Total remuneration	396,932	404,368
Legal and professional fees	81,277	77,004
Investor relations	27,490	116,070
Product sales and marketing	62,402	12,233
Travel	36,826	35,057
Filing and compliance fees	51,805	90,118
Office, general and administrative	47,794	27,779
Accretion expense	33,422	18,440
Insurance	21,332	25,454
Office rent	—	21,281
Conferences	2,385	—
Depreciation	18,917	4,555
	780,582	832,359
Loss and comprehensive loss for the period	2,099,546	2,377,065
Weighted average number of common shares outstanding - basic and diluted	175,208,913	170,487,861
Basic and diluted loss per common share	\$0.01	\$0.01

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Euro Manganese Inc.

(expressed in Canadian dollars, except for number of shares outstanding - unaudited)

Attributable to equity shareholders of the Company

	Share Capital #	Share Capital \$	Equity Reserves \$	Deficit \$	Shareholders' Equity (Deficit) \$
Balance at October 1, 2018	160,509,600	19,972,416	1,482,544	(10,958,327)	10,496,633
Shares and warrants issued for cash, net of expenses	10,000,000	2,232,609	48,890	—	2,281,499
Shares issued as part of broker fees	200,000	50,000	—	—	50,000
Share-based compensation	—	—	115,214	—	115,214
Loss and comprehensive loss for the period	—	—	—	(2,377,065)	(2,377,065)
Balance at December 31, 2018	170,709,600	22,255,025	1,646,648	(13,335,392)	10,566,281
Balance at October 1, 2019	175,065,435	22,973,236	2,182,856	(19,275,732)	5,880,360
Shares issued in private placement	1,200,000	300,000	—	—	300,000
Share-based compensation	—	—	115,287	—	115,287
Loss and comprehensive loss for the period	—	—	—	(2,099,546)	(2,099,546)
Balance at December 31, 2019	176,265,435	23,273,236	2,298,143	(21,375,278)	4,196,101

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

Condensed Consolidated Interim Statements of Cash Flows

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

		Three Months Ended December 31,	
	Note	2019	2018
		\$	\$
Operating activities			
Net loss for the period		(2,099,546)	(2,377,065)
Less non-cash transactions:			
Share-based compensation		115,287	115,214
Depreciation		18,917	4,555
Lease liability accretion		23,586	—
Accretion expense	7	9,836	18,440
		(1,931,920)	(2,238,856)
Changes in non-cash working capital items:			
Accounts payable		139,055	(96,854)
Accounts receivable		(15,073)	30,784
Prepaid expenses		(92,021)	(73,638)
Due to related parties		83,108	(246,082)
		115,069	(385,790)
Cash used in operating activities		(1,816,851)	(2,624,646)
Financing activities			
Common shares issued for cash, net of expenses		—	2,085,777
Lease principal payments		(26,271)	—
Cash (used in) generated from financing activities		(26,271)	2,085,777
Investing activities			
Option and deposit for land	6	(3,795)	(815,000)
Property and equipment acquisition	5	(2,107)	(1,623)
Cash used in investing activities		(5,902)	(816,623)
Decrease in Cash		(1,849,024)	(1,355,492)
Cash - beginning of period		4,084,694	10,368,002
Cash - end of period		2,235,670	9,012,510
Non-cash transactions excluded from above:			
Common shares issued in private placement		300,000	—
Prepaid expenses		(300,000)	—
Warrants issued as payment of broker fees			
Equity reserve		—	48,890
Share capital		—	(48,890)
Issue of employee warrants			
Equity reserve		—	50,000
Share capital		—	(50,000)

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

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

1. Nature of Operations and Going Concern

Euro Manganese Inc. (the "Company") was incorporated as a private company under the British Columbia Business Corporations Act on November 24, 2014. The Company completed an initial public offering ("IPO") of its shares on the Australia Securities Exchange ("ASX") on September 28, 2018, and completed an IPO on the TSX Venture Exchange ("TSX-V") on October 2, 2018. The Company's common shares commenced trading on the TSX-V and CHESS Depository Interests ("CDIs", with each CDI representing one common share) started trading on the ASX on October 2, 2018, under the symbols "EMN.V" and "EMN.AX", respectively. The Company is focused on the evaluation and potential development of the Chvaletice deposit, which involves the re-processing of a manganese deposit hosted in historic mine tailings in the Czech Republic (the "Chvaletice Manganese Project"), for the production of high-purity electrolytic manganese metal ("HPEMM") and high-purity manganese sulphate monohydrate ("HPMSM").

The Company's corporate offices are located at 1040 West Georgia Street, Suite 1500, Vancouver, B.C., Canada, and its registered offices are located at Suite 1700, 666 Burrard Street, Vancouver, B.C., Canada.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Several conditions discussed below give rise to material uncertainties that may cast significant doubt on this assumption.

As an early stage resource development company, it does not own any properties with established reserves, has no operating revenues and is unable to self-finance its operations. Further, there is no assurance that the evaluation and acquisition activities executed or planned by the Company for the Chvaletice Manganese Project will result in the development of a profitable commercial operation. The Company will likely operate at a loss while the Company is evaluating the potential of the Chvaletice Manganese Project.

At December 31, 2019, the Company's equity totaled \$4,196,101 (September 30, 2019 - \$5,880,360) and working capital totaled \$1,503,728 (September 30, 2019 - \$3,214,528), including cash of \$2,235,670 (September 30, 2019 - \$4,084,694). The loss for the period was \$2,099,546 (2018 - \$2,377,065) while cash used in operating activities was \$1,816,851 (2018 - \$2,624,646). The Company's capital resources are not expected to provide sufficient working capital to fund its corporate and committed project development costs for at least twelve months from the date of these financial statements.

Additional funding will be required for further evaluation and development work including the completion of feasibility studies, environmental studies, permitting, as well as the potential future construction of infrastructure and facilities for the Chvaletice Manganese Project. The ability of the Company to arrange such equity or other financing in the future will depend principally upon prevailing market conditions and the performance of the Company. Such additional funding may not be available when needed, if at all, or may not be available on terms favorable to the Company. Failure to obtain such additional financing could result in delay or indefinite postponement of further evaluation and development of the Company's principal property. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of Preparation

2.1 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 *Interim financial reporting*. The comparative information has also been prepared on this basis.

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

2. Basis of Preparation (continued)

These condensed interim consolidated financial statements do not include all the information required for full annual financial statements and therefore should be read in conjunction with our audited consolidated financial statements for the year ended September 30, 2019.

These condensed consolidated interim financial statements were prepared by management and approved by the Board of Directors of the Company (the "Board") on February 7, 2020.

2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. In addition, these condensed consolidated interim financial statements have been prepared on the historical cost basis.

2.3 Basis of consolidation

These condensed consolidated interim financial statements incorporate the accounts of the Company and the entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The condensed consolidated interim financial statements include the accounts of the Company's subsidiaries from the date of control commences until the date that control ceases. The financial statements of its wholly owned subsidiary, Mangan Chvaletice s.r.o. ("Mangan"), are included in the condensed consolidated interim financial statements for both periods presented. All significant intercompany transactions and balances have been eliminated.

3. Significant Accounting Policies, Estimates and Judgments

3.1 Change in accounting policies

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2019, except for the following:

IFRS 16 Leases

On October 1, 2019, the Company adopted the requirements of IFRS 16 *Leases* ("IFRS 16"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. The Company elected to apply IFRS 16 using a modified retrospective approach and recognized the cumulative effect of adopting IFRS 16 in an adjustment to the opening statement of financial position at October 1, 2019. As a result, the comparative information has not been restated and continues to be reported under the previous accounting standard, IAS 17 *Leases*. The new accounting policy and the quantitative impact of change are described below.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

3. Significant Accounting Policies, Estimates and Judgments (continued)

- The Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company recognizes a right-of-use (“ROU”) asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU assets are subsequently depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

Lease payments included in the measurement of the lease liability comprise: fixed payments; variable lease payments that depend on an index or a rate; amounts expected to be payable under any residual value guarantee, and the exercise price under any purchase option that the Company would be reasonably certain to exercise; lease payments in any optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for any early termination of a lease unless the Company is reasonably certain not to terminate early.

The Company elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to statement of loss on a straight-line basis over the lease term.

On adoption of IFRS 16, the Company recorded ROU assets of \$97,781 within property, plant and equipment. The Company recorded lease liabilities of \$97,781 as at October 1, 2019. The weighted average incremental borrowing rate for lease liabilities initially recognized as of October 1, 2019 was 8%.

	\$
At September 30, 2019	—
Minimum operating lease commitments at September 30, 2019	161,820
Excluded from lease commitments fur to cancellation clauses	95,141
Recognition exemption for low value leases	(8,103)
Effect of discounting at the incremental borrowing rate	(151,077)
Lease liabilities arising on initial application of IFRS 16	97,781
Additions - new lease agreements	10,351
Cash principal and interest payments	(26,271)
Non-cash accretion	23,586
At December 31, 2019	105,447
Less: Current portion	(36,871)
	68,576

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

3. Significant Accounting Policies, Estimates and Judgments (continued)

3.2 Significant estimates and judgments

The preparation of financial statements requires the use of estimates and judgments that affect the amounts reported and disclosed in the consolidated financial statements and related notes. These estimates and judgments are based on management's best knowledge of the relevant facts and circumstances, taking into consideration previous experience, but actual results may differ materially from the amounts included in the financial statements. The significant estimates and judgments applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in Note 3.13 to the Company's audited consolidated financial statements for the year ended September 30, 2019.

In addition, the Company applied significant judgment in determining the weighted average incremental borrowing rate for lease liabilities which were initially recognized as of October 1, 2019 (Note 5).

3.3 New standards and pronouncements not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB that are not mandatory for the December 31, 2019, reporting periods and have not been adopted by the Company and are not expected to have a material impact in the current or future reporting periods and on foreseeable future transactions.

4. Exploration and Evaluation Assets

The Company was formed with the objective of evaluating, acquiring, developing and operating the Chvaletice Manganese Project as an HPEMM and HPMSM producer. The Company holds two exploration licenses for the Chvaletice Manganese Project (the "Licenses"), both expiring May 31, 2023. On April 17, 2018, with effect from April 28, 2018, the Company was issued a Preliminary Mining Permit by the Czech Ministry of Environment, referred to by the Ministry as the prior consent of the establishment of the Mining Lease District (the "Preliminary Mining Permit"). The Preliminary Mining Permit, valid until April 30, 2023, covers the areas included in Licenses and secures the Company's rights for the entire deposit. The Preliminary Mining Permit forms one of the prerequisites for the application for the establishment of the Mining Lease District and represents one of the key steps towards final permitting for the project. The establishment of the Mining Lease District, the application for the final Mining Permit, and applications for permits relating to the construction of infrastructure required for the project, are required prior to operation at the Chvaletice Manganese Project.

The acquisition of Mangan included granting a 1.2% net smelter royalty interest and the issue, over a four-year period, of common shares of the Company in five equal tranches, each valued at \$300,000 (Note 7). The carrying value of the Company's exploration and evaluation assets of \$1,249,086 represents the fair value of the initial share consideration following the acquisition date of Mangan on May 13, 2016, as well as the discounted value of the deferred share consideration, as determined by the Company on the acquisition date.

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

5. Property and Equipment

	December 31, 2019			Total \$
	Equipment	Land	Lease assets	
	\$	\$	\$	
Cost				
October 1, 2019	82,447	318,729	—	401,176
Adoption of IFRS 16	—	—	97,781	97,781
Additions	2,107	—	10,351	12,458
December 31, 2019	84,554	318,729	108,132	511,415
Accumulated depreciation				
October 1, 2019	(32,224)	—	—	(32,224)
Additions	(6,566)	—	(12,351)	(18,917)
December 31, 2019	(38,790)	—	(12,351)	(51,141)
Net Book Value				
October 1, 2019	50,223	318,729	—	368,952
December 31, 2019	45,764	318,729	95,781	460,274

	December 31, 2018			Total \$
	Equipment	Land	Lease assets	
	\$	\$	\$	
Cost				
October 1, 2018	58,932	318,729	—	377,661
Additions	1,623	—	—	1,623
December 31, 2018	60,555	318,729	—	379,284
Accumulated depreciation				
October 1, 2018	(8,551)	—	—	(8,551)
Additions	(4,555)	—	—	(4,555)
December 31, 2018	(13,106)	—	—	(13,106)
Net Book Value				
October 1, 2018	50,381	318,729	—	369,110
December 31, 2018	47,449	318,729	—	366,178

6. EPCS Option and Other Assets

On October 17, 2018, the Company, through its Czech subsidiary Mangan, made the first option payment of 14 million Czech Korunas (\$815,000) as stipulated in an option agreement for the purchase of a 100% interest in EP Chvaletice s.r.o. ("EPCS") dated on August 13, 2018 ("EPCS Option Agreement"). EPCS is a Czech operating company whose principal asset is a large parcel of industrial zoned land adjacent to the Chvaletice Manganese Project, where the Company proposes to develop its high-purity manganese processing facility.

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

6. EPCS Option and Other Assets (continued)

Pursuant to the EPCS Option Agreement, the Company has the right to acquire a 100% interest in EPCS by making two additional instalments aggregating 126 million Czech Koruna (approximately \$7.32 million) as follows:

- a) an instalment of 42,000,000 Czech Koruna (approximately \$2.41 million at period end), within 60 days of final approval of the environmental impact assessment for the Chvaletice Manganese Project, but no later than three years after signing the EPCS Option Agreement. The three-year term may be extended under certain circumstances by up to one year; and
- b) a final instalment of 84,000,000 Czech Koruna (approximately \$4.82 million at period end), due upon receipt of all development permits for the Chvaletice Manganese Project, but no later than five years after signing the EPCS Option Agreement.

The first payment made on October 17, 2018, is a derivative classified as FVTPL due to the following:

- a) The option is for the acquisition of shares of EPCS rather than a non-monetary asset;
- b) It does not meet any of the scope exceptions from recognition as a derivative under IFRS 9 *Financial Instruments*;
- c) Control of the Company over EPCS is not present until the third option payment is made. The remaining two payments are dependent on the Board's approval and are not legally enforceable by the shareholder of EPCS.

On February 7, 2019, the Company signed an amendment to the EPCS Option Agreement (the "Amendment"), funding, through EPCS, the purchase of several land parcels adjacent to the land owned by EPCS, and thus increasing the Option Agreement value by 3,500,000 Czech Koruna (\$203,220). Pursuant to the Amendment, in the event that EPCS is not ultimately acquired under the EPCS Option Agreement, the ownership of these land parcels will be transferred to Mangan at no additional cost. The Company also incurred transaction costs of \$21,502.

There was no change in the fair value of the option in the three months ended December 31, 2019 (2018 - nil).

On May 11, 2019, the Company signed a purchase contract with the Municipality of Trnavka for a 2.96-hectare parcel of land adjacent to the Project tailings, on which the Company plans to construct a visual and acoustic barrier between Trnavka and the Project tailings. The first payment, representing 10% of the total amount, 202,699 Czech Koruna (\$11,867) was paid on May 20, 2019.

7. Deferred Consideration

The deferred consideration relates to the Company's remaining share issuance commitment in connection with the acquisition of its exploration and evaluation assets (Note 4). Movement in the deferred consideration during the three months ended December 31, 2019 and 2018 is as follows:

	Three months ended December 31,	
	2019	2018
	\$	\$
Balance, beginning of the period	275,838	515,773
Accretion during the period	9,836	18,440
Fair value of share consideration issued during the period	—	—
Balance, end of the period	285,674	534,213
Less: current portion	(285,674)	(285,104)
	—	249,109

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

7. Deferred Consideration (continued)

At December 31, 2019, the Company has a commitment to issue common shares for a total value of \$300,000 due on May 13, 2020. The number of shares to be issued will be based on the value of the Company's shares at the time of issuance, which is defined to be the 20-trading day weighted average of the Company's share price. Pursuant to an amending agreement between the Company and Mangan's founding shareholders dated June 15, 2018, the terms of the remaining obligations were modified to (i) limit the minimum deemed value of the shares to be issued so as not to be less than \$0.05 per share; (ii) provide the Company with an option to settle the obligation in cash rather than shares; and (iii) require the obligation to be settled in cash in the event that the remaining share issuance results in a deemed value of below \$0.05 per share.

8. Equity

a) Common shares

The Company has unlimited authorized common shares with no par value.

i) Shares issued in private placement:

During the three months ended December 31, 2019, the Company issued 1,200,000 common shares valued at \$0.25 per share in a non-brokered private placement in settlement of an account payable. Half of the common shares issued are subject to a contractual resale hold period which expires on November 28, 2020 and the remaining shares are subject to a contractual resale hold period which expires on September 1, 2021.

ii) Escrowed securities

Upon the listing of the Company's CDIs and common shares on the ASX and TSX-V, respectively, certain of its securities became subject to escrow. Specifically, under National Policy 46-201 Escrow for Initial Public Offerings ("NP 46-201"), 29,045,361 common shares and 6,400,000 options became subject to escrow. Under the TSX-V's Seed Sale Resale Restrictions ("SSRR"), 778,575 common shares and 225,000 options became subject to escrow. Under the ASX Listing Rules, 25,522,290 common shares, 9,550,000 options and 8,684,015 warrants became subject to escrow.

In many cases, a particular holder, or particular common share, option or warrant, will be subject to escrow under one or more of NP 46-201, SSRR and ASX Listing Rules. In such cases, the particular security will not be released from escrow until the release schedule for all regimes have been met. Accordingly, as at December 31, 2019, the following securities remain subject to escrow and are scheduled to be released as follows:

	Common shares	Options	Warrants
April 2, 2020	1,874,466	406,250	—
September 28, 2020	25,770,569	7,175,000	5,756,750
	27,645,035	7,581,250	5,756,750

b) Share options

The Company has a rolling share-based compensation plan (the "Plan") allowing for the reservation of a maximum 10% of the common shares issued and outstanding at any given time for issuance under the Plan. Under the Plan, all share options are granted at the discretion of the Company's Board of Directors. The term of any option granted may not exceed ten years and the exercise price may not be less than the market value of the Company shares.

Current outstanding options have an expiry date of ten years and vest over a period of 24 months. A continuity summary of the share options granted and outstanding under the Plan for the three months ended December 31, 2019 and the year ended September 30, 2019, is presented below:

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

8. Equity (continued)

	December 31, 2019		September 30, 2019	
	Number of share options	Weighted average exercise price (\$ per share)	Number of share options	Weighted average exercise price (\$ per share)
Balance, beginning of the period	15,500,000	0.17	12,525,000	0.15
Options granted	—	—	3,275,000	0.27
Options expired	—	—	(200,000)	0.25
Options forfeited	—	—	(100,000)	0.25
Balance, end of the period	15,500,000	0.17	15,500,000	0.17

During the three months ended December 31, 2019, the Company recorded share-based compensation expense of \$115,287 (three months ended December 31, 2018 - \$115,214) of which \$39,305 has been allocated to project evaluation expenses (three months ended December 31, 2018 - \$40,425) and \$75,982 to administrative expenses (three months ended December 31, 2018 - \$74,789).

The balance of options outstanding and exercisable at December 31, 2019, is as follows:

Options outstanding & exercisable			Options exercisable ^(a)		
Exercise price (\$ per share)	Number of share options	Weighted average remaining contractual life (years)	Number of share options	Weighted average remaining contractual life (years)	
0.08	1,625,000	6.4	1,625,000	6.4	
0.10	1,775,000	7.2	1,775,000	7.2	
0.11	4,100,000	7.8	4,100,000	7.8	
0.20	3,725,000	8.2	2,483,295	8.2	
0.25	1,550,000	8.9	849,999	8.8	
0.28	2,725,000	9.1	908,326	9.1	
0.17	15,500,000	8.0	11,741,620	7.7	

^(a) Certain options are subject to escrow (Note 8 a) ii)).

c) Warrants

	December 31, 2019		September 30, 2019	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance, beginning of the period	5,756,750	0.20	5,784,015	0.20
Issued	—	—	2,900,000	0.38
Exercised	—	—	(2,927,265)	0.11
Balance, end of the period	5,756,750	0.20	5,756,750	0.20

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

8. Equity (continued)

As at December 31, 2019, the following warrants were outstanding:

Expiry date	Weighted average exercise price (\$)	Number of warrants ^(a)	Weighted average remaining contractual life (years)
February 28, 2021	0.30	2,856,750	1.2
October 1, 2021	0.38	2,900,000	1.8
	0.34	5,756,750	1.5

^(a) Certain warrants are subject to escrow (Note 8 a) ii)).

9. Related Party Transactions

Transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below. Related parties include the Board of Directors and officers, close family members and enterprises that are controlled by these individuals as well as certain consultants performing similar functions.

a) Key management compensation

Key management personnel include the Board of Directors and the Chief Executive Officer, Chief Financial Officer, the Managing Director of the Company's Czech subsidiary, the Vice President, Corporate Development and Corporate Secretary, and the Vice President, Project Development.

During the three months ended December 31, 2019, and 2018, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	Three months ended December 31,	
	2019	2018
	\$	\$
Salaries and consulting fees payable to directors and officers	376,019	386,367
Directors' and officers' share-based compensation	73,488	73,714
	449,507	460,081

b) Related party transactions during the three months ended December 31, 2019 and 2018

A Company director is associated with PRK Partners s.r.o. ("PRK"), a legal firm based in the Czech Republic. During the three months ended December 31, 2019, PRK's legal fees charged to the Company totaled \$113,712 (three months ended December 31, 2018 - \$35,717).

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

9. Related Party Transactions (continued)

c) The balances payable to related parties at the period ends were as follows:

	December 31, 2019	September 30, 2019
	\$	\$
Salaries and consulting fees from officers of the Company	119,577	71,414
Fees provided by a legal firm associated with a director of the Company	91,003	48,329
Outstanding payable due to officers and directors of the Company	43,146	50,875
	253,726	170,618

These transactions were incurred in the normal course of operations.

10. Fair Value Measurement of Financial Instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

The fair values of the Company's cash, accounts receivable, accounts payable and due to related parties approximate carrying values, which are the amounts recorded on the condensed consolidated interim statements of financial position due to their short-term nature.

The first option payment pursuant to the EPCS Option Agreement (Note 6) is a derivative. It is a financial instrument measured at fair value through profit and loss using Level 3 inputs as there is no observable market data available. The option was initially recognized at fair value which equaled the initial cash payment of \$815,000 as stipulated in the EPCS Option Agreement. No factors affecting the fair value of the EPCS Option in the time from the initial recognition to the period end were identified.

There were no transfers between the levels of the fair value hierarchy in the three months ended December 31, 2019.

11. Segmented Information

The Company's operations are all conducted in one segment, the exploration and development of exploration and evaluation assets. The Company's exploration and evaluation assets and property and equipment are in the Czech Republic.

Notes to the Condensed Consolidated Interim Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars - unaudited)

12. Commitments

As at December 31, 2019, the Company was committed to make the minimum annual cash payments, as follows:

	Payments due by period				
	Total	Less than one year	1 - 2 years	2 - 3 years	After 3 years
	\$	\$	\$	\$	\$
Minimum office lease payments ⁽¹⁾	7,876	3,008	2,434	2,434	—
Operating expenditure commitments ⁽²⁾	602,120	602,120	—	—	—
Total contractual obligations	609,996	605,128	2,434	2,434	—

⁽¹⁾ The Company has one non-cancellable operating office lease expiring in three years.

⁽²⁾ Operating expenditure commitments relate to the evaluation work on the Chvaletice Manganese Project.

In addition to the commitments disclosed above, the Company has entered into various agreements related to the feasibility study and the demonstration plant. These contracts can be canceled by the Company upon notice without penalty, subject to the costs incurred up to and in respect of the cancellation.