



**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017**

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Euro Manganese Inc. (the "Company") were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 3 to these consolidated financial statements.

Management has established processes that are in place to provide management with sufficient knowledge to support its opinion that it has exercised reasonable diligence such that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, the results of operations and cash flows of the Company, as of the date and for the period presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

December 10, 2018

"Marco Romero"

President and Chief Executive Officer

"Pierre Massé"

Vice President Finance and Chief Financial Officer



December 10, 2018

Independent Auditor's Report

To the Shareholders of Euro Manganese Inc.

We have audited the accompanying consolidated financial statements of Euro Manganese Inc. and its subsidiary, which comprise the consolidated statements of financial position as at September 30, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Euro Manganese Inc. and its subsidiary as at September 30, 2018 and 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia

Consolidated Statements of Financial Position

Euro Manganese Inc.

(expressed in Canadian dollars)

	Note	September 30, 2018 \$	September 30, 2017 \$
ASSETS			
Current assets			
Cash		10,368,002	2,860,994
Prepaid expenses		124,326	129,228
Accounts receivable		162,549	73,010
		10,654,877	3,063,232
Non-current assets			
Exploration and evaluation assets	4	1,249,086	1,249,086
Property and equipment	5	369,110	8,693
Total assets		12,273,073	4,321,011
LIABILITIES			
Current liabilities			
Accounts payable		940,028	339,527
Due to related parties	8	320,639	116,731
Deferred consideration	6	275,236	273,921
		1,535,903	730,179
Non-current liabilities			
Deferred consideration	6	240,537	450,456
Total liabilities		1,776,440	1,180,635
EQUITY			
Share capital	7	19,972,416	7,183,542
Equity reserve		1,482,544	381,086
Deficit		(10,958,327)	(4,424,252)
Total equity		10,496,633	3,140,376
Total liabilities and shareholders' equity		12,273,073	4,321,011

Nature of operations and liquidity (note 1)

Events after the reporting period (note 15)

Approved on behalf of the Board of Directors on December 10, 2018

"Marco Romero"

Marco Romero, Director

"John Webster"

John Webster, Director

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

Consolidated Statements of Loss and Comprehensive Loss

Euro Manganese Inc.

(expressed in Canadian dollars)

	Year ended September 30,	
	2018	2017
	\$	\$
Project evaluation expenses		
Engineering	1,854,448	1,167,653
Drilling, sampling and surveys	329,595	346,025
Metallurgical	277,209	194,593
Remuneration	683,450	—
Share-based compensation	216,043	76,064
Travel	233,241	215,955
Legal and professional fees	459,398	52,385
Geological	141,522	96,358
Market studies	142,961	28,043
Project management	146,619	112,625
Supplies and rentals	105,176	43,196
Geophysical	—	43,229
Taxes	—	22,416
	4,589,662	2,398,542
Other expenses		
Remuneration	816,105	557,363
Share-based compensation	414,820	134,753
Total remuneration	1,230,925	692,116
Legal and professional fees	121,226	67,679
Travel	149,670	58,089
Filing fees	127,142	—
Accretion expense	91,396	130,573
Office, general and administrative	107,494	34,890
Insurance	39,899	6,938
Office rent	28,942	18,000
Conferences	20,403	3,174
Investor relations	21,660	1,254
Depreciation	5,656	2,101
	1,944,413	1,014,814
Loss and comprehensive loss for the year	6,534,075	3,413,356
Weighted average number of common shares outstanding - basic and diluted	116,356,568	48,864,920
Basic and diluted loss per common share	\$0.06	\$0.07

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

Consolidated Statements of Changes in Shareholders' Equity

Euro Manganese Inc.

(expressed in Canadian dollars)

	Attributable to equity shareholders of the Company				
	Share Capital ⁽¹⁾	Share Capital	Equity Reserves	Deficit	Shareholders' Equity (Deficit)
	#	\$	\$	\$	\$
Balance at September 30, 2016	30,036,725	1,166,353	102,324	(1,010,896)	257,781
Shares and warrants issued for cash, net of expenses	53,517,725	5,286,029	96,182	—	5,382,211
Shares issued as payment of services	3,570,580	376,348	—	—	376,348
Warrants issued as payment of services	559,305	54,812	(28,237)	—	26,575
Shares issued as deferred consideration repayment	2,727,275	300,000	—	—	300,000
Share-based compensation	—	—	210,817	—	210,817
Loss and comprehensive loss for the year	—	—	—	(3,413,356)	(3,413,356)
	60,374,885	6,017,189	278,762	(3,413,356)	2,882,595
Balance at September 30, 2017	90,411,610	7,183,542	381,086	(4,424,252)	3,140,376
Shares and warrants issued for cash, net of expenses	62,750,000	11,462,746	474,345	—	11,937,091
Options exercised	50,000	9,250	(3,750)	—	5,500
Shares issued as payment of services	2,833,940	370,875	—	—	370,875
Shares issued as part of broker fees	2,964,050	646,003	—	—	646,003
Shares issued as repayment of deferred consideration	1,500,000	300,000	—	—	300,000
Share-based compensation	—	—	630,863	—	630,863
Loss and comprehensive loss for the year	—	—	—	(6,534,075)	(6,534,075)
	70,097,990	12,788,874	1,101,458	(6,534,075)	7,356,257
Balance at September 30, 2018	160,509,600	19,972,416	1,482,544	(10,958,327)	10,496,633

⁽¹⁾ On March 20, 2018, at the Company's Annual General and Special Meeting, the shareholders approved the modification to the Company's authorized share structure and the number of issued common shares without par value. All fully paid and issued common shares were subdivided on a basis of one old for five new shares. The comparative information for the year ended September 30, 2017, was restated.

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

Consolidated Statements of Cash Flows

Euro Manganese Inc.

(expressed in Canadian dollars)

	Note	Year ended September 30, 2018 \$	2017 \$
Operating activities			
Net loss for the period		(6,534,075)	(3,413,356)
Less non-cash transactions:			
Share-based compensation		630,863	210,817
Shares and warrants for services		277,771	402,923
Depreciation		5,656	2,101
Accretion expense	6	91,396	130,573
		(5,528,389)	(2,666,942)
Changes in non-cash working capital items:			
Accounts payable		377,649	300,294
Accounts receivable		(89,539)	(63,926)
Prepaid expenses		4,902	(129,228)
Due to related parties		237,719	(70,965)
		530,731	36,175
Cash used in operating activities		(4,997,658)	(2,630,767)
Financing activities			
Common shares issued for cash, net of expenses	7 (a)	12,865,239	5,382,211
Exercise of stock options		5,500	—
Cash generated from financing activities		12,870,739	5,382,211
Investing activities			
Property & equipment acquisition		(366,073)	(7,843)
Cash used in investing activities		(366,073)	(7,843)
Increase in Cash		7,507,008	2,743,601
Cash - beginning of year		2,860,994	117,393
Cash - end of year		10,368,002	2,860,994
Non-cash transactions excluded from above:			
Common shares issued as payment of financing services		(682,426)	—
Share issue costs		682,426	—
Shares issued as payment of broker warrants			
Equity reserve		474,345	96,182
Share capital		(474,345)	(96,182)
Issue of employee warrants			
Equity Reserve		116,313	28,237
Share Capital		(116,313)	(28,237)
Repayment of deferred consideration commitment			
Share capital		300,000	300,000
Deferred share payment commitment		(300,000)	(300,000)

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

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

1. Nature of Operations and Liquidity

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 shares commenced trading on the TSX-V and the ASX on October 2, 2018. The Company is focused on the exploration and reclamation of mineral projects in Europe and is currently evaluating the potential development of the Chvaletice deposit, located in the Czech Republic, into a high-purity electrolytic manganese metal ("HPEMM") and high-purity manganese sulphate monohydrate ("HPMSM") project (the "Chvaletice Project").

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 consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As an early exploration stage 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 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 Project.

At September 30, 2018, the Company's equity totaled \$10,496,633 and working capital totaled \$9,118,974, including cash of \$10,368,002. These capital resources combined with the proceeds from a \$2,500,000 IPO of its shares in Canada, which closed subsequent to year-end, are expected to provide sufficient working capital to fund its corporate and project development costs for at least 12 months from the date of these financial statements.

Additional funding will be required for further exploration 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 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 be available on terms favorable to the Company. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the Company's principal property and could result in material adjustments to the carrying values of assets.

2. Basis of Preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The accounting policies presented in Note 3 were consistently applied to all periods presented.

These consolidated financial statements were prepared by management and approved by the Board of Directors of the Company (the "Board") on December 10, 2018.

2.2 Basis of measurement

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

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

2. Basis of Preparation (continued)

2.3 Basis of consolidation

These consolidated 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 consolidated 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 consolidated financial statements for both periods presented. All significant intercompany transactions and balances have been eliminated.

2.4 Share split - Subdivision of shares on a one-for-five basis

On March 20, 2018, at the Company's Annual General and Special Meeting, the shareholders approved the modification to the Company's authorized share structure and the number of issued common shares without par value. All fully paid and issued common shares were subdivided on a basis of one old for five new shares. As a result, a total of 26,441,308 outstanding common shares of the Company were converted to 132,206,540 new common shares.

To reflect the subdivision of shares on a one-for-five, all shares, options and warrants balances presented in these statements have been increased, where applicable, by a factor of five and their respective unit share price has been reduced by the same ratio.

3. Significant Accounting Policies, Estimates and Judgments

3.1 Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

3.2 Mineral exploration and evaluation costs

Mineral exploration and evaluation costs include costs to acquire the rights to explore, geological studies, exploratory drilling and sampling, and directly attributable management costs.

Exploration and evaluation costs that are incurred prior to the Company obtaining a material legal interest in a property, are expensed in the period incurred. In addition, exploration and evaluation costs, other than direct acquisition costs, incurred prior to management identifying that the Mineral Resource of a property has economic potential, are expensed in the period incurred.

Exploration and evaluation costs are capitalized as mineral interests when a mineral resource of a property is identified as having economic potential. A mineral resource is considered to have economic potential when it is expected that documented resources can be legally and economically developed considering long-term metal prices.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

Therefore, prior to capitalizing such costs, management determines that the following conditions have been met:

- a) There is a probable future benefit that will contribute to future cash inflows,
- b) The Company can obtain the benefit and control access to it, and
- c) The transaction or event giving rise to the benefit has already occurred.

Once the technical and commercial viability of a property has been determined, the exploration and evaluation assets are first tested for impairment, and then reclassified as a mineral project and carried at cost until it is placed into commercial production, sold, abandoned or determined by management to be impaired.

The capitalized costs of a producing mineral project are amortized on a unit-of-production basis over the estimated ore reserves of the project. Costs incurred after a project is placed into production that increase production volumes or extend the life of the project are capitalized.

Proceeds from the sale of properties or projects, or cash proceeds received from option payments, are recorded as a reduction of the cost of the related mineral interest.

3.3 Impairment of non-financial assets

At each financial position reporting date, the carrying amounts of the Company's non-current non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. The recoverable amount is the higher of fair value less costs of disposal and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arms-length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the prevailing market assessment of the time-value of money and the risks specific to the asset. Future cash flows are based on forecast estimates of production, product prices, and operating, capital, and reclamation costs.

Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between assumptions used and actual market conditions and the Company's performance, could have a material effect on the Company's financial position and results of operations.

Impairment is normally assessed at the level of cash generating units, which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of comprehensive loss for the period.

When an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided such revised estimate may not exceed the carrying amount of the asset prior to the recognition of impairment losses recorded in previous periods. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

3.4 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 the asset. The carrying amount of a replaced asset is derecognized when replaced. IT hardware and software, and equipment and furniture are amortized on a declining balance basis at an annual rate of 30%. Land is not depreciated.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and separately depreciates each such part. Residual values, method of amortization, 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 included as part of other gains and losses in the statement of comprehensive loss.

3.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. There were no cash equivalents at September 30, 2018, and 2017.

3.6 Share and warrant based compensation

- a) Options - Share-based payments to employees are measured at the fair value of the instruments issued, and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of equity instruments issued. If it is determined the fair value of the goods and services cannot be reliably measured and are recorded at the date of the goods or services are received. The corresponding amount is recorded to the option reserves.

The fair value of the options is determined using the Black-Scholes Option Pricing Model or when they are issued in settlement of compensation, measured at the fair value of the services rendered. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest (note 7(b)).

- b) Warrants - Warrant-issued payments to employees or as part of financing efforts are measured, at the time of issue, at the fair value of the services rendered, or, if the value of the services rendered is not determinable, using the Black-Scholes Option Pricing Model.

3.7 Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable or recoverable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of the reporting period.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantially enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets will be recovered.

Deferred tax assets and liabilities where recognized are presented as non-current.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

3.8 Financial instruments

The Company's financial instruments consist of cash, receivables, due from related parties, accounts payable, deferred consideration and due to related parties. Cash, receivables, and due from related parties are designated as loans and receivables. Accounts payable, due to related parties and deferred consideration are classified as other financial liabilities.

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories:

Fair value through profit or loss ("FVTPL") - This category includes derivatives, or assets incurred mainly for the purpose of selling or repurchasing them in the near term. The assets are measured at fair value with gains and losses recognized in the consolidated statement of loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. The assets in this category are measured at amortized cost using the effective interest rate method.

Held to maturity investments - This category includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company intends to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. Any changes to the carrying amount of the investment, including impairment losses, are recognized in statement of loss and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are measured at fair value with gains and losses recognized in other comprehensive income or loss, except for impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary items are recognized in the consolidated statement of loss.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Fair value through profit and loss - This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or re-purchasing in the near term. The fair value changes are recognized in the consolidated statement of loss.

Other financial liabilities - Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating the accretion charge over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability.

3.9 Related party transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

3.10 Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. If the Company incurs a net loss in a fiscal period, basic and diluted loss per share are the same.

3.11 Asset Retirement Obligation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development and ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at September 30, 2018 and 2017, the Company does not have any decommissioning obligations.

3.12 Recent accounting pronouncements

The Company has not applied the following pronouncements that have been issued but are not yet effective:

IFRS 9 - Financial Instruments - The standard is effective for annual reporting periods beginning on or after January 1, 2018. The Company is assessing the impact of this standard and is not expecting to have a material impact upon adoption of this standard.

IFRS 15 - Revenue from Contracts with Customers - The standard is effective for annual reporting periods beginning on or after January 1, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Company is not expecting this standard to impact the financial statements.

IFRS 16 - Leases ("IFRS 16") - The new standard on lease accounting was issued on January 13, 2016 and replaces the current guidance in *IAS 17 Lease Accounting*. The new standard results in substantially all lessee leases being recorded on the consolidated statement of financial position. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on the Company's financial statement measurements and disclosures. The Company does not anticipate early adoption of this standard.

3.13 Critical Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The estimates and the underlying assumptions are based on the judgment of management, including historical experience and other factors that management believes to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. A revision to an accounting estimate is recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

The following are critical judgments and estimates that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- a) Management is required to assess impairment in respect of exploration and evaluation assets. The triggering events are defined in IFRS 6 *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"). In making the assessment, management is required to make judgments on the status of each project, future plans towards finding commercial reserves and whether future economic benefits are likely either from exploitation or future sale or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. The nature of exploration and evaluation activity is such that only a small proportion of projects are ultimately successful, and some assets are likely to become impaired in future periods.

Management has determined that there were no triggering events present as defined in IFRS 6 for the exploration and evaluation assets and as such, no impairment test was performed.

- b) As part of the acquisition of Mangan on May 13, 2016, the Company discounted the \$1.2 million future deferred share consideration at an annual rate of 15%, which represented an estimate of the Company's borrowing rate at the time of the acquisition. The deferred consideration balance is accreted at an annual rate of 15% over the remaining repayment period and the resulting increase is recorded as an annual accretion charge in the statement of loss and comprehensive loss.
- c) Significant estimation is involved in determining the fair value of shares issued by the Company given that the Company was not publicly traded prior to October 2, 2018. Reference is made to the most recent share price negotiated with arms-length third parties when estimating the fair value of shares issued.
- d) Significant judgment was involved in determining the fair value of the penalty shares issuable to certain shareholders if specific future conditions were not met (Note 7). Management considered the Company's previous record of raising financing in making this judgment.

4. Exploration and Evaluation Assets

The Company was formed with the objective of evaluating, acquiring, developing and operating the Chvaletice Project as HPEMM and HPMSM project. The Company holds two exploration licenses for the Chvaletice 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 now 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 mining 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 (see note 6). 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 Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

5. Property and Equipment

	September 30, 2018		
	Equipment	Land	Total
	\$	\$	\$
Cost			
October 1, 2017	11,588	—	11,588
Additions	47,344	318,729 ^(a)	366,073
September 30, 2018	58,932	318,729	377,661
Accumulated depreciation			
October 1, 2017	(2,895)	—	(2,895)
Additions	(5,656)	—	(5,656)
September 30, 2018	(8,551)	—	(8,551)
Net Book Value			
October 1, 2017	8,693	—	8,693
September 30, 2018	50,381	318,729	369,110

^(a) In November 2017, the Company acquired land near the Chvaletice Project area.

	September 30, 2017		
	Equipment	Land	Total
	\$	\$	\$
Cost			
October 1, 2016	3,745	—	3,745
Additions	7,843	—	7,843
September 30, 2017	11,588	—	11,588
Accumulated depreciation			
October 1, 2016	(794)	—	(794)
Additions	(2,101)	—	(2,101)
September 30, 2017	(2,895)	—	(2,895)
Net Book Value			
October 1, 2016	2,951	—	2,951
September 30, 2017	8,693	—	8,693

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

6. 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 year is as follows:

	Year ended September 30,	
	2018	2017
	\$	\$
Balance, beginning of the year	724,377	893,804
Accretion during the year	91,396	130,573
Fair value of share consideration issued during the year ^(a)	(300,000)	(300,000)
Balance, end of the year	515,773	724,377
Less: current portion	(275,236)	(273,921)
	240,537	450,456

^(a) On May 9, 2018, the Company issued a total of 1,500,000 shares at \$0.20 per share as repayment of \$300,000 in deferred consideration, and on May 13, 2017, the Company issued a total of 2,727,275 shares at \$0.11 per share as repayment of \$300,000 in deferred consideration.

At September 30, 2018, the Company has a commitment to issue common shares for a cumulative total value of \$600,000. The two remaining \$300,000 payment obligations are due on May 13, 2019 and 2020. The number of shares to be issued will be based on value of the Company's shares at the time of each issuance, or pursuant to an amending agreement between the Company and Mangan's founding shareholders dated June 15, 2018, in cash, at the Company's sole discretion. The amending agreement also indicates that the minimum deemed value of the common shares will not be less than \$0.05 per share, and that that in the event either of the remaining two share issuances result in the deemed value of the shares being below \$0.05 per share, the Company has agreed to settle such payment in cash.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

7. Equity

a) Common shares

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

Issued and outstanding shares at September 30, 2018, were as follows:

	Share price \$	Number of common shares	Share capital \$
Balance at September 30, 2017		90,411,610	7,183,542
i) Shares issued pursuant to private placement and IPO in Australia and options exercised for cash			
- Private placements	0.20	37,750,000	7,550,000
- Initial public offering ^(a)	0.24	25,000,000	6,066,342
		62,750,000	13,616,342
Less: Cash expenses paid			(751,103)
			12,865,239
 Add: Options exercised	0.11	50,000	5,500
 Total shares issued for cash		62,800,000	12,870,739
Less: non-cash expenses:			
Cash issue cost accrual			(245,722)
Non-cash share issue costs			(682,426)
Broker warrants issued and committed to be issued			(474,345)
			(1,402,493)
 Add: non-cash value of exercised options			3,750
 ii) Shares issued for broker fees	0.20	1,714,050	342,810
	0.25	1,250,000	303,193
		2,964,050	646,003
 iii) Shares issued for services rendered	0.11	2,268,380	247,370
	0.20	357,717	71,544
	0.25	207,843	51,961
		2,833,940	370,875
 iv) Shares issued as deferred consideration repayment	0.20	1,500,000	300,000
Balance at September 30, 2018		160,509,600	19,972,416

^(a) Share price for the initial public offering in Australia was AUD0.26.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

7. Equity (continued)

The following is a summary of shares issued during the year ended September 30, 2018:

i) Shares issued for cash:

- On February 28, 2018, the Company completed a private placement by issuing a total of 37,750,000 common shares at a price of \$0.20 per share for gross cash proceeds of \$7,550,000 (the "February 2018 Private Placement"). Fees incurred with the February 2018 Private Placement, included a commission of \$342,810, paid by the issuance of 1,714,050 shares at \$0.20 per share, and a warrant to purchase 2,856,750 shares at \$0.30 per share exercisable until February 28, 2021, having a fair value of \$168,770.
- On September 28, 2018, the Company completed an IPO in Australia of 25,000,000 fully-paid CHESS Depositary Interests ("CDIs"), each CDI representing one fully paid common share, for gross proceeds of AUD6,500,000 (\$6,066,342) at a price of AUD0.26 per share. Fees payable to the Australian agent included a commission of AUD390,000, payable AUD65,000 (\$60,639) in cash and AUD325,000 (\$303,193) by way of 1,250,000 CDIs at AUD0.26 per CDI, and a warrant purchase 2,500,000 CDIs at a price of AUD0.375 per CDI exercisable for a period of 36 months from the date of issue, having a fair value of \$305,574.
- Concurrent with the IPO in Australia, the Company also filed a prospectus with the British Columbia, Alberta, and Ontario securities commissions for an IPO of 10,000,000 common shares at a price of \$0.25 per share, for gross proceeds of \$2,500,000. This IPO Closed on October 2, 2018 (note 15).
- Share issuance expenses related to the February 2018 Private Placement and IPOs in Australia and Canada included the \$342,810 and \$303,193 non-cash commissions above, an additional \$36,425 in non-cash financing expenditures and \$751,103 in legal and other financing cash expenditures.
- In December 2017, a total of 50,000 options were exercised at \$0.11 per share for total cash proceeds of \$5,500 and a \$3,750 allocation for the vested value of exercised options.

ii) Shares issued for broker fees:

- As indicated above, the Company issued 1,714,050 shares in connection with the broker's commission of \$342,810 related to the February 28, 2018 Private Placement and 1,250,000 shares in connection with the agent's commission of \$303,193 related to the Australian IPO.

iii) Shares issued for services rendered:

- The Company issued a total of 1,756,975 shares as repayment of \$218,137 in rendered services. The shares were issued at \$0.11, \$0.20 and \$0.25 per share, based on the latest share issue price at the time the services were rendered. A balance of \$36,425 was allocated to share issuance costs.
- A total of 1,076,965 shares were issued in lieu of \$116,313 in services rendered by an officer of the Company.

iv) Shares issued as deferred consideration repayment:

On May 9, 2018 the Company issued a total of 1,500,000 common shares at \$0.20 per share as a partial repayment of the outstanding deferred consideration (note 6).

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

7. Equity (continued)

v) Penalties for failing to obtain a public listing:

In connection with a brokered placement in mid-2017 (the “2017 Brokered Placement”), the Company agreed to issue certain penalty shares for no consideration to the investors of the 2017 Brokered Placement on each of the following conditions: if it failed to file a prospectus in Canada or Australia by March 31, 2018; and if it failed to become publicly listed in Canada or Australia within 18 months August 18, 2017. The Company met both conditions and as a result, the penalties became null and void following the listing of the Company's common shares at the TSX-V and the ASX on October 2, 2018 (note 15).

vi) Escrowed securities

Upon the listing of the Company's CDIs and common shares on the ASX and TSXV, 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 5,600,000 options were subject to escrow and are scheduled to be released as follows: 25% on the listing date of October 2, 2018; and 25% after six, twelve and eighteen months. Under the TSX-V's Seed Sale Resale Restrictions (“SSRR”), 778,575 common shares and 225,000 options were subject to escrow and are scheduled to be released as follows: 20% on the listing date on October 2, 2018; and 20% after each of the next four months. Under the ASX Listing Rules, 25,522,290 common shares, 9,550,000 options and 8,684,015 warrants are to be escrowed for a period of up to two years from the ASX listing date of September 28, 2018. As of the date of these consolidated financial statements, 7,261,341 common shares and 1,400,000 options have been released under NP 46-201, and 467,145 common shares and 135,000 options have been released under SSRR.

In many cases, a particular holder, or particular common share, option or warrant, is subject to escrow under one or more of NP 46-201, SSRR and ASX Listing Rules. If a holder of these securities is subject to one or more of these escrow regimes, the particular security will not be released from escrow until the release schedule for all regimes have been met.

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 stock 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 or, if the Company's shares are not traded on a stock exchange, the share value equal to the Company's most recent arm's length equity financing share price.

Current outstanding options have an expiry date of ten years and vest over a period of 24 months. A continuity summary of the stock options granted and outstanding under the Plan is presented below:

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

7. Equity (continued)

	Year ended		September 30, 2017	
	September 30, 2018		September 30, 2017	
	Number of share options	Weighted average exercise price (\$/per share)	Number of share options	Weighted average exercise price (\$/per share)
Balance, beginning of the year	7,250,000	0.10	1,975,000	0.08
Options granted during the year	5,725,000	0.20	5,275,000	0.11
Options exercised during the year	(50,000)	0.11	—	—
Options expired	(149,995)	0.09	—	—
Options forfeited	(250,005)	0.10	—	—
Balance, end of the year	12,525,000	0.15	7,250,000	0.10

During the year ended September 30, 2018:

- i) The Company granted, to directors, employees and consultants a total of 700,000 ten-year options with an exercise price of \$0.11 per share, 3,725,000 ten-year options with an exercise price of \$0.20 per share and 1,300,000 ten-year options with an exercise price of \$0.25 per share.
- ii) A total of 50,000 options were exercised at \$0.11 per share.
- iii) On January 9, 2018, a total of 400,000 options, with an average exercise price of \$0.10 per share, expired or were forfeited by employees or consultants that were no longer providing services to the Company.
- iv) The Company recorded share-based compensation expense of \$630,863 (2017 - \$210,817) of which \$216,043 has been allocated to project expenses (2017 - \$76,064) and \$414,820 to administrative expenses (2017 - \$134,753).

The balance of options outstanding and exercisable at September 30, 2018, is as follows:

Options outstanding & exercisable			Options exercisable	
Exercise price (\$/Share)	Number of share options	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
0.08	1,625,000	7.6	1,625,000	7.6
0.10	1,775,000	8.4	1,249,965	8.4
0.11	4,100,000	9.0	2,499,980	9.0
0.20	3,725,000	9.4	1,241,620	9.4
0.25	1,300,000	9.9	433,333	9.9
0.15	12,525,000	9.0	7,049,898	8.7

In the year ended September 30, 2018 and 2017, the Company applied the fair value-based method of accounting to determine the value of stock options granted to employees, including directors, and non-employees on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

7. Equity (continued)

	Year ended September 30,	
	2018	2017
Risk free rate	2.20%	1.45%
Expected life (years)	9.0	9.0
Annualized volatility	67%	60%
Dividend rate	—%	—%
Forfeiture rate	—%	—%
Option exercise price	\$0.19	\$0.11
Grant date fair value	\$0.14	\$0.07

c) Warrants

	September 30, 2018		September 30, 2017	
	Number of warrants	Weighted-average exercise price \$	Number of warrants	Weighted-average exercise price \$
Outstanding, beginning of the year	2,927,265	0.11	—	—
Issued	2,856,750	0.30	2,927,265	0.11
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding, end of the year	5,784,015	0.20	2,927,265	0.11

As at September 30, 2018, the following warrants were outstanding:

Expiry date	Weighted average exercise price	Number of warrants	Weighted average remaining contractual life (years)
June 16, 2019	0.11	2,042,895	0.7
June 30, 2019	0.11	292,250	0.8
July 31, 2019	0.11	417,295	0.8
August 18, 2019	0.11	174,825	0.9
February 28, 2021	0.30	2,856,750	2.4
	0.20	5,784,015	1.6

As part of the February 2018 Private Placement, the Company issued a total of 2,856,750 three-year broker warrants exercisable at \$0.30 per share. Based on Black-Scholes pricing model using a risk-free rate of 1.96%, an expected life of 3.0 years, an annualized volatility of 60% (based on volatility assumptions of comparable companies), a dividend rate of nil, and a share price of \$0.20, these warrants were assigned an estimated value of \$168,770.

At September 30, 2018, as a result of the IPO in Australia, the Company committed to issue 2,500,000 warrants at \$0.375 per share. Based on Black-Scholes pricing model using a risk-free rate of 2.19%, an expected life of 3.0 years, an annualized volatility of 90% (based on volatility assumptions of comparable companies), a dividend rate of nil, and a share price of \$0.25, these warrants were assigned an estimated value of \$305,574. These warrants were issued on October 2, 2018 (note 15).

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

8. 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, and the Vice President, Project Development.

During the year ended September 30, 2018, and 2017, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	Year ended September 30,	
	2018	2017
	\$	\$
Salaries and consulting fees payable to officers of the Company	1,269,954	645,928
Directors and officers' stock-based compensation	406,158	158,932
	1,676,112	804,860

b) Related party transactions during the year

A Company's director is associated with PRK Partners s.r.o. ("PRK"), a legal firm based in the Czech Republic. During the year ended September 30, 2018, PRK's legal fees charged to the Company totaled \$468,540 (2017 - \$43,171).

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

	September 30,	
	2018	2017
	\$	\$
Salaries and consulting fees from officers of the Company	64,895	64,576
Fees provided by a legal firm associated with a director of the Company	237,246	11,161
Outstanding payable due to officers and directors of the Company	18,498	40,994
	320,639	116,731

These transactions were incurred in the normal course of operations.

9. 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.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

9. Financial Instruments (continued)

The fair values of the Company's cash, accounts receivable, account payable and due to related parties approximate carrying values, which are the amounts recorded on the consolidated statement of financial position due to their short-term nature. There are no financial instruments classified as fair value through profit or loss, or available-for-sale using Level 1 inputs.

10. Financial Risk Management

a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. Management believes that the credit risk concentration with respect to these instruments is remote as they primarily consist of amounts on deposit with a major financial institution.

At September 30, 2018 and 2017, the Company's maximum exposure to credit risk was its cash balance of \$10,368,002 and \$2,860,994, respectively.

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation (note 1). At September 30, 2018, the maturity of our accounts payable and due to related parties balances is under 1 year.

c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and price risk.

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company invests a portion of its cash in an interest bearing account with a major Canadian bank.

Foreign currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency rates. The Company's financial instruments are exposed to currency risk where those instruments are denominated in currencies that are not the functional currency of the entity that holds them. Exchange gains and losses in these situations impact earnings.

Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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.

12. Commitments

The following is a maturity profile of financial liabilities and operating and capital commitments presenting undiscounted cash flows at September 30, 2018:

	Payments due by period				
	Total	Less than one year	1 - 2 years	2 - 3 years	After 3 years
	\$	\$	\$	\$	\$
Minimum office lease payments ⁽¹⁾	271,433	116,027	112,796	38,661	3,949
Operating expenditure commitments ⁽²⁾	923,091	923,091	—	—	—
Total contractual obligations	1,194,524	1,039,118	112,796	38,661	3,949

⁽¹⁾ The Company has three non-cancellable operating office leases expiring within 2 to 4 years.

⁽²⁾ Operating expenditure commitments relate mostly to the exploration and evaluation work on the Chvalatice Project.

Other commitments include:

- a) The Company's obligation to issue common shares in satisfaction of the remaining deferred consideration relating to Mangan's Acquisition (note 6).
- b) The Company has entered into employment agreements with its executive officers in which the individuals are entitled to a combination of base salary, extended benefits, specified milestones payments, and may be eligible for annual performance-based bonus as determined by the Board in its sole discretion. Following termination without cause, executive officers are also entitled to 12-month written notice or, in one case, a severance equivalent of one year's salary. Further, upon a change of control, as defined in their employment agreements, certain executives are entitled to lump sum payments of between eighteen and twenty-four months of their base salaries. Total maximum commitment upon change of control would amount to \$1.9 million.

Following termination without cause, certain executive officers are also entitled to up to 12-month written notice of termination, a severance equivalent up to one-year salary or, two-year salary if the officer's employment is terminated or unilaterally changed within six months of a Company's change of control.

13. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to pursue suitable business opportunities and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration and evaluation stage and has not achieved commercial operations from its projects, its principal source of funds is from the issuance of common shares. Further information related to liquidity risk is disclosed in note 1 and 10.

In the management of capital, the Company includes the components of equity. The Company manages and adjusts its capital structure considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain and adjust the capital structure, the Company may attempt to issue new shares, enter joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

13. Management of Capital (continued)

To facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company is not currently subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management in the period.

14. Income Taxes

A reconciliation of the income tax recoveries at the statutory tax rate of 27% (2017 - 26%) is as follows:

	September 30, 2018	2017
	\$	\$
Loss for the year	(6,534,075)	(3,413,356)
Expected income tax recovery	(1,764,200)	(887,472)
Non-deductible expenses and other	201,735	145,262
Non-capital losses expired	—	—
Effect of foreign tax rates and tax rate changes	568,908	167,898
Effect of deductible temporary difference not recognized	993,557	574,312
Income tax recovery	—	—

The Company has not recognized any deferred tax assets as realization is not probable. The significant components of the Company's deferred tax assets are as follows:

	September 30, 2018	2017
	\$	\$
Equipment	13,542	3,013
Exploration and evaluation assets	1,139,862	84,315
	1,153,404	87,328
Unrecognized deferred income tax assets	(1,153,404)	(87,328)
Deferred income tax assets	—	—

At September 30, 2018, we had the following estimated tax operating losses available to reduce future taxable income, including losses for which deferred tax assets are not recognized as listed in the table above. Losses expire at various dates and amounts between 2023 and 2037.

At September 30, 2018	\$
Canada	2,356,900
Czech Republic	926,600
Tax operating losses	3,283,500

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

15. Events after the Reporting Period

- a) On October 2, 2018, the Company completed its initial public offering on the TSX-V of 10,000,000 common shares of the Company at a price of \$0.25 per share, for aggregate gross proceeds of \$2,500,000 (note 7). On October 2, 2018, the Company's CDIs began trading on the ASX and its shares commenced trading on the TSX-V, both under the trading symbol "EMN".

In connection with the IPOs on the ASX and TSX-V, on October 2, 2018, the Company issued broker warrants to purchase 2,500,000 CDIs and 400,000 shares, respectively, at a price of \$0.375 per each expiring October 2, 2021.

- b) On October 17, 2018 the Company, through its Czech subsidiary Mangan, made the first option payment of 14 million Czech Korunas (approximately \$815,000) as stipulated in the option agreement for the purchase of a 100% interest in EP Chvaletice s.r.o. ("EPCS") (the "Option Agreement") signed on August 13, 2018. 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.

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

- i. an instalment of 42,000,000 Czech Koruna (approximately \$2.44 million), 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 Option Agreement. The three-year term may be extended under certain circumstances by up to one year; and
- ii. a final payment of 84,000,000 Czech Koruna (approximately \$4.88 million), due upon receipt of all development permits for the Chvaletice Manganese Project, but no later than five years after signing the Option Agreement.