



**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
SEPTEMBER 30, 2020 AND 2019**

Contents

Financial Statements

[Management's Report](#)

[Independent Auditor's Report](#)

[Consolidated Statements of Financial Position](#)

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

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

[Consolidated Statements of Cash Flows](#)

Notes to the Consolidated Financial Statements

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

[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 - Government Loan](#)

[Note 9 - Equity](#)

[Note 10 - Related Party Transactions](#)

[Note 11 - Fair Value Measurement of Financial Instruments](#)

[Note 12 - Financial Risk Management](#)

[Note 13 - Segmented Information](#)

[Note 14 - Commitments](#)

[Note 15 - Management of Capital](#)

[Note 16 - Income Taxes](#)

[Note 17 - Events after the Reporting Period](#)

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 16, 2020

"Marco Romero"

President and Chief Executive Officer

"Martina Blahova"

Chief Financial Officer



Independent auditor's report

To the Shareholders of Euro Manganese Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Euro Manganese Inc. and its subsidiary (together, the Company) as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at September 30, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

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



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lana Kirk.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
December 16, 2020

Consolidated Statements of Financial Position

Euro Manganese Inc.
(expressed in Canadian dollars)

	Note	September 30, 2020 \$	September 30, 2019 \$
ASSETS			
Current assets			
Cash		2,730,739	4,084,694
Prepaid expenses		378,378	112,864
Accounts receivable		30,084	45,148
		3,139,201	4,242,706
Non-current assets			
Exploration and evaluation assets	4	1,249,086	1,249,086
Property and equipment	5	364,688	368,952
Other assets	6	239,534	232,794
Option	6	815,000	815,000
Total assets		5,807,509	6,908,538
LIABILITIES			
Current liabilities			
Accounts payable		169,662	581,722
Due to related parties	10	20,717	170,618
Lease liability		27,110	—
Deferred consideration	7	—	275,838
		217,489	1,028,178
Non-current liabilities			
Government loan	8	40,000	—
Total liabilities		257,489	1,028,178
EQUITY			
Share capital	9	28,608,578	22,973,236
Equity reserve		2,592,667	2,182,856
Deficit		(25,651,225)	(19,275,732)
Total equity		5,550,020	5,880,360
Total liabilities and shareholders' equity		5,807,509	6,908,538

Nature of operations and liquidity (Note 1)

Events after the reporting period (Note 17)

Approved on behalf of the Board of Directors on December 16, 2020

"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,	
	2020	2019
	\$	\$
Project evaluation expenses		
Engineering	1,663,702	1,977,576
Remuneration	943,624	1,098,270
Share-based compensation	138,104	254,004
Drilling, sampling and surveys	3,690	212,214
Metallurgical	41,408	380,687
Travel	63,782	123,338
Legal and professional fees	154,542	370,366
Geological	78,887	215,060
Market studies	83,043	208,681
Supplies and rentals	27,179	107,019
	3,197,961	4,947,215
Other expenses		
Remuneration	1,022,307	1,305,466
Share-based compensation	271,707	493,630
Total remuneration	1,294,014	1,799,096
Legal and professional fees	566,811	252,690
Investor relations	227,713	274,728
Product sales and marketing	284,033	35,325
Travel	83,906	273,394
Filing and compliance fees	293,209	258,710
Accretion expense	102,035	60,065
Office, general and administrative	116,649	181,056
Insurance	109,421	102,991
Office rent	—	53,108
Conferences	27,813	55,354
Depreciation	71,928	23,673
	3,177,532	3,370,190
Loss and comprehensive loss for the year	6,375,493	8,317,405
Weighted average number of common shares outstanding - basic and diluted	190,921,092	172,002,914
Basic and diluted loss per common share	\$0.03	\$0.05

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	Share Capital	Equity Reserves	Deficit	Shareholders' Equity (Deficit)
	#	\$	\$	\$	\$
Balance at September 30, 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
Warrants exercised	2,927,265	418,211	(96,212)	—	321,999
Shares issued as part of broker fees	200,000	50,000	—	—	50,000
Shares issued as deferred consideration repayment	1,428,570	300,000	—	—	300,000
Share-based compensation	—	—	747,634	—	747,634
Loss and comprehensive loss for the year	—	—	—	(8,317,405)	(8,317,405)
	14,555,835	3,000,820	700,312	(8,317,405)	(4,616,273)
Balance at September 30, 2019	175,065,435	22,973,236	2,182,856	(19,275,732)	5,880,360
Shares issued for cash, net of expenses	72,818,494	4,543,278	—	—	4,543,278
Shares issued as payment of services	6,945,625	792,064	—	—	792,064
Shares issued as repayment of deferred consideration	3,333,333	300,000	—	—	300,000
Share-based compensation	—	—	409,811	—	409,811
Loss and comprehensive loss for the year	—	—	—	(6,375,493)	(6,375,493)
	83,097,452	5,635,342	409,811	(6,375,493)	(330,340)
Balance at September 30, 2020	258,162,887	28,608,578	2,592,667	(25,651,225)	5,550,020

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, 2020 \$	2019 \$
Operating activities			
Net loss for the year		(6,375,493)	(8,317,405)
Less non-cash transactions:			
Share-based compensation		409,811	747,634
Shares issued for services		535,368	—
Depreciation		71,928	23,673
Lease liability accretion		77,873	—
Accretion expense	7	24,162	60,065
Other income		(46,571)	—
		(5,302,922)	(7,486,033)
Changes in non-cash working capital items:			
Accounts payable		(412,060)	(126,772)
Accounts receivable		15,064	117,401
Prepaid expenses		34,485	11,462
Due to related parties		(149,901)	(135,833)
Cash used in operating activities		(5,815,334)	(7,619,775)
Financing activities			
Common shares issued for cash, net of expenses	9 (a)	4,543,278	2,085,777
Lease principal payments		(111,289)	—
Exercise of warrants		—	321,999
Proceeds from government loan	8	40,000	—
Cash generated from financing activities		4,471,989	2,407,776
Investing activities			
Option and deposit for land		(6,740)	(1,047,794)
Property & equipment acquisition	5	(4,317)	(23,515)
Proceeds from sale of equipment		447	—
Cash used in investing activities		(10,610)	(1,071,309)
Decrease in Cash		(1,353,955)	(6,283,308)
Cash - beginning of year		4,084,694	10,368,002
Cash - end of year		2,730,739	4,084,694
Non-cash transactions excluded from above:			
Common shares issued in private placement		300,000	—
Prepaid expenses		(300,000)	—
Common shares issued as payment for financing services		—	(50,000)
Share issue cost		—	50,000
Shares issued as payment of broker warrants			
Equity reserve		—	48,890
Share capital		—	(48,890)
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 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 CHES 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 proposed development of the Chvaletice deposit, which involves the re-processing of a readily leachable 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") and other high-purity manganese products.

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.

The Company is an early stage resource development company that 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 most likely continue to operate at a loss while the Company is evaluating the Chvaletice Manganese Project and planning its potential development.

At September 30, 2020, the Company's working capital totaled \$2,921,712 (2019 - \$3,214,528), including cash of \$2,730,739 (2019 - \$4,084,694). The loss for the year was \$6,375,493 (2019 - \$8,317,405) while cash used in operating activities was \$5,815,334 (2019 - \$7,619,775). The Company's working capital, combined with the net proceeds from a \$10.7 million private placement, which closed subsequent to the period end (Note 17), are 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.

Thereafter, additional funding will be required for working capital, 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. There can be no assurance that additional funding will 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.

On March 11, 2020, the World Health Organization declared a global pandemic related to COVID-19. The impacts on the global economy and commerce have already been significant and are expected to continue in the future. The impact of COVID-19 on the Company to date resulted in delays in access to financing and subsequently, in delays in the progress of the Chvaletice Manganese Project while immediate cost cutting measures were put in place. The duration of the pandemic, its impact on the Company's ability to progress Project development, as well as on global financial markets and the Company's access to capital to advance its development plans remain uncertain.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

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, except for IFRS 16 *Leases* ("IFRS 16"), which was adopted on October 1, 2019. The Company elected to apply IFRS 16 using the 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 (Note 3.9).

These consolidated financial statements were prepared by management and approved by the Board of Directors of the Company (the "Board") on December 16, 2020.

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.

2.3 Basis of consolidation

These consolidated financial statements incorporate the accounts of the Company and the entity 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.

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 establishing that the resource exists and that the costs can be economically recovered, are expensed in the period incurred.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

Exploration and evaluation costs are capitalized as mineral interests when the technical feasibility and commercial viability of the extraction of a mineral resource of a property has been determined.

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 feasibility 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.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

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

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.

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, 2020, and 2019.

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 9(b)).

- b) Warrants - Warrant-issued payments 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 classified as loans and receivables. Accounts payable, due to related parties and deferred consideration are classified as other financial liabilities.

i) Classification

Classification of financial instruments is determined at initial recognition.

A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Company's first option payment for the shares of E.P. Chvaletice s.r.o. ("EPCS") is classified as FVTPL (Note 6). The Company's cash and accounts receivable are classified as measured at amortized cost.

A financial liability is measured at amortized cost, unless it is required to be measured at FVTPL such as instruments held for trading or derivatives, or the Company opted to measure the liability as FVTPL. The Company's accounts payable, due to related parties and deferred consideration are classified as measured at amortized cost.

ii) Measurement

Financial assets and liabilities at FVTPL - Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the consolidated statement of income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in the consolidated statement of loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income ("OCI").

Financial assets at FVOCI - Investments in equity instruments at FVOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes from initial recognition recognized in OCI.

Financial assets and liabilities at amortized cost - Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

iii) Impairment of financial assets

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The application of the simplified approach to measuring the ECL, uses a lifetime expected loss allowance for all trade receivables. This has no impact on the carrying amounts of the Company's financial assets given the accounts receivable are mostly taxes receivable and therefore outside of scope of IFRS 9.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

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

iv) *Derecognition*

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains and losses on derecognition are recognized within finance income and finance costs, respectively. Gains or losses on financial assets classified as FVOCI remain within accumulated OCI.

v) *Fair value of financial instruments*

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the financial asset's specific circumstances.

3.9 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;
- 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.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

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 due 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
Adjustment of lease liability for decrease in future lease payments	(5,524)
Decrease of lease liability due to change in lease terms	(42,082)
Cash principal and interest payments	(111,289)
Non-cash accretion	77,873
At September 30, 2020	27,110
Less: Current portion	(27,110)
	—

The accounting policy applied under IAS 17 Leases during the year ended September 30, 2019 was as follows:

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Finance leases are capitalized at the lease commencement at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

3.10 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.

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, 2020 and 2019, the Company does not have any decommissioning obligations.

3.12 Accounting for government grants and disclosure of government assistance

A forgivable loan is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan. The benefit of a government loan at a below-market rate of interest is treated as a government grant which is recognized and measured in accordance with IFRS 9 *Financial instruments*. The benefit of the below-market rate of interest is the difference between the initial carrying value of the loan, discounted over the term of the loan using the incremental borrowing rate for the Company, and the proceeds received.

3.13 Recent accounting pronouncements

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

IAS 1 - Presentation of Financial Statements ("IAS 1") and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") - The standards were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements. The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

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

IFRS 3 - Business Combinations ("IFRS 3") – The standard was amended in October 2018 to clarify the definition of a business. This amended definition states that to be considered a business, an acquisition have to include an input and a substantive process that together significantly contribute to the ability to create outputs. Also, it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Company is currently assessing the impact of these pronouncements on the consolidated financial statements.

3.14 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.

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 exploration and evaluation assets for impairment at each period end. 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 as to whether impairment indicators exist when assessing the following factors: the period during which the entity has the right to explore in the specific area has expired during the year or will expire in the near future, substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned, sufficient data exists to support that extracting the resources will not be technically feasible or commercially viable and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. 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) The Company applied significant judgment in determining the fair value of the first option payment pursuant to an option agreement with EPCS ("EPCS Option Agreement") and its classification as financial instrument at FVTPL (Note 6), including the impact of the COVID-19 pandemic on the Company and the project.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

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 project. 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, 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 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 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.

5. Property and Equipment

	September 30, 2020			
	Equipment	Land	Lease assets	Total
	\$	\$	\$	\$
Cost				
October 1, 2019	82,447	318,729	—	401,176
Adoption of IFRS 16	—	—	97,781	97,781
Additions	4,317	—	4,827	9,144
Disposals and adjustments ^(a)	(1,009)	—	(51,943)	(52,952)
September 30, 2020	85,755	318,729	50,665	455,149
Accumulated depreciation				
October 1, 2019	(32,224)	—	—	(32,224)
Additions	(26,417)	—	(45,511)	(71,928)
Disposals	561	—	13,130	13,691
September 30, 2020	(58,080)	—	(32,381)	(90,461)
Net Book Value				
October 1, 2019	50,223	318,729	—	368,952
September 30, 2020	27,675	318,729	18,284	364,688

^(a) Change in lease term resulting in decrease of lease asset and liability.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

5. Property and Equipment (continued)

	September 30, 2019		
	Equipment	Land	Total
	\$	\$	\$
Cost			
October 1, 2018	58,932	318,729	377,661
Additions	23,515	—	23,515
September 30, 2019	82,447	318,729	401,176
Accumulated depreciation			
October 1, 2018	(8,551)	—	(8,551)
Additions	(23,673)	—	(23,673)
September 30, 2019	(32,224)	—	(32,224)
Net Book Value			
October 1, 2018	50,381	318,729	369,110
September 30, 2019	50,223	318,729	368,952

6. EPCS Option and Other Assets

EPCS Option

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 the EPCS Option Agreement for the purchase of a 100% interest in EPCS dated 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 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:

- an instalment of 42,000,000 Czech Koruna (approximately \$2.42 million at September 30, 2020), within 60 days of final approval of the environmental impact assessment ("EIA") 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
- a final instalment of 84,000,000 Czech Koruna (approximately \$4.84 million at September 30, 2020), 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 EPCS Option agreement is a derivative classified as FVTPL due to the following:

- The option is for the acquisition of shares of EPCS rather than a non-monetary asset;
- It does not meet any of the scope exceptions from recognition as a derivative under IFRS 9;

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

6. EPCS Option and Other Assets (continued)

- 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 \$24,447.

There was no change in the fair value of the option in the year ended September 30, 2020 and 2019.

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 Chvaletice Manganese Project tailings, on which the Company plans to construct a visual and acoustic barrier between Trnavka and the Chvaletice Manganese Project tailings and a utility corridor. The total purchase price of CZK 2,026,990 (approximately \$117,000) is paid in four installments. The first payment, representing 10% of the total amount, 202,699 Czech Koruna (\$11,867) was paid on May 20, 2019. Subsequent payments are based on certain milestones, including the EIA approval and the final mining permit.

7. Deferred Consideration

The deferred consideration represented the Company's share issuance commitment in connection with the acquisition of its exploration and evaluation assets (Note 4). On May 13, 2020, the Company issued 3,333,333 common shares for a total value of \$300,000, thus settling its remaining commitment. Movement in the deferred consideration during the year ended September 30, 2020 and 2019 was as follows:

	Year ended September 30,	
	2020	2019
	\$	\$
Balance, beginning of the year	275,838	515,773
Accretion during the year	24,162	60,065
Fair value of share consideration issued during the year	(300,000)	(300,000)
Balance, end of the year	—	275,838
Less: current portion	—	(275,838)
	—	—

8. Government loan

On April 23, 2020, the Company received, through its Canadian banking institution, \$40,000 from the Canada Emergency Business Account, which provides support for Canadian businesses during the COVID-19 pandemic. The loan is interest-free until December 31, 2022, after which it converts into a three-year loan with an interest rate of 5% per annum. If 75% of the principal is repaid before December 31, 2022, the remainder of the loan will be forgiven.

The Company plans to repay the loan by the end of calendar 2021. The loan proceeds received approximated the fair value. Accordingly, the loan was recorded at its nominal value.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

9. Equity

a) Common shares

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

The following is a summary of shares issued during the year ended September 30, 2020:

i) Shares issued in private placements:

On December 20, 2019, the Company issued 1,200,000 common shares valued at \$0.25 per share 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.

On April 6, 2020, and May 6, 2020, the Company closed the first and second tranches, respectively, of a non-brokered private placement for a total of 8,738,312 common shares and 401,888 CDIs, at a price of \$0.11 per common share or AUD\$0.13 per CDI, respectively, for aggregate gross proceeds of \$1,005,157 ("Offering A"). As part of Offering A, 2,523,917 common shares for gross proceeds of \$277,631 represent a settlement of certain accounts payable. Fees payable by the Company in connection with Offering A consist of a management fee, payable in cash, of 1% of the aggregate gross proceeds from Offering A.

On July 9, 2020, and August 25, 2020, the Company closed the first and second tranches, respectively, of a private placement for a total of 11,979,682 common shares and 54,222,528 CDIs, at a price of \$0.061 per common share or AUD\$0.065 per CDI, respectively for aggregate gross proceeds of \$4,038,335 ("Offering B"). Fees payable by the Company in connection with Offering B consist of a management fee, payable in cash, of 1% of the aggregate gross proceeds and a selling and/or finder's fee of 5% of the aggregate gross proceeds from Offering B. In addition to Offering B, the Company issued 3,071,551 common shares and 150,157 CDIs as settlement of certain accounts payable in the total amount of \$257,737.

Following the period end, the Company completed a two-tranche brokered private placement for gross proceeds of approximately \$11,400,000 (Note 17).

ii) Shares issued as settlement of deferred consideration:

On May 13, 2020, the Company issued a total of 3,333,333 shares at \$0.09 per share as a final repayment of \$300,000 in deferred consideration to the original shareholders of Mangan (Note 7).

iii) 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.

As at September 30, 2020, 25,770,569 common shares, 7,175,000 share options and 5,756,750 warrants remained subject to escrow and were released from escrow on October 2, 2020.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

9. Equity (continued)

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 for the year ended September 30, 2020 and 2019 is presented below:

	Year ended		September 30, 2019	
	September 30, 2020		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 year	15,500,000	0.17	12,525,000	0.15
Options granted during the year	4,800,000	0.12	3,275,000	0.27
Options expired	(575,000)	0.10	(200,000)	0.25
Options forfeited	—	—	(100,000)	0.25
Balance, end of the year	19,725,000	0.16	15,500,000	0.17

During the year ended September 30, 2020 the Company recorded share-based compensation expense of \$409,811 (2019 - \$747,634) of which \$138,104 has been allocated to project expenses (2019 - \$254,004) and \$271,707 to administrative expenses (2019 - \$493,630).

The balance of options outstanding and exercisable at September 30, 2020, is as follows:

Options outstanding & exercisable			Options exercisable ^(a)	
Exercise price (\$/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	5.6	1,625,000	5.6
0.10	1,450,000	6.5	1,450,000	6.5
0.11	7,800,000	8.5	5,166,670	7.8
0.13	500,000	10.0	166,667	10.0
0.20	3,725,000	7.4	3,725,000	7.4
0.25	1,900,000	8.4	1,483,333	8.2
0.28	2,725,000	8.4	1,816,652	8.4
0.16	19,725,000	7.9	15,433,322	7.5

^(a) Certain options are subject to escrow (Note 9 a) iii).

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

9. Equity (continued)

The weighted-average fair value of share options granted in the year ended September 30, 2020, was estimated to be \$0.08 per share option (2019 - \$0.21).

Option pricing models require the input of highly subjective assumptions. The expected life of the options considered such factors as the average length of time similar option grants in the past have remained outstanding prior to exercise and the vesting period of the grants. Volatility was estimated based on volatility assumptions of comparable companies. Changes in the subjective input assumptions can materially affect the estimated fair value of the options.

In the year ended September 30, 2020 and 2019, 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:

	Year ended September 30,	
	2020	2019
Risk free rate	0.21 %	1.74 %
Expected life (years)	9.0	9.0
Annualized volatility	90 %	90 %
Dividend rate	— %	— %
Forfeiture rate	— %	— %
Option exercise price	\$0.12	\$0.27
Grant date fair value	\$0.08	\$0.21

c) Warrants

	September 30, 2020		September 30, 2019	
	Number of warrants	Weighted-average exercise price \$	Number of warrants	Weighted-average exercise price \$
Outstanding, beginning of the year	5,756,750	0.34	5,784,015	0.20
Issued	—	—	2,900,000	0.38
Exercised	—	—	(2,927,265)	0.11
Outstanding, end of the year	5,756,750	0.34	5,756,750	0.34

As at September 30, 2020, 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	0.4
October 1, 2021	0.38	2,900,000	1.0
	0.34	5,756,750	0.7

^(a) Certain warrants are subject to escrow (Note 9 a) iii).

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

9. Equity (continued)

On October 2, 2018, in connection with the IPO in Australia and Canada, the Company issued warrants entitling the Australian and Canadian agents to purchase an aggregate of 2,900,000 common shares 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 total value of \$354,466.

10. 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, officers and advisory board, 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, Vice President, Corporate Development and Corporate Secretary, Chief Technology Officer and the Vice President, Operations.

During the year ended September 30, 2020, and 2019, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	Year ended September 30,	
	2020	2019
	\$	\$
Fees and salaries payable to directors and officers	1,160,479	1,512,566
Directors' and officers' stock-based compensation	243,663	475,038
	1,404,142	1,987,604

b) Related party transactions during the year

Fees provided by PRK Partners s.r.o. ("PRK"), a legal firm associated with an advisory board member, who is a former director of the Company, for the year ended September 30, 2020, amounted to \$149,519 (2019 - \$226,935). Fees paid to the advisory board members for the year ended September 30, 2020 amounted to \$9,314 (2019 - nil).

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

	September 30,	
	2020	2019
	\$	\$
Salaries and fees payable to directors and officers	16,158	71,414
Fees provided by a legal firm associated with a director	576	48,329
Outstanding payable due to directors and officers	3,983	50,875
	20,717	170,618

These transactions were incurred in the normal course of operations.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

11. 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 consolidated statement 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. Factors that were considered in this assessment were: compliance with EPCS Option Agreement, changes in intended land use, demand for high purity manganese products and price development, project progress and changes in local economy and legislation.

There were no transfers between the levels of the fair value hierarchy in the year ended September 30, 2020.

12. 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, 2020 and 2019, the Company's maximum exposure to credit risk was its cash balance of \$2,730,739 and \$4,084,694, 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, 2020, the maturity of accounts payable and due to related parties balances is under one 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.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

12. Financial Risk Management (continued)

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.

13. 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.

14. Commitments

The following is a maturity profile of financial liabilities and operating and capital commitments presenting undiscounted cash flows at September 30, 2020:

	Payments due by period			
	Total	Less than one year	1 - 2 years	2 - 3 years
	\$	\$	\$	\$
Minimum office lease payments ⁽¹⁾	9,298	6,245	2,442	611
Operating expenditure commitments ⁽²⁾	88,213	88,213	—	—
Total contractual obligations	97,511	94,458	2,442	611

⁽¹⁾ The Company has two non-cancellable operating office leases expiring within 1 to 3 years.

⁽²⁾ Operating expenditure commitments relate mostly 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.

Subsequent to year end, the Company announced that it agreed to acquire rights to three additional strategic parcels of land, completing its land assembly for the proposed Chvaletice commercial plant. These included a section of land encompassing a rail spur costing CZK 252,762 (approximately \$14,300), and a right-of-way for a period of 30 years having an annual rental of CZK 60,000 (approximately \$3,000). Most notable was an agreement to acquire a 49,971 m² parcel of land, including a rail spur extension that provides additional room and flexibility for the Chvaletice commercial plant layout. The cost of the land is CZK 18,739,125 (approximately \$1.1 million) and is to be paid in five annual installments of approximately \$80,000, followed by the remaining balance of approximately \$700,000 in the final year.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

14. Commitments (continued)

Other commitments include:

- a) 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 pay in lieu of notice of termination equivalent to 12 months' salary. Further, upon a change of control, as defined in their employment agreements, certain executives are entitled to lump sum payments of twenty-four months of their base salaries. Total maximum commitment upon change of control would amount to \$1.5 million.
- b) In connection with the acquisition of Mangan, the Chvaletice Manganese Project is subject to a 1.2% net smelter royalty interest. Mangan has a right of first refusal on the sale of all or a part of the royalties held by Mangan's founding shareholders and has 90 calendar days to match any bona fide and binding offer accepted by any of the royalty holders.

15. 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 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 12.

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.

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 high-quality, 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 uncertain as to whether its current capital resources will be sufficient to carry on its evaluation and development plans and operations through its current operating period and, accordingly, management is reviewing the timing and scope of current evaluation plans and is also pursuing other financing alternatives to fund the Company's 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.

Notes to the Consolidated Financial Statements

Euro Manganese Inc.
(expressed in Canadian dollars)

16. Income Taxes

A reconciliation of the income tax recoveries at the statutory tax rate of 27% (2019 - 27%) is as follows:

	September 30, 2020	2019
	\$	\$
Loss for the year	(6,375,493)	(8,317,405)
Expected income tax recovery	(1,721,383)	(2,245,699)
Non-deductible expenses and other	146,570	204,150
Effect of foreign tax rates and tax rate changes	403,692	603,011
Effect of deductible temporary difference not recognized	1,171,121	1,438,538
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, 2020	2019
	\$	\$
Equipment	19,346	18,526
Exploration and evaluation assets	2,249,657	1,840,739
Tax operating losses	12,598,000	8,345,200
	14,867,003	10,204,465
Unrecognized deferred income tax assets	(14,867,003)	(10,204,465)
Deferred income tax assets	—	—

At September 30, 2020, the Company 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 2022 and 2040.

At September 30, 2020	\$
Canada	8,689,900
Czech Republic	3,908,100
Tax operating losses	12,598,000

Notes to the Consolidated Financial Statements

Euro Manganese Inc.

(expressed in Canadian dollars)

17. Events after the Reporting Period

On October 2, 2020, 25,770,569 common shares, 7,175,000 share options and 5,756,750 were released from escrow. Additionally, subsequent to the period end, 334,000 options and 125,000 options were exercised at prices of \$0.11 and \$0.20 per share, respectively, for aggregate proceeds to the Company of \$61,740.

On October 21, 2020, the Company announced a two-tranche brokered private placement of 1,933,246 common shares and 58,066,754 CDIs, at a price of \$0.19 per common share or AUD\$0.20 per CDI, respectively for aggregate gross proceeds of approximately \$11,400,000 (the "Offering"). The first tranche of the Offering, consisting of 716,384 common shares and 31,183,616 CDIs for aggregate gross proceeds of approximately \$6,061,000, closed on October 28, 2020. The second tranche of the Offering, consisting of 1,216,862 common shares and 26,883,138 CDIs for gross proceeds of approximately \$5,339,000, closed on December 16, 2020. Fees payable in cash by the Company in connection with the Offering consisted of 6% of the aggregate gross proceeds. Additionally, the lead manager to the Offering, was issued 6,000,000 broker warrants ("Broker Warrants") exercisable any time prior to December 16, 2023, with one-half of such Broker Warrants having an exercise price of \$0.30 per share and one-half of such Broker Warrants having an exercise price of \$0.35 per share.

Subsequent to year end, the Company announced that it agreed to acquire rights to three additional strategic parcels of land, completing its land assembly for the proposed Chvaletice commercial plant (Note 14).