



# **GALANTAS GOLD CORPORATION**

**Consolidated Financial Statements  
(Expressed in Canadian Dollars)**

**Years Ended December 31, 2019 and 2018**



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Galantas Gold Corporation**

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Galantas Gold Corporation (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

#### 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company had a deficit of \$45,317,348 and incurred a comprehensive loss of \$3,680,871 during the year ended December 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Information Other than the Consolidated financial statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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 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 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.

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 relating 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 financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



**CLEARHOUSE LLP**  
CHARTERED PROFESSIONAL ACCOUNTANTS

- 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 Pat Kenney.

*Clearhouse LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Mississauga, Ontario  
June 10, 2020

**Galantas Gold Corporation**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

As at December 31,	2019	2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,913,420	\$ 6,188,554
Accounts receivable and prepaid expenses (note 8)	416,699	287,273
Inventories (note 9)	70,328	11,335
<b>Total current assets</b>	<b>2,400,447</b>	<b>6,487,162</b>
<b>Non-current assets</b>		
Property, plant and equipment (note 10)	21,159,716	16,487,501
Long-term deposit (note 12)	515,220	523,170
Exploration and evaluation assets (note 11)	661,726	760,023
<b>Total non-current assets</b>	<b>22,336,662</b>	<b>17,770,694</b>
<b>Total assets</b>	<b>\$ 24,737,109</b>	<b>\$ 24,257,856</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and other liabilities (note 13)	\$ 2,131,715	\$ 2,257,329
Current portion of financing facilities (note 14)	242,280	382,974
Due to related parties (note 21)	4,719,058	4,119,642
Convertible debenture (note 15)	1,400,594	-
<b>Total current liabilities</b>	<b>8,493,647</b>	<b>6,759,945</b>
<b>Non-current liabilities</b>		
Non-current portion of financing facilities (note 14)	1,440,185	1,081,190
Decommissioning liability (note 12)	580,303	578,242
<b>Total non-current liabilities</b>	<b>2,020,488</b>	<b>1,659,432</b>
<b>Total liabilities</b>	<b>10,514,135</b>	<b>8,419,377</b>
<b>Capital and reserves</b>		
Share capital (note 16(a)(b))	50,123,910	48,628,055
Reserves	9,416,412	8,963,163
Deficit	(45,317,348)	(41,752,739)
<b>Total equity</b>	<b>14,222,974</b>	<b>15,838,479</b>
<b>Total equity and liabilities</b>	<b>\$ 24,737,109</b>	<b>\$ 24,257,856</b>

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

Going concern (note 1)  
Contingency (note 23)  
Event after the reporting period (note 25)

**Approved on behalf of the Board:**

"Roland Phelps" \_\_\_\_\_, Director

"Jim Clancy" \_\_\_\_\_, Director



# Galantas Gold Corporation

## Consolidated Statements of Loss

(Expressed in Canadian Dollars)

	Year Ended December 31,	
	2019	2018
<b>Revenues</b>		
Jewellery sales (note 18)	\$ 5,788	\$ 71,243
<b>Cost and expenses of operations</b>		
Aggregates levy (note 19)	-	352,168
Cost of sales	221,691	185,058
Depreciation (note 10)	457,134	350,999
	<b>678,825</b>	<b>888,225</b>
<b>Loss before general administrative and other income</b>	<b>(673,037)</b>	<b>(816,982)</b>
<b>General administrative expenses</b>		
Management and administration wages (note 21)	902,822	784,545
Other operating expenses	436,585	198,493
Accounting and corporate	63,897	68,933
Legal and audit	74,690	91,419
Stock-based compensation (note 16(d))	321,433	225,169
Shareholder communication and investor relations	209,903	194,992
Transfer agent	11,206	10,213
Director fees (note 21)	35,500	29,250
General office	11,653	9,486
Accretion expenses (notes 12, 14 and 15)	271,365	251,547
Loan interest and bank charges less deposit interest (notes 15 and 21)	351,898	267,825
	<b>2,690,952</b>	<b>2,131,872</b>
<b>Other expenses (income)</b>		
Foreign exchange loss (gain)	16,659	(53,417)
Impairment of exploration and evaluation assets (note 11)	155,482	-
Loss on disposal of property, plant and equipment	28,479	-
Unrealized gain on fair value of derivative financial liability	-	(10,000)
	<b>200,620</b>	<b>(63,417)</b>
<b>Net loss for the year</b>	<b>\$ (3,564,609)</b>	<b>\$ (2,885,437)</b>
<b>Basic and diluted net loss per share (note 17)</b>	<b>\$ (0.12)</b>	<b>\$ (0.15)</b>
<b>Weighted average number of common shares outstanding</b>		
- basic and diluted (i)	<b>30,819,025</b>	<b>19,755,402</b>

(i) Adjusted for 10:1 share consolidation effective December 31, 2019 (note 17).

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



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**Galantas Gold Corporation**  
Consolidated Statements of Comprehensive Loss  
(Expressed in Canadian Dollars)

	Year Ended December 31,	
	2019	2018
<b>Net loss for the year</b>	<b>\$ (3,564,609)</b>	<b>\$ (2,885,437)</b>
<b>Other comprehensive (loss) income</b>		
<b>Items that will be reclassified subsequently to profit or loss</b>		
Exchange differences on translating foreign operations	(116,262)	293,807
<b>Total comprehensive loss</b>	<b>\$ (3,680,871)</b>	<b>\$ (2,591,630)</b>

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

**Galantas Gold Corporation**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian Dollars)

	Year Ended December 31,	
	2019	2018
<b>Operating activities</b>		
Net loss for the year	\$ (3,564,609)	\$ (2,885,437)
Adjustment for:		
Depreciation (note 10)	457,134	350,999
Stock-based compensation (note 16)	321,433	225,169
Interest expense (notes 15 and 21)	359,293	263,744
Foreign exchange loss (gain)	145,357	(44,041)
Accretion expenses (notes 12, 14 and 15)	271,365	251,547
Unrealized gain on fair value of derivative financial liability	-	(10,000)
Impairment of exploration and evaluation assets (note 11)	155,482	-
Loss on disposal of property, plant and equipment	28,479	-
Non-cash working capital items:		
Accounts receivable and prepaid expenses	(135,992)	36,586
Inventories	(60,078)	4,071
Accounts payable and other liabilities	(96,138)	992,086
Due to related parties	313,906	348,644
<b>Net cash and cash equivalents used in operating activities</b>	<b>(1,804,368)</b>	<b>(466,632)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(6,417,630)	(4,892,423)
Proceeds from sale of property, plant and equipment	981,905	-
Exploration and evaluation assets	(70,836)	(254,140)
<b>Net cash and cash equivalents used in investing activities</b>	<b>(5,506,561)</b>	<b>(5,146,563)</b>
<b>Financing activities</b>		
Proceeds of private placements (note 16(b))	1,600,000	8,471,771
Proceeds from convertible debenture (note 15)	1,731,190	-
Share issue costs (notes 15 and 16(b))	(209,048)	(465,388)
Advances from related parties	-	883,128
Proceeds from financing facilities (note 14)	-	2,021,280
Financing charges related to financing liabilities (note 14)	-	(41,674)
Repayment of financing facilities (note 14)	(56,854)	(6,357)
<b>Net cash and cash equivalents provided by financing activities</b>	<b>3,065,288</b>	<b>10,862,760</b>
<b>Net change in cash and cash equivalents</b>	<b>(4,245,641)</b>	<b>5,249,565</b>
Effect of exchange rate changes on cash held in foreign currencies	(29,493)	159,231
<b>Cash and cash equivalents, beginning of year</b>	<b>6,188,554</b>	<b>779,758</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,913,420</b>	<b>\$ 6,188,554</b>
Cash	\$ 1,913,420	\$ 2,700,754
Cash equivalents	-	3,487,800
<b>Cash and cash equivalents</b>	<b>\$ 1,913,420</b>	<b>\$ 6,188,554</b>

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

**Galantas Gold Corporation**  
**Consolidated Statements of Changes in Equity**  
**(Expressed in Canadian Dollars)**

	Reserves						Deficit	Total
	Share capital	Warrants reserve	Equity settled share-based payments reserve	Foreign currency translation reserve	Equity component of convertible debenture			
<b>Balance, December 31, 2017</b>	<b>\$ 39,759,172</b>	<b>\$ -</b>	<b>\$ 7,038,978</b>	<b>\$ 619,209</b>	<b>\$ -</b>	<b>\$(38,867,302)</b>	<b>\$ 8,550,057</b>	
Shares issued in private placements (note 16(b)(i)(ii))	8,471,771	-	-	-	-	-	8,471,771	
Share issue costs	(465,388)	-	-	-	-	-	(465,388)	
Warrants issued (note 14(ii))	-	786,000	-	-	-	-	786,000	
Common shares issued for debt (note 16(b)(iii))	862,500	-	-	-	-	-	862,500	
Stock-based compensation (note 16(d))	-	-	225,169	-	-	-	225,169	
Exchange differences on translating foreign operations	-	-	-	293,807	-	-	293,807	
Net loss for the year	-	-	-	-	-	(2,885,437)	(2,885,437)	
<b>Balance, December 31, 2018</b>	<b>48,628,055</b>	<b>786,000</b>	<b>7,264,147</b>	<b>913,016</b>	<b>-</b>	<b>\$(41,752,739)</b>	<b>15,838,479</b>	
Shares issued in private placement (note 16(b)(iv))	1,600,000	-	-	-	-	-	1,600,000	
Share issue costs	(104,145)	-	-	-	-	-	(104,145)	
Convertible debenture issued (note 15)	-	-	-	-	248,078	-	248,078	
Stock-based compensation (note 16(d))	-	-	321,433	-	-	-	321,433	
Exchange differences on translating foreign operations	-	-	-	(116,262)	-	-	(116,262)	
Net loss for the year	-	-	-	-	-	(3,564,609)	(3,564,609)	
<b>Balance, December 31, 2019</b>	<b>\$ 50,123,910</b>	<b>\$ 786,000</b>	<b>\$ 7,585,580</b>	<b>\$ 796,754</b>	<b>\$ 248,078</b>	<b>\$(45,317,348)</b>	<b>\$ 14,222,974</b>	

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



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# Galantas Gold Corporation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 1. Going Concern

These consolidated financial statements have been prepared on a going concern basis which contemplates that Galantas Gold Corporation (the "Company") will be able to realize assets and discharge liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast doubt on the Company's ability to continue as a going concern. The Company's future viability depends on the consolidated results of the Company's wholly-owned subsidiary Cavanacaw Corporation ("Cavanacaw"). Cavanacaw has a 100% shareholding in both Flintridge Resources Limited ("Flintridge") who are engaged in the acquisition, exploration and development of gold properties, mainly in Omagh, Northern Ireland and Omagh Minerals Limited ("Omagh") who are engaged in the exploration of gold properties, mainly in the Republic of Ireland. The Omagh mine has an open pit mine, which was in production until 2013 when production was suspended and is reported as property, plant and equipment and as an underground mine which having established technical feasibility and commercial viability in December 2018 has resulted in associated exploration and evaluation assets being reclassified as an intangible development asset and reported as property, plant and equipment.

The going concern assumption is dependent upon forecast cash flows being met, negotiations for the extension of the short-term loans being finalized, further financing currently being negotiated being completed and blasting arrangement with the Police Service of Northern Ireland being resolved. The directors assumptions in relation to future levels of production, gold prices and mine operating costs are crucial to forecast cash flows being achieved. Should production be significantly delayed, revenues fall short of expectations or operating costs and capital costs increase significantly, there may be insufficient cash flows to sustain day to day operations without seeking further finance.

Negotiations with current finance providers to extend short-term loans are progressing satisfactory. The Company is also in advanced negotiations with potential new investors to meet the financial requirements of the Company for the foreseeable future. Based on the five-year period financial projections prepared, the directors believe its appropriate to prepare the consolidated financial statements on the going concern basis.

On April 17, 2020, the Company completed a share consolidation of its share capital on the basis of ten existing common shares for one new common share consolidation. All common shares, per common share amounts, stock options and warrants in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

As at December 31, 2019, the Company had a deficit of \$45,317,348 (December 31, 2018 - \$41,752,739). Comprehensive loss for the year ended December 31, 2019 was \$3,680,871 (year ended December 31, 2018 - comprehensive loss of \$2,591,630). These losses raise material uncertainties which cast significant doubt as to whether the Company will be able to continue as a going concern. Management is confident that it will continue as a going concern. However, this is subject to a number of factors including market conditions.

These consolidated financial statements do not reflect adjustments to the carrying values of assets and liabilities, the reported expenses and financial position classifications used that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

#### 2. Incorporation and Nature of Operations

The Company was formed on September 20, 1996 under the name Montemor Resources Inc. on the amalgamation of 1169479 Ontario Inc. and Consolidated Deer Creek Resources Limited. The name was changed to European Gold Resources Inc. by articles of amendment dated July 25, 1997. On May 5, 2004, the Company changed its name from European Gold Resources Inc. to Galantas Gold Corporation. The Company was incorporated to explore for and develop mineral resource properties, principally in Europe. In 1997, it purchased all of the shares of Omagh which owns a mineral property in Northern Ireland, including a delineated gold deposit. Omagh obtained full planning and environmental consents necessary to bring its property into production.



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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**2. Incorporation and Nature of Operations (Continued)**

The Company entered into an agreement on April 17, 2000, approved by shareholders on June 26, 2000, whereby Cavanacaw, a private Ontario corporation, acquired Omagh. Cavanacaw has established an open pit mine to extract the Company's gold deposit near Omagh, Northern Ireland. Cavanacaw also has developed a premium jewellery business founded on the gold produced under the name Galántas Irish Gold Limited ("Galántas"). As at July 1, 2007, the Company's Omagh mine began production and in 2013 production was suspended. On April 1, 2014, Galántas amalgamated its jewelry business with Omagh.

On April 8, 2014, Cavanacaw acquired Flintridge. Following a strategic review of its business by the Company during 2014 certain assets owned by Omagh were acquired by Flintridge.

The Company's operations include the consolidated results of Cavanacaw, and its wholly-owned subsidiaries Omagh, Galántas and Flintridge.

The Company's common shares are listed on the TSX Venture Exchange ("TSXV") and London Stock Exchange AIM under the symbol GAL. The primary office is located at The Canadian Venture Building, 82 Richmond Street East, Toronto, Ontario, Canada, M5C 1P1.

**3. Basis of Preparation**

*(a) Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). The Board of Directors approved the consolidated financial statements on June 10, 2020.

*(b) Basis of presentation*

These consolidated financial statements have been prepared on a historical cost basis with the exception of certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the year. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 3(e).

*(c) Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the years presented are included in the consolidated statement of loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. An investor controls an investee if the investor has the power over the investee, has the exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**3. Basis of Preparation (Continued)**

(c) *Basis of consolidation (continued)*

The following wholly owned companies have been consolidated within the consolidated financial statements:

<b>Company</b>	<b>Registered</b>	<b>Principal activity</b>
Galantas Gold Corporation	Ontario, Canada	Parent company
Cavanacaw Corporation <sup>(1)</sup>	Ontario, Canada	Holding company
Omagh Minerals Limited <sup>(2)(3)</sup>	Northern Ireland	Operating company
Galántas Irish Gold Limited <sup>(2)(4)</sup>	Northern Ireland	Dormant company
Flintridge Resources Limited <sup>(2)(5)</sup>	United Kingdom	Operating company

<sup>(1)</sup> 100% owned by Galantas Gold Corporation;

<sup>(2)</sup> 100% owned by Cavanacaw Corporation;

<sup>(3)</sup> Referred to as Omagh (as defined herein);

<sup>(4)</sup> Referred to as Galántas (as defined herein); and

<sup>(5)</sup> Referred to as Flintridge (as defined herein).

(d) *Functional and presentation currency*

The consolidated financial statements are presented in Canadian Dollars ("CAD"), which is the parent Company's presentation and functional currency.

Items included in the financial statements of each of the Company's operating subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the operating subsidiaries is the U.K. Pound Sterling ("GBP"). The functional currency of the subsidiary Cavanacaw, the holding company, is the CAD.

Assets and liabilities of entities with functional currencies other than CAD are translated at the year-end closing rate of exchange, and the results of their operations are translated at average rates of exchange for the period unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the results of their operations are translated at the rate prevailing on the dates of the transactions. The resulting translation adjustments are recognized as a separate component of equity.

	<b>Year Ended</b>	
	<b>December 31,</b>	<b>2018</b>
	<b>2019</b>	<b>2018</b>
Closing rate (GBP to CAD)	1.7174	1.7439
Average for the year	1.6945	1.7299

(e) *Use of estimates and judgments*

The preparation of these consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are applied prospectively. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**3. Basis of Preparation (Continued)**

(e) *Use of estimates and judgments (continued)*

**Critical accounting estimates**

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of accounts receivable that are included in the consolidated statements of financial position;
- the recoverability of property, plant and equipment in the consolidated statements of financial position. The Omagh underground mine and the open pit mine are considered as one Cash generating unit (“CGU”) and were tested for impairment at year end. The calculations of the recoverable amount of CGU require the use of methods such as the discounted cash flow method, which uses assumptions to estimate future cash flows. Significant assumptions applied in the discounted cash flow calculation include: discount rate, foreign exchange rate, gold sale price, grade of ore mined, mill throughput and mill recovery rate. No impairment was noted.
- the estimated life of the Omagh underground mine ore body based on the estimated recoverable ounces or pounds mined from proven and probable reserves of the mine development costs which impacts the consolidated statements of financial position and the related depreciation included in the consolidated statements of loss;
- the estimated useful lives and residual value of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in the consolidated statements of loss;
- stock-based compensation – management is required to make a number of estimates when determining the compensation expense resulting from share-based transactions, including volatility, which is an estimate based on historical price of the Company's share, the forfeiture rate and expected life of the instruments;
- warrants – management is required to make a number of estimates when determining the fair value of the warrants, including volatility, the forfeiture rate and expected life of the instruments;
- convertible debenture is separated into its liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue is calculated as the discounted cash flows for the convertible debenture assuming a 18% effective interest rate which was the estimated rate for a debenture without a conversion feature. The fair value of the equity component was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability component. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components. The transaction costs incurred to obtain the credit facility are pro-rated between equity and debt liability;
- decommissioning liabilities has been created based on the estimated settlement amounts. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed quarterly and are based on current regulatory requirements and constructive obligations. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to liability on a quarterly basis. Actual decommissioning costs will ultimately depend on actual future settlement amount for the decommissioning costs which will reflect the market condition at the time the decommissioning costs are actually incurred. The final cost of the currently recognized decommissioning provisions may be higher or lower than currently provided for.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**3. Basis of Preparation (Continued)**

(e) *Use of estimates and judgments (continued)*

**Critical accounting judgments**

- functional currency – the functional currency for the parent entity and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined primary economic environment;
- exploration and evaluation assets - the determination of the demonstration of technical feasibility and commercial viability is subject to a significant degree of judgment and assessment of all relevant factors;
- Income taxes – measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements;
- Going concern assumption – Going concern presentation of the consolidated financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due; and
- Whether there are any indicators that the Company's property, plant and equipment assets and exploration and evaluation assets are impaired. Where an indicator of impairment exists for its non-current assets, the Company performs an analysis to estimate the recoverable amount, which includes various key estimates and assumptions as discussed above.

**4. Significant Accounting Policies**

(a) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the operations at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognized in the consolidated statements of loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income (loss). Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

(b) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

(c) *Financial instruments*

Under IFRS 9 - Financial Instruments ("IFRS 9"), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

Below is a summary showing the classification and measurement bases of our financial instruments.

<b>Financial instruments</b>	<b>Classification</b>
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Long-term deposit	Amortized cost
Accounts payable and other liabilities	Amortized cost
Financing facilities	Amortized cost
Due to related parties	Amortized cost
Convertible debenture	Amortized cost

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

The Company's cash and cash equivalents is classified as financial assets measured at FVTPL.

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

The Company's accounts receivable and long-term deposit are classified as financial assets measured at amortized cost.

iii. Financial assets recorded at FVTOCI

Financial assets are recorded at FVTOCI when the change in fair value is attributable to changes in the Company's credit risk.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

(c) *Financial instruments (continued)*

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable and other liabilities, financing facilities, due to related parties and convertible debenture does not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

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

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss).

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

(c) *Financial instruments (continued)*

Expected credit loss impairment model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's consolidated financial statements.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(d) *Impairment of non-financial assets*

When events or circumstances indicate that the carrying value may not be recoverable, the Company reviews the carrying amounts of its non-financial assets to determine whether events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The estimated recoverable amount is determined on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the recoverable amount is estimated at the CGU level.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased up to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

(e) *Property, plant and equipment*

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of property, plant and equipment, less its estimated residual value, over its estimated useful life at the following rates:

<b>Detail</b>	<b>Percentage</b>	<b>Method</b>
Buildings	20%	Declining balance
Plant and machinery	20%	Declining balance
Motor vehicles	25%	Declining balance
Office equipment	15%	Declining balance
Development assets		No depreciation

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

(f) *Borrowing Costs*

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

(g) *Exploration and evaluation assets*

These assets relate to the exploration and evaluation expenditures incurred in respect to resource projects that are in the exploration and evaluation stage.

Exploration and evaluation expenditures include costs which are directly attributable to acquisition and evaluation activities, assessing technical feasibility and commercial viability. These expenditures are capitalized using the full cost method until the technical feasibility and commercial viability of extracting the mineral resource of a project are demonstrable. During the exploration period, exploration and evaluation assets are not amortized.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

*(g) Exploration and evaluation assets (continued)*

Exploration and evaluation assets are allocated to CGU for the purpose of assessing such assets for impairment. At the end of each reporting period, the asset is reviewed for impairment indicators in accordance with IFRS 6.20:

- (i) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- (iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- (iv) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

If such indicators exist, the asset is tested for impairment and the recoverable amount of the asset is estimated. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statements of loss.

Once the technical feasibility and commercial viability of extracting a mineral resource of a project are demonstrable, the relevant exploration and evaluation asset is assessed for impairment, and any impairment loss recognized, prior to the balance being reclassified as a development asset in property, plant and equipment.

The determination of the demonstration of technical feasibility and commercial viability is subject to a significant degree of judgment and assessment of all relevant factors. In general, technical feasibility may be demonstrable once a positive feasibility study is completed. When determining the commercial viability of a project, in addition to the receipt of a feasibility study, the Company also considers factors such as the availability of project financing, the existence of markets and/or long term contracts for the product, and the ability of obtaining the relevant operating permits.

All subsequent expenditures to ready the property for production are capitalized within development assets, other than those costs related to the construction of property, plant and equipment.

Once production has commenced, all costs included in development assets are reclassified to mine development costs.

Exploration and evaluation expenditures incurred prior to the Company obtaining mineral rights related to the property being explored are recorded as expense in the period in which they are incurred.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

*(h) Stripping costs*

Till stripping costs involving the removal of overburden are capitalized where the underlying ore will be extracted in future periods. The Company defers these till stripping costs and amortizes them on a unit-of-production basis as the underlying ore is extracted.

*(i) Inventories*

Inventories are comprised of finished goods, concentrate inventory and work-in-process amounts.

All inventories are recorded at the lower of production costs on a first-in, first-out basis, and net realizable value. Production costs include costs related to mining, crushing, mill processing, as well as depreciation on production assets and certain allocations of mine-site overhead expenses attributable to the manufacturing process.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

*(j) Revenue recognition*

Revenue from sales of finished goods is recognized at the time of shipment when significant risks and rewards of ownership are considered to be transferred, the terms are fixed or determinable, collection is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement in the goods, and the amount of revenue can be measured reliably.

Revenue from sales of gold concentrate is recognized at the time of shipment when title passes and significant risks and benefits of ownership are considered to be transferred and the amount of revenue to be receivable by the Company is known or could be accurately estimated. The final revenue figure at the end of any given period is subject to adjustment at the date of ultimate settlement as a result of final assay agreement and metal prices changes.

*(k) Provisions*

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

*(l) Share-based compensation transactions*

*Share-based compensation transactions*

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based compensation transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, such as share-based payments to employees, they are measured at fair value of the share-based payment.

Share-based payments to employees of the subsidiaries are recognized as cash settled share-based compensation transactions.

*Equity-settled transactions*

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in "equity settled share-based payments reserve".

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options (if any) is reflected as additional dilution in the computation of loss per share.

*Cash-settled transactions*

The cost of cash-settled transactions is measured initially at fair value. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in employee benefits expense.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

*(m) Income taxes*

Income tax on the consolidated statements of loss for the years presented comprises current and deferred tax. Income tax is recognized in the consolidated statements of loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

*(n) Convertible debentures*

The component parts of convertible debentures (e.g., debt issued with a conversion feature) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt without conversion features. This amount is recorded as a liability on the amortized cost basis using the effective interest method until extinguished or at the instrument's maturity date.

The conversion features classified as equity are determined by deducting the amount of the liability component from the fair value of the instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, conversion features and warrants classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to common shares within equity. When the conversion feature remains unexercised at their maturity date, the balance recognized in equity will be transferred to retained earnings or deficit.

Transaction costs that relate to the issue of the instruments are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debt using the effective interest method.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (Continued)**

(o) *Decommissioning liability*

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, when there is a present obligation, as a result of a past event, it is probable to be settled by a future outflow of resources and a reliable estimate can be made of the obligation. Discount rates using a pretax rate that reflects the risk and the time value of money are used to calculate the net present value. These costs are charged against the consolidated statements of loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. 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. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits and/or inventories as extraction progresses.

(p) *Loss per share*

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed similarly to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the years. Options and warrants are anti-dilutive and, therefore, have not been taken into account in the per share calculation.

(q) *Accounting pronouncements adopted during the year*

(i) On June 7, 2017, the IASB issued IFRIC 23 - Uncertainty Over Income Tax Treatments. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for annual periods beginning on or after January 1, 2019. At January 1, 2019, the Company adopted this standard and there was no material impact on the Company's consolidated financial statements.

(ii) On January 13, 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 - Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company adopted IFRS 16 in its consolidated financial statements for the period beginning on January 1, 2019. As the Company has no material lease contracts that fall under IFRS 16, the adoption of this standard has not resulted in any material changes in the consolidated financial statements.

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# Galantas Gold Corporation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 5. Capital Risk Management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, reserves and deficit which at December 31, 2019 totaled \$14,222,974 (December 31, 2018 - \$15,838,479). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on future sales revenues, operating expenditures, and other investing and financing activities. The forecast is updated based on its operating and exploration activities. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2019. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

#### 6. Financial and Property Risk Management

##### Property risk

The Company's significant project is the Omagh mine. Unless the Company acquires or develops additional significant projects, the Company will be solely dependent upon the Omagh mine. If no additional projects are acquired by the Company, any adverse development affecting the Omagh mine would have a material effect on the Company's consolidated financial condition and results of operations.

##### Financial risk

The Company's activities expose it to a variety of financial risks: credit risk and sales concentration, liquidity risk and market risk (including interest rate risk, foreign currency risk and commodity and equity price risk). Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

##### (i) Credit risk and sales concentration

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable and long-term deposit. Cash and long-term deposit are held with financial institutions and the United Kingdom Crown, respectively, from which management believes the risk of loss to be minimal. All the revenue from sales are from one customer and the accounts receivable consist mainly of a trade account receivable from one customer, value added tax receivable and sales tax receivable. The Company is exposed to concentration of credit and sales risk with one of its customers. Management believes that the credit risk is minimized due to the financial worthiness of this company. Valued added tax receivable is collectable from the Government of Northern Ireland. Sales tax receivable is collectable from government authorities in Canada.

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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**6. Financial and Property Risk Management (Continued)**

Financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company manages liquidity risk by monitoring maturities of financial commitments and maintaining adequate cash reserves and available borrowing facilities to meet these commitments as they come due. As at December 31, 2019, the Company had working capital deficit of \$6,093,200 (December 31, 2018 - working capital deficit of \$272,783). All of the Company's financial liabilities have contractual maturities of less than 30 days other than certain related party loans which are due on demand.

During the fourth quarter, the Company announced a temporary suspension of blasting operations at its Omagh mine. Some mine operations continue at the Omagh gold mine, on a single shift. The processing plant has continued to operate on a limited basis in the near term and is being fed from underground stock.

Considering the economic impingement on the Company's operations, the Company is seeking strategic alternatives including reviewing its licenses and operations; and considering the possibility of engaging in a sale, joint venture, partnership or other options with third parties and alternative financing structures.

(iii) Market risk

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances, significant interest-bearing debt due to related parties, financing facility and convertible debenture. The Company is exposed to interest rate risk on both certain related party loans and third party loans which bear interest at variable rates. The Company's convertible debenture is at fixed interest rates.

(b) Foreign currency risk

Certain of the Company's assets, liabilities are designated in GBP and expenses are incurred in GBP which is the currency of Northern Ireland and the United Kingdom while the Company's primary revenues are received in the currency of United States and are therefore subject to gains and losses due to fluctuations in these currencies against the functional currency. The loan from third party is designated in US dollars.

(c) Commodity 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, as it relates to gold to determine the appropriate course of action to be taken by the Company.

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**6. Financial and Property Risk Management (Continued)**

**Sensitivity analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

(i) Certain related party loans and a loan facility with a third party are subject to interest rate risk. As at December 31, 2019, if interest rates had decreased/increased by 1% with all other variables held constant, the net loss for the year ended December 31, 2019, would have been approximately \$60,000 lower/higher respectively, as a result of lower/higher interest rates from certain related party loans and a loan facility. Similarly, as at December 31, 2019, shareholders' equity would have been approximately \$60,000 higher/lower as a result of a 1% decrease/increase in interest rates from certain related party loans and a loan facility.

(ii) The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, accounts receivable, long-term deposit, accounts payable and other liabilities, financing liability, due to related parties and convertible debenture that are denominated in GBP. As at December 31, 2019, had the GBP weakened/strengthened by 5% against the CAD with all other variables held constant, the Company's consolidated other comprehensive income (loss) for the year ended December 31, 2019 would have been approximately \$279,000 higher/lower as a result of foreign exchange losses/gains on translation of non-CAD denominated financial instruments. Similarly, as at December 31, 2019, shareholders' equity would have been approximately \$279,000 higher/lower had the GBP weakened/strengthened by 5% against the CAD as a result of foreign exchange losses/gains on translation of non-CAD denominated financial instruments.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of gold. Gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold may be produced in the future, a profitable market will exist for them. A decline in the market price of gold may also require the Company to reduce production of its mineral resources, which could have a material and adverse effect on the Company's value. Management believes that the impact would be immaterial for the year ended December 31, 2019.

**7. Categories of Financial Instruments**

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Financial assets:</b>		
FVTPL		
Cash and cash equivalents	\$ 1,913,420	\$ 6,188,554
Amortized cost		
Accounts receivable	347,079	271,504
Long-term deposit	515,220	523,170
<b>Financial liabilities:</b>		
Amortized cost		
Accounts payable and other liabilities	2,131,715	2,257,329
Financing facilities	1,682,465	1,464,164
Due to related parties	4,719,058	4,119,642
Convertible debenture	1,400,594	-

As of December 31, 2019 and 2018, the fair value of all the Company's financial instruments approximates the carrying value.

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**8. Accounts Receivable and Prepaid Expenses**

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Sales tax receivable - Canada	\$ 2,682	\$ 7,629
Valued added tax receivable - Northern Ireland	93,864	153,948
Accounts receivable	250,533	109,927
Prepaid expenses	69,620	15,769
	<b>\$ 416,699</b>	<b>\$ 287,273</b>

Prepaid expenses includes advances for consumables and for construction of the passing bays in the Omagh mine.

The following is an aged analysis of receivables:

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Less than 3 months	\$ 235,934	\$ 268,995
3 to 12 months	108,674	-
More than 12 months	2,471	2,509
Total accounts receivable	<b>\$ 347,079</b>	<b>\$ 271,504</b>

**9. Inventories**

	<b>As at December 31, 2019</b>	<b>As at December 31, 2018</b>
Concentrate inventories	\$ 70,328	\$ 11,335

## Galantas Gold Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 10. Property, Plant and Equipment

Cost	Freehold land and buildings	Plant and machinery	Motor vehicles	Office equipment	Mine development costs	Development assets	Total
Balance, December 31, 2017	\$ 2,340,221	\$ 5,477,586	\$ 141,364	\$ 104,456	\$ 15,340,722	\$ -	\$ 23,404,349
Additions	-	557,607	21,014	46,996	-	4,266,806	4,892,423
Transfer <sup>(1)</sup>	-	-	-	-	(15,340,722)	10,468,410	(4,872,312)
Foreign exchange adjustment	65,953	153,418	3,984	2,944	-	(38,803)	187,496
Balance, December 31, 2018	2,406,174	6,188,611	166,362	154,396	-	14,696,413	23,611,956
Additions	-	1,807,493	30,771	37,092	-	4,542,274	6,417,630
Disposals	-	(1,036,502)	(33,968)	-	-	-	(1,070,470)
Foreign exchange adjustment	(36,564)	(93,527)	(2,528)	(2,346)	-	(221,783)	(356,748)
Balance, December 31, 2019	\$ 2,369,610	\$ 6,866,075	\$ 160,637	\$ 189,142	\$ -	\$ 19,016,904	\$ 28,602,368

Accumulated depreciation	Freehold land and buildings	Plant and machinery	Motor vehicles	Office equipment	Mine development costs	Development assets	Total
Balance, December 31, 2017	\$ 1,908,720	\$ 4,496,935	\$ 91,189	\$ 88,977	\$ 8,651,776	\$ -	\$ 15,237,597
Depreciation	12,433	311,201	18,005	9,360	-	-	350,999
Transfer <sup>(1)</sup>	-	-	-	-	(8,651,776)	-	(8,651,776)
Foreign exchange adjustment	53,892	128,444	2,716	2,583	-	-	187,635
Balance, December 31, 2018	1,975,045	4,936,580	111,910	100,920	-	-	7,124,455
Depreciation	9,742	414,756	19,351	13,285	-	-	457,134
Disposal	-	(45,590)	(14,497)	-	-	-	(60,087)
Foreign exchange adjustment	(29,880)	(46,177)	(1,439)	(1,354)	-	-	(78,850)
Balance, December 31, 2019	\$ 1,954,907	\$ 5,259,569	\$ 115,325	\$ 112,851	\$ -	\$ -	\$ 7,442,652

Carrying value	Freehold land and buildings	Plant and machinery	Motor vehicles	Office equipment	Mine development costs	Development assets	Total
Balance, December 31, 2018	\$ 431,129	\$ 1,252,031	\$ 54,452	\$ 53,476	\$ -	\$ 14,696,413	\$ 16,487,501
Balance, December 31, 2019	\$ 414,703	\$ 1,606,506	\$ 45,312	\$ 76,291	\$ -	\$ 19,016,904	\$ 21,159,716

<sup>(1)</sup> During the year ended December 31, 2018, the Company transferred the cost of its Exploration and evaluation assets (note 11) to Development assets.



**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**11. Exploration and Evaluation Assets**

Exploration and evaluation assets are expenditures for the underground mining operations in Omagh. The Company had announced in December 2016 that it would commence the first phase of underground development and re-start concentrate shipments at its Omagh mine. Underground development of a decline tunnel, located at the base of the existing open pit, commenced in the first quarter 2017. During 2018 the mine commenced limited production of gold concentrate from feed produced in the development of the Kearney vein and in the fourth quarter Galantas reported that delivery of the first consignment of concentrate derived from underground feedstock at the mine had been made. Underground development of the decline tunnel continued to be progressed during 2019 with further crosscuts allowing access to lower levels of vein development which forms the development necessary to demarcate production panels. By the end of the third quarter of 2019 some two kilometres of underground drivages had been developed, with exposure of the main Kearney vein on four levels with a fifth level is near the point of intersection. The mine is serviced by a decline tunnel of 1 in 6 gradients, of dimensions approximately 4.5m by 4.5m. However, during the fourth quarter Galantas announced a temporary suspension of blasting operations at its Omagh gold mine. Blasting operations had been limited, since all blasting must be supervised by the Police Service of Northern Ireland. Presently the blasting arrangements are not sufficient for the desired level of operations and are not sufficient to allow for the expansion of mine operations as envisaged by the Company's existing mine plan. Until changes are agreed, the present inefficiencies caused by these blasting arrangements form an increasing financial burden, which has proved a significant drain on the financial resources of the Company. Accordingly, in order to reduce costs, while some mine operations will continue at the Omagh gold mine, consultation with the workforce has resulted in the numbers employed at the operation being reduced from 46 to 21. Some mine operations continue at the Omagh gold mine, on a single shift.

<b>Cost</b>	<b>Exploration and evaluation assets</b>
Balance, December 31, 2017	\$ 3,948,452
Additions	254,140
Transfer (i)	(3,624,624)
Foreign exchange adjustment	182,055
Balance, December 31, 2018	760,023
Additions	70,836
Impairment	(157,583)
Foreign exchange adjustment	(11,550)
Balance, December 31, 2019	\$ 661,726

**Carrying value**

Balance, December 31, 2018	\$ 760,023
Balance, December 31, 2019	\$ 661,726

(i) During the year ended December 31, 2018, the Company transferred the cost of its Exploration and evaluation assets (note 10) to Development assets.

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**12. Decommissioning Liability**

The Company's decommissioning liability is a result of mining activities at the Omagh mine in Northern Ireland. The Company estimated its decommissioning liability at December 31, 2019 based on a risk-free discount rate of 1% (December 31, 2018 - 1%) and an inflation rate of 1.50% (December 31, 2018 - 1.50%). The expected undiscounted future obligations allowing for inflation are GBP 330,000 and based on management's best estimate the decommissioning is expected to occur over the next 5 to 10 years. On December 31, 2019, the estimated fair value of the liability is \$580,303 (December 31, 2018 - \$578,242). Changes in the provision during the year ended December 31, 2019 are as follows:

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Decommissioning liability, beginning of year	\$ 578,242	\$ 551,680
Accretion	10,702	10,926
Foreign exchange	(8,641)	15,636
<b>Decommissioning liability, end of year</b>	<b>\$ 580,303</b>	<b>\$ 578,242</b>

As required by the Crown in Northern Ireland, the Company is required to provide a bond for reclamation related to the Omagh mine in the amount of GBP 300,000 (December 31, 2018 - GBP 300,000), of which GBP 300,000 was funded as of December 31, 2019 (GBP 300,000 was funded as of December 31, 2018) and reported as long-term deposit of \$515,220 (December 31, 2018 - \$523,170).

**13. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities of the Company are principally comprised of amounts outstanding for purchases relating to exploration costs on exploration and evaluation assets, general operating activities and professional fees activities.

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Accounts payable	\$ 1,084,574	\$ 1,017,939
Accrued liabilities	1,047,141	1,239,390
<b>Total accounts payable and other liabilities</b>	<b>\$ 2,131,715</b>	<b>\$ 2,257,329</b>

The following is an aged analysis of the accounts payable and other liabilities:

	<b>As at December 31, 2019</b>	<b>As at December 31, 2018</b>
Less than 3 months	\$ 1,232,089	\$ 1,066,881
3 to 12 months	221,328	775,693
12 to 24 months	357,073	71,394
More than 24 months	321,225	343,361
<b>Total accounts payable and other liabilities</b>	<b>\$ 2,131,715</b>	<b>\$ 2,257,329</b>

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**14. Financing Facilities**

Amounts payable on the long-term debts are as follow:

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Financing facilities, beginning of year (i)(ii)	\$ 1,081,190	\$ 19,689
Financing facility received (ii)	-	2,021,280
Less bonus warrants issued (ii)	-	(786,000)
Less financing costs (ii)	-	(41,674)
Less current portion	(242,280)	(382,974)
Repayment of financing facilities	(56,854)	(6,357)
Accretion (ii)	248,238	240,621
Interest	279,151	-
Foreign exchange adjustment	130,740	16,605
<b>Financing facilities - long term portion</b>	<b>\$ 1,440,185</b>	<b>\$ 1,081,190</b>

(i) In June 2015, the Company obtained financing in the amount of GBP 19,900 for the purchase of a vehicle. The financing is for three years at interest of 6.79% per annum with monthly principal and interest payments of GBP 377 together with a final payment in August 2019 of GBP 9,540. The financing was secured on the vehicle.

(ii) In April 2018, the Company signed a concentrate pre-payment agreement and loan facility for US\$1.6 million with a United Kingdom based company (the "Lender"), with a maturity date of December 31, 2020. The interest is set at US\$ 12 month LIBOR + 8.75% and payable monthly. No interest shall be charged for 6 months and repayments shall commence against deliveries in 2019. There was a US\$25,000 arrangement fee.

In respect of the loan facility, a fixed and floating security, subordinated to an existing security to G&F Phelps Ltd. ("G&F Phelps"), is being put in place over Flintridge assets. G&F Phelps has a first charge on Flintridge assets in respect of its loan facility and the Lender required an intercreditor agreement between G&F Phelps and the Lender.

As consideration for the loan facility, the United Kingdom based company received 1,500,000 bonus warrants of the Company. Each bonus warrant is exercisable into one common share of the Company and is subject to an initial four months plus one day hold period from the date of issuance of the bonus warrants. The bonus warrants have a maximum life of two years (the "Expiry Time"). On April 19, 2018, the 1,500,000 bonus warrants were granted. In the event that the weighted average closing price per common share of the Company is more than \$2.00 per share for more than five consecutive trading days, the Company shall be entitled to accelerate the Expiry Time to a date that is 30 days from the date on which the Company announces the accelerated Expiry Time by press release.

The fair value of the 1,500,000 bonus warrants was estimated at \$786,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield - 0%, expected volatility - 113.55%, risk-free interest rate - 1.91% and an expected average life of 2 years.

During the year ended December 31, 2019, the Company recorded accretion expense of \$248,238 in the consolidated statements of loss in regards with this loan facility (year ended December 31, 2018 - \$240,621).

During the year ended December 31, 2019, the Company recorded a repayment of \$56,854 in regards with this loan facility (year ended December 31, 2018 - \$nil).

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**15. Convertible Debenture**

On December 17, 2019, the Company closed a \$1,731,190 (GBP 1,000,000) convertible debenture consisting of 3,000 units. The convertible debenture is unsecured, is for a term of one year commencing on the date that it is issued, carries a coupon of 15% per annum and is convertible into common shares of the Company. The conversion price is fixed at \$0.15, being a 25% discount to the closing price of the common shares of the Company on the issue date.

The convertible debenture has been fully subscribed by Melquart Limited ("Melquart"), an insider and control person of the Company (as defined by the TSXV). Melquart held 7,756,572 common shares equivalent to 24% of the Company at December 31, 2019. Melquart are under no obligation to convert the convertible debenture and should Melquart choose not to convert, the Company will need to raise further funds to repay the convertible debenture within 12 months.

A four month hold period will apply to common shares converted through the convertible debenture. The hold period will expire on April 18, 2020. The share issued pursuant to the convertible debenture will rank pari passu with the existing common shares issued by the Company.

Commission payable to Whitman Howard Ltd. for acting as the broker in relation to the convertible debenture offering total \$86,308 (GBP 50,000).

The debentures consist of the liability component and equity component. The fair value of the liability was recorded at \$1,467,110, discounted at an effective interest rate of 18%. The residual value of the debentures is allocated to the conversion feature. The value of the conversion feature was \$264,080. The Company incurred transaction costs of \$104,903 which was allocated pro-rata on the value of the conversion feature and the liability component.

During the year ended December 31, 2019, the Company recorded accretion expense of \$12,425 and interest expense of \$9,960 as finance interest expense in profit or loss.

<b>Balance, December 31, 2017 and December 31, 2018</b>	<b>\$ -</b>
Principal amount	1,731,190
Equity allocation - conversion feature	(264,080)
Transaction costs	(104,903)
Transaction costs allocated to equity	16,002
Interest expense	9,960
Accretion expense	12,425
<b>Balance, December 31, 2019</b>	<b>\$ 1,400,594</b>

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**16. Share Capital and Reserves**

**a) Authorized share capital**

At December 31, 2019, the authorized share capital consisted of an unlimited number of common and preference shares issuable in Series.

On April 17, 2020, the Company completed a share consolidation of its share capital on the basis of ten then existing common shares for one new common share consolidation. All common shares, per common share amounts, stock options and warrants in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

The common shares do not have a par value. All issued shares are fully paid.

No preference shares have been issued. The preference shares do not have a par value.

**b) Common shares issued**

At December 31, 2019, the issued share capital amounted to \$50,123,910. The change in issued share capital for the years presented is as follows:

	Number of common shares	Amount
<b>Balance, December 31, 2017</b>	<b>18,754,769</b>	<b>\$ 39,759,172</b>
Shares issued in private placements (i)(ii)	10,213,762	8,471,771
Share issue costs	-	(465,388)
Common shares issued for debt (iii)	1,000,000	862,500
<b>Balance, December 31, 2018</b>	<b>29,968,531</b>	<b>48,628,055</b>
Shares issued in private placement (iv)	2,352,941	1,600,000
Share issue costs	-	(104,145)
<b>Balance, December 31, 2019</b>	<b>32,321,472</b>	<b>\$ 50,123,910</b>

(i) On September 25, 2018, the Company closed a private placement of 2,213,762 common shares for gross proceeds of \$1,571,771. United Kingdom placees have subscribed at a price of GBP 0.42 per common share. Canadian placees have subscribed at a price of \$0.71 per common share.

Melquart subscribed for a total of 1,190,476 common shares and Melquart's stake increased to 19.2% of the Company's issued common shares.

Ross Beaty subscribed for 238,095 common shares, which, in addition to the shares he already holds, give rise to an 17.9% holding.

Roland Phelps (President and Chief Executive Officer ("CEO")) subscribed for 476,191 common shares, which, in addition to the shares he already holds, give rise to an 18.7% holding.



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# Galantas Gold Corporation

## Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 16. Share Capital and Reserves (Continued)

#### b) Common shares issued (continued)

(ii) On December 12, 2018, the Company completed the first part of a private placement. It consisted of 5,743,507 common shares of no par value. United Kingdom placees have subscribed at a price of GBP 0.50 per common share. Canadian placees have subscribed at a price of \$0.8625 per common share. Receipts attached to the first part of the placement total \$4,953,774.

On December 21, 2018, the Company completed the second part of a private placement. It consisted of 2,256,493 common shares of no par value for receipt of \$1,946,226. United Kingdom placees have subscribed at a price of GBP 0.50 per common share.

Miton Assets Management Limited ("Miton"), a UK based investment institution, subscribed for a total of 5,000,000 common shares, representing 16.68% of the Company's issued common shares.

Melquart subscribed for a total of 2,200,000 common shares and Melquart's staked increased to 20.76% of the Company's issued common shares.

Roisin Ann Magee, a director of the Company, subscribed for 50,000 common shares.

(iii) On December 12, 2018, the Company issued 1,000,000 common shares as settlement of due to related parties of \$862,500. Due to related parties consisted of an amount owing to Roland Phelps (President and CEO).

(iv) On August 21, 2019, the Company closed a private placement of 2,352,941 common shares for gross proceeds of GBP 1,000,000 (\$1,600,000) at an issue price of GBP 0.425 (CAD\$0.68) per share.

Miton subscribed for a total of 376,471 common shares and Miton's staked increased to 15.51% of the Company's issued common shares.

Melquart subscribed for a total of 1,534,117 common shares and Melquart's staked increased to 24.00% of the Company's issued common shares.

#### c) Warrant reserve

The following table shows the continuity of warrants for the years presented:

	Number of warrants	Weighted average exercise price
<b>Balance, December 31, 2017</b>	<b>63,600</b>	<b>\$ 0.70</b>
Issued (note 14(ii))	1,500,000	1.58
Expired	(63,600)	0.70
<b>Balance, December 31, 2018 and December 31, 2019</b>	<b>1,500,000</b>	<b>\$ 1.58</b>

# Galantas Gold Corporation

Notes to Consolidated Financial Statements  
Years Ended December 31, 2019 and 2018  
(Expressed in Canadian Dollars)

## 16. Share Capital and Reserves (Continued)

### c) Warrant reserve (continued)

The following table reflects the actual warrants issued and outstanding as of December 31, 2019:

Expiry date	Number of warrants	Grant date fair value (\$)	Exercise price (\$)
April 19, 2020	1,500,000	786,000	1.575

### d) Stock options

The Company has a stock option plan (the "Plan"), the purpose of which is to attract, retain and compensate qualified persons as directors, senior officers and employees of, and consultants to the Company and its affiliates and subsidiaries by providing such persons with the opportunity, through share options, to acquire an increased proprietary interest in the Company. The number of shares reserved for issuance under the Plan cannot be more than a maximum of 10% of the issued and outstanding shares at the time of any grant of options. The period for exercising an option shall not extend beyond a period of five years following the date the option is granted.

Insiders of the Company are restricted on an individual basis from holding options which when exercised would entitle them to receive more than 5% of the total issued and outstanding shares at the time the option is granted. The exercise price of options granted in accordance with the Plan must not be lower than the closing price of the shares on the TSXV immediately preceding the date on which the option is granted and in no circumstances may it be less than the permissible discounting in accordance with the Corporate Finance Policies of the TSXV.

The Company records a charge to the consolidated statements of loss using the Black-Scholes option pricing model. The valuation is dependent on a number of inputs and estimates, including the strike price, exercise price, risk-free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to the historic traded daily closing share price at the date of issue.

Option pricing models require the inputs including the expected price volatility. Changes in the inputs can materially affect the fair value estimate.

The following table shows the continuity of stock options for the years presented:

	Number of options	Weighted average exercise price
<b>Balance, December 31, 2017</b>	<b>860,000</b>	<b>\$ 1.20</b>
Granted (i)	100,000	1.10
Expired	(75,000)	1.40
<b>Balance, December 31, 2018</b>	<b>885,000</b>	<b>1.20</b>
Granted (ii)(iii)	570,000	0.90
Expired	(60,000)	1.10
<b>Balance, December 31, 2019</b>	<b>1,395,000</b>	<b>\$ 0.92</b>



# Galantas Gold Corporation

## Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 16. Share Capital and Reserves (Continued)

#### d) Stock options (continued)

(i) On April 19, 2018, 100,000 stock options were granted to key employees and consultants of the Company to purchase common shares at a price of \$1.10 per share until April 19, 2023. The options will vest as to one third on April 19, 2018 and one third on each of the following two anniversaries. The fair value attributed to these options was \$99,400 and was expensed in the consolidated statements of loss and credited to equity settled share-based payments reserve. During the year ended December 31, 2019, included in stock-based compensation is \$26,462 (year ended December 31, 2018 - \$67,991) related to the vested portion of these options.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 172%; risk-free interest rate - 2.16% and an expected life of 5 years.

(ii) On February 13, 2019, 320,000 stock options were granted to directors, officers, consultants and employees of the Company to purchase common shares at a price of \$0.90 per share until February 13, 2024. The options will vest as to one third on February 13, 2019 and one third on each of the following two anniversaries. The fair value attributed to these options was \$231,900 and was expensed in the consolidated statements of loss and credited to equity settled share-based payments reserve. During the year ended December 31, 2019, included in stock-based compensation is \$184,426 related to the vested portion of these options.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 129%; risk-free interest rate - 1.84% and an expected life of 5 years.

(iii) On June 27, 2019, 250,000 stock options were granted to directors and employees of the Company to purchase common shares at a price of \$0.90 per share until June 27, 2024. The options will vest as to one third on June 27, 2019 and one third on each of the following two anniversaries. The fair value attributed to these options was \$145,500 and was expensed in the consolidated statements of loss and credited to equity settled share-based payments reserve. During the year ended December 31, 2019, included in stock-based compensation is \$85,772 related to the vested portion of these options.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 128%; risk-free interest rate - 1.37% and an expected life of 5 years.

(iv) The portion of the estimated fair value of options granted in the prior years and vested during the year ended December 31, 2019, amounted to \$24,773 (year ended December 31, 2018 - \$nil).

The following table reflects the actual stock options issued and outstanding as of December 31, 2019:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)	Number of options unvested
June 1, 2020	1.05	0.42	335,000	335,000	-
June 12, 2020	1.05	0.45	15,000	15,000	-
March 25, 2022	1.35	2.23	395,000	395,000	-
April 19, 2023	1.10	3.30	100,000	100,000	-
February 13, 2024	0.90	4.12	300,000	100,000	200,000
June 27, 2024	0.90	4.49	250,000	83,333	166,667
	1.07	2.67	1,395,000	1,028,333	366,667

**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**17. Net Loss per Common Share**

The calculation of basic and diluted loss per share for the year ended December 31, 2019 was based on the loss attributable to common shareholders of \$3,564,609 (year ended December 31, 2018 - \$2,885,437) and the weighted average number of common shares outstanding of 30,819,025 (year ended December 31, 2018 - 19,755,402) for basic and diluted loss per share. Diluted loss did not include the effect of 1,500,000 warrants (year ended December 31, 2018 - 1,500,000) and 1,395,000 options (year ended December 31, 2018 - 885,000) for the year ended December 31, 2019, as they are anti-dilutive. The calculation of basic and diluted loss per share is adjusted for 10:1 share consolidation effective December 31, 2019.

**18. Revenues**

Shipments of concentrate under the off-take arrangements commenced during the second quarter of 2019. Concentrate sales provisional revenues during the year ended December 31, 2019 totalled approximately US\$1,518,000. However, until the mine reaches the commencement of commercial production, the net proceeds from concentrate sales will be offset against Development assets.

**19. Aggregate Levy Provision**

The Company's subsidiary Omagh was unsuccessful in respect of its aggregates levy appeal. As a result Omagh Minerals will now have to pay an aggregates levy plus interest and a penalty which has been accounted for as an aggregate levy in the prior year consolidated financial statements.

**20. Taxation**

**(a) Provision for income taxes**

The reported recovery of income taxes differs from amounts computed by applying the statutory income tax rates to the reported loss before income taxes due to the following:

<b>Year Ended December 31,</b>	<b>2019</b>	<b>2018</b>
Loss before income taxes	<b>\$ (3,564,609)</b>	<b>\$ (2,885,437)</b>
Expected tax recovery at statutory rate of 26.5% (2018 - 26.5%)	<b>(944,621)</b>	<b>(764,641)</b>
Difference resulting from:		
Foreign tax rate differential	<b>180,327</b>	127,463
Stock-based compensation	<b>85,180</b>	59,670
Permanent differences and other	<b>197,669</b>	(67,716)
Tax benefits not recognized	<b>481,445</b>	645,224
	<b>\$ -</b>	<b>\$ -</b>

**(b) Deferred tax balances**

The temporary differences and unused tax losses that give rise to deferred income tax balances are presented below:

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Deferred income tax assets (liabilities)		
Non-capital losses	<b>\$ 8,718,385</b>	\$ 7,417,236
Share issue costs and other	<b>(14,551)</b>	137,564
Non-current assets	<b>(2,592,077)</b>	(1,924,488)
Valuation allowance (impairment)	<b>(6,111,757)</b>	(5,630,312)
	<b>\$ -</b>	<b>\$ -</b>



**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**20. Taxation (Continued)**

**(c) Losses carried forward**

As at December 31, 2019, the Company had non-capital losses carried forward, available to offset future taxable income for income tax purposes as follows:

Expires	2026	\$ 1,064,484
	2027	598,595
	2029	373,962
	2030	440,512
	2031	993,770
	2032	600,689
	2033	1,100,268
	2034	906,488
	2035	884,526
	2036	901,063
	2037	772,787
	2038	891,330
	2039	1,009,546
Indefinite		<u>31,188,473</u>
		<u>\$ 41,726,493</u>

At December 31, 2019, the potential benefit of these losses and deductible temporary differences in excess of the deferred tax liabilities have not been recognized in these consolidated financial statements as it is not considered probable that sufficient future tax profit will allow the deferred tax assets to be recovered.

**21. Related Party Disclosures**

Related parties include the Board of Directors, close family members, other key management individuals and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the fair value and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

(a) The Company entered into the following transactions with related parties:

	Note	Year Ended December 31,	
		2019	2018
Interest on related party loans	(i)	\$ 349,333	\$ 261,627

(i) G&F Phelps, a company controlled by a director of the Company, had amalgamated loans to the Company of \$3,133,850 (GBP 1,824,764) (December 31, 2018 - \$3,182,205 - GBP 1,824,764) included with due to related parties bearing interest at 2% above UK base rates, repayable on demand and secured by a mortgage debenture on all the Company's assets. In April 2018, the interest increased to 6.75% + US\$ 12 month LIBOR. Interest accrued on related party loans is included with due to related parties. As at December 31, 2019, the amount of interest accrued is \$1,002,388 (GBP 583,666) (December 31, 2018 - \$658,338 - GBP 377,509).

(ii) See note 15.

(iii) See note 16(b).



**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**21. Related Party Disclosures (Continued)**

(b) Remuneration of officer and directors of the Company was as follows:

	Year Ended December 31,	
	2019	2018
Salaries and benefits <sup>(1)</sup>	\$ 454,096	\$ 451,618
Stock-based compensation	82,156	38,493
	<b>\$ 536,252</b>	<b>\$ 490,111</b>

<sup>(1)</sup> Salaries and benefits include director fees. As at December 31, 2019, due to directors for fees amounted to \$118,500 (December 31, 2018 - \$166,000) and due to officers, mainly for salaries and benefits accrued amounted to \$464,320 (GBP 270,362) (December 31, 2018 - \$113,099 - GBP 64,854), and is included with due to related parties.

(c) As of December 31, 2019, Ross Beaty owns 3,744,749 common shares of the Company or approximately 11.59% of the outstanding common shares. Roland Phelps, CEO and director, owns, directly and indirectly, 4,933,817 common shares of the Company or approximately 15.26% of the outstanding common shares of the Company. Miton owns 5,012,800 common shares of the Company or approximately 15.51%. Melquart owns, directly and indirectly, 7,756,572 common shares of the Company or approximately 24.00% of the outstanding common shares of the Company. The remaining 32.64% of the shares are widely held, which includes various small holdings which are owned by directors of the Company. These holdings can change at anytime at the discretion of the owner.

The Company is not aware of any arrangements that may at a subsequent date result in a change in control of the Company.

**22. Segment Disclosure**

The Company has determined that it has one reportable segment. The Company's operations are substantially all related to its investment in Cavanacaw and its subsidiaries, Omagh and Flintridge. Substantially all of the Company's revenues, costs and assets of the business that support these operations are derived or located in Northern Ireland. Segmented information on a geographic basis is as follows:

December 31, 2019	United Kingdom	Canada	Total
Current assets	\$ 891,210	\$ 1,509,237	\$ 2,400,447
Non-current assets	22,286,304	50,358	22,336,662
Revenues	\$ 5,788	\$ -	\$ 5,788

December 31, 2018	United Kingdom	Canada	Total
Current assets	\$ 794,772	\$ 5,692,390	\$ 6,487,162
Non-current assets	17,706,643	64,051	17,770,694
Revenues	\$ 71,243	\$ -	\$ 71,243



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**Galantas Gold Corporation**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

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**23. Contingency**

During the year ended December 31, 2010, the Company's subsidiary Omagh received a payment demand from Her Majesty's Revenue and Customs ("HMRC") in the amount of \$522,588 (GBP 304,290) in connection with an aggregate levy arising from the removal of waste rock from the mine site during 2008 and early 2009. Omagh Minerals believed this claim to be without merit. An appeal was lodged with the Tax Tribunals Service and the hearing started at the beginning of March 2017 and following a number of adjournments was completed in August 2018. During the year ended December 31, 2019, the Tax Tribunals Service issued their judgement dismissing the appeal by Omagh in respect of the assessments. A provision has now been included in the consolidated financial statements in respect of the aggregates levy plus interest and penalty.

There is a contingent liability in respect of potential additional interest which may be applied in respect of the aggregates levy dispute. Omagh Minerals Limited is unable to make a reliable estimate of the amount of the potential additional interest that may be applied by HMRC.

**24. Supplement Schedule of Non-Cash Transactions**

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Shares issued to settle accounts payable and other liabilities (note 16(b)(iii))	\$ -	\$ 862,500

**25. Event After the Reporting Period**

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.