



# **GALANTAS GOLD CORPORATION**

## **Management's Discussion and Analysis**

**Year Ended**

**December 31, 2019**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2019**

### **Introduction**

This Management Discussion and Analysis ("MD&A"), dated June 10, 2020 provides a review of the financial position and the results of operations of Galantas Gold Corporation ("Galantas" or the "Company") and constitutes management review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2019. This MD&A has been prepared in compliance with the requirements of National Instrument 51- 102 – Continuous Disclosure Obligations. The review is provided to enable the reader to assess the significant changes in the financial condition of the Company as at and for the year ended December 31, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2019 together with the notes thereto. The Company's financial statements and the financial information reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). All amounts presented are stated in Canadian dollars, unless otherwise indicated. Information contained herein is presented as of June 10, 2020 unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Galantas's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity. Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or at the Company's website [www.galantas.com](http://www.galantas.com).

### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements

Forward-looking information	Assumptions	Risk factors
<p>Potential of the Company's properties to contain economic deposits of base metals and other metals.</p>	<p>Financing will be available for future exploration and development and operation of the Company's properties; the actual results of the Company's exploration activities will be favourable; operating and exploration costs will not exceed the Company's expectations; the Company will be able to retain and attract skilled staff; all requisite regulatory and governmental approvals for exploration projects and other operations will be received on a timely basis upon terms acceptable to the Company, and applicable political and economic conditions will be favourable to the Company; the price of applicable metals and applicable interest and exchange rates will be favourable to the Company; no title disputes exist with respect to the Company's properties</p>	<p>Metal price volatility; uncertainties involved in interpreting geological data and retaining title to acquired properties; the possibility that future exploration results will not be consistent with the Company's expectations; availability of financing for future exploration and development of the Company's properties; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic and political conditions; the Company's ability to retain and attract skilled staff.</p>
<p>The Company's ability to obtain planning consent from the Planning Services, Northern Ireland to allow it to develop the underground mine at its Omagh property.</p>	<p>The Company has now received planning consent. The planning consent which is considered acceptable to the Company will allow it to bring the underground mine into production; financing will be available for development of the underground mine; development and operating costs will not exceed the Company's expectations; the Company will be able to attract skilled staff; all requisite</p>	<p>Delays in receiving operating permits (following construction) for the development of the underground mine; onerous planning conditions (currently not recognised) that will negatively impact on the development of the underground mine; availability of financing; metal price, interest rate, exchange rate volatility; uncertainties involved in interpreting geological data and retaining title to acquired</p>

	regulatory and governmental approvals for the underground project will be received on a timely basis upon terms acceptable to the Company; applicable political and economic conditions will be favourable to the Company; the price of applicable metals and applicable interest and exchange rates will be favourable to the Company; no title disputes exist with respect to the Company's properties.	properties; the possibility that future exploration results will not be consistent with the Company's expectations; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; changes in economic and political conditions; the Company's ability to attract skilled staff.
The Company's ability to meet its working capital needs at the current level for the year ending December 31, 2020.	The operating and exploration activities of the Company for the year ending December 31, 2020 and the costs associated therewith, will be dependent on raising sufficient additional capital consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions will be favourable to the Company.	Adverse changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions.
Management's outlook regarding future trends.	Financing will be available for the Company's exploration, development, and operating activities; the price of applicable metals, interest rates and exchange rates will be favourable to the Company.	Metal price volatility; changes in debt and equity markets; interest rate and exchange rate fluctuations; changes in economic and political conditions.
Asset values for the fiscal year ended December 31, 2019.	Management's belief that no write-down is required for its property and equipment resulting	If the Company does not obtain equity or debt financing on terms favorable to the Company or at

	from continuing efforts to raise capital (debt or equity, or a combination of both) to implement planned work programs on the Company's projects.	all, a decline in asset values that could be deemed to be other than temporary, may result in impairment losses.
Sensitivity analysis of financial instruments.	The Company has an interest rate risk on its G&F Phelps Ltd. and Ocean Partners UK Ltd. loans. The Company has no significant deposit interest rate risk due to low interest rates on its cash balances.	Changes in debt and equity markets; interest rate and exchange rate fluctuations.
Prices and price volatility for metals.	The price of metals will be favourable; debt and equity markets, interest and exchange rates and other economic factors which may impact the price of metals will be favourable to the Company.	Changes in debt and equity markets and the spot prices of metals; interest rate and exchange rate fluctuations; changes in economic and political conditions.

Inherent in forward-looking statements are risks, uncertainties, and other factors beyond Galantas's ability to predict or control. Please also refer to those risk factors referenced in the "Risks and Uncertainties" section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Galantas' actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

## Date of MD&A

This MD&A was prepared on June 10, 2020.

## Overview – Strategy - Description of Business

### Company Overview

Galantas Gold Corporation has been a producing mineral resource issuer and the first to acquire planning consent to mine gold in Northern Ireland. Cavanacaw Corporation, a wholly owned subsidiary of Galantas, owns all of the shares of the Northern Ireland companies – Flintridge Resources Limited, Omagh Minerals Limited and Galantas Irish Gold Limited. During 2014 Cavanacaw acquired Flintridge Resources Limited, a dormant company, and following a strategic review of its business, certain assets owned by Omagh Minerals were acquired by Flintridge.

Mining at the Omagh mine had been conducted by open pit methods up to the suspension of production in 2013. The mine produced a flotation concentrate and was shipped to a smelter under an off-take agreement. The Company's strategy to increase shareholder value has been to:

- Following the receipt of the planning permit obtain additional funding to allow it to continue the expanded exploration programme and the further development of its underground mine;
- Recommence production at the mine and processing plant;
- Continue to explore and develop extensions to the Kearney, Kerr, Joshua and nearby known deposits so as to expand minable reserves and increase gold production in stages;
- Explore the Company's prospecting licences, focusing on the more than 60 gold targets identified to date;

Underground development of a decline tunnel, located at the base of the existing open pit, commenced in 2017. The underground gold mine at Omagh has commenced limited production of gold concentrate, from feed produced in development of the Kearney vein. The processing plant uses a non-toxic flotation process to produce concentrates, without the use of cyanide or mercury. It satisfies strict environmental monitoring criteria set by the Northern Ireland regulatory authorities. The decline tunnel is planned to be extended in depth to provide access to lower levels of in vein development which will form the development necessary to demarcate production panels.

During the fourth quarter of 2019 Galantas announced a temporary suspension of blasting operations at its Omagh gold mine (see press release dated October 29, 2019). Certain underground work continues but ore production is suspended until finance is available to expand the underground operation (see press release dated May 12, 2020).

### Reserves and Resources

During 2008, ACA Howe International Ltd prepared an updated estimate of mineral resources for the Omagh mine. The report, entitled Technical Report on the Omagh Gold Project was dated 28<sup>th</sup> May 2008 and published on [www.sedar.com](http://www.sedar.com) and [www.galantas.com](http://www.galantas.com). In June 2012 ACA Howe International Ltd (Howe UK) completed an updated NI 43-101 compliant Mineral Resource Estimate together with a Preliminary Economic Assessment. This report, which was based on drilling results and analyses received to June 2012, identified all resources discovered at that date. The Company subsequently filed the complete Technical Report and Preliminary Economic Assessment on SEDAR in August 2012. An updated resource estimate was prepared by the Company during the second quarter of 2013 based on drilling results received to May 2013. There was a 50% increase in resources classified as measured and

indicated and a 28% increase in resources classified as inferred, when compared to the resource estimate prepared in 2012. The Company subsequently updated the 2013 resource estimate to incorporate results from later drill holes not previously included and also finalised a revised NI 43-101 report.

Galantas reported the revised updated estimate of gold resources together with a Preliminary Economic Assessment (PEA) update during the third quarter of 2014 (see press release dated July 28, 2014). The revised estimate of resources is in compliance with the Pan European Reporting Code (PERC), Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and Canadian National Instrument (NI) 43-101. Overall, there has been a 19% increase in resources since the Galantas June 2013 Resource Report and a 60% increase in resources since the July 2012 Resource Report by ACA Howe International Ltd. The increases since 2012 largely relate to the Kearney and Joshua veins, since this is where the drilling program has been concentrated. The drilling program was mainly designed to focus on increasing the quantity of Measured and Indicated resources on these two veins, to support potential funding opportunities for the financing of production. The Company also filed the complete updated Technical Report on SEDAR as required by NI 43-101 in September 2014.

The drilling programme, which was suspended in 2013 pending the availability of cash for future exploration, recommenced in September 2015 to target the Joshua vein at depth. In total, 3,602 metres were drilled by March 2016.

On July 22, 2019 Galantas announced that underground development northwards on the 1072 level had discovered mineralisation outside of the resource model and was continuing to explore an extension to the resource model.

### Mining Project

The project embraced an open pit mine which supplied ore to a crushing-grinding-froth flotation plant. The plant was commissioned in 2007 and designed to produce a gold and silver rich sulphide flotation concentrate for sale to a commercial smelter. In early 2013 there was a shift in operations from mining and processing ore from open pits to operating from lower grade stock already mined which impacted negatively on production levels. Later in 2013 the processing of low-grade ore was suspended awaiting planning consent for an underground operation. The underground mine utilizes the same processing methods and is the first underground gold mine, of any scale, in Ireland. The strategy is to establish the underground mine and look for further expansion of gold resources on the property, which has many undrilled targets.

The granting of planning consent during the second quarter of 2015 for an underground operation at the Omagh site permits the continuation and expansion of gold mining. This planning consent was appealed by a third party in a judicial review hearing which commenced in September 2016 and was then adjourned to and completed in February 2017. Judgement was received in September 2017 whereby the third party's request for the quashing of the planning consent was denied. However, in November 2017, Galantas received notice of an application by the third party to the Court of Appeal in relation to the positive judicial review judgment. This appeal was completed in February 2018. During the fourth quarter of 2018 the Company announced that the Court of Appeal has delivered its judgement in regard to the appeal against the positive judicial review judgment in favour of the Company. The Court has determined that the appeal has failed and thus the planning consent was confirmed. Galantas had earlier been advised that its consents continue to remain valid, at least until judgement and thereafter subject to the judgement.

Galantas 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. After over-coming initial difficulties, tunnelling continued through 2017 and 2018 with the north / south Kearney vein being intersected in June 2018 as planned. During the third quarter of 2018 limited feed was provided to the mill resulting in the commencement of limited production of gold concentrate from feed produced in the development of the Kearney vein. During 2019 the decline tunnel continued to be extended in depth to provide access to lower levels of in vein development which will form the development necessary to demarcate production panels. As additional lower levels are developed on-vein, there is expected to be an enhanced supply of mill feed. Further increases in mill supply are expected when stoping commences. The phased development arrangement, in terms of mine access dimensions, is expected to allow for rapid expansion of production as additional capital becomes available. By the end of 2019, the main Kearney vein has been exposed on four levels with a fifth level at the point of intersection.

During the fourth quarter of 2019 Galantas announced a temporary suspension of blasting operations at its Omagh gold mine (see press release dated October 29, 2019). Certain underground work continues but ore production is suspended until finance is available to expand the underground operation (see press release dated May 12, 2020).

### Gold Jewellery Business

During 2014 Galantas restructured its jewellery operations which involved the transfer to Flintridge Resources Limited of the trade formerly carried out by Galantas Irish Gold. Later in 2014 Galantas entered into an agreement with TJH Ltd of Dublin, Ireland for the production, marketing, and sale of a range of jewellery products, using Irish gold from the Omagh mine. The agreement has resulted in Irish gold from the Omagh Mine, being sold to TJH Ltd. The Irish gold is sold at a premium and with a reserved percentage of wholesale sales. The Irish gold so far supplied was drawn from available stocks.

### Management and Staff

Overall management is exercised by one Executive Director along with a General Manager in charge of operations in Omagh where the mine, plant, exploration and administration employ 21 personnel as of June 10, 2020.

### Key Performance Driver

The key performance driver is the achievement of production and cash flow from profitably mining the deposits at Omagh.

## **Overview of 2019**

Galantas incurred a net loss for the year ended December 31, 2019 of \$ 3,564,609 compared to a net loss of \$ 2,885,437 for the year ended December 31, 2018.

The Company had cash balances at December 31, 2019 of \$ 1,913,420 compared to \$ 6,188,554 at December 31, 2018. The working capital deficit at December 31, 2019 amounted to \$ 6,093,200 which compared with a working capital deficit of \$ 272,783 at December 31, 2018.

Property, plant, and equipment expenditures for the year ended December 31, 2019 totalled \$ 6,417,630. Expenditure incurred was mainly in connection with Development asset expenditure.



During the third quarter of 2019 Galantas reported the completion of a private placement of common shares. The placement included funds raised in both UK and Canadian currency for 2,352,941 shares, at an issue price of UK£ 0.425 (\$ 0.68) per share for gross proceeds of UK£1,000,000 (\$ 1,600,000). In December 2019 Galantas also announced the completion of a Convertible Debenture for UK£1,000,000 (\$1,731,190). The debenture is unsecured, is for a term of one year, carries a coupon of 15% per annum and is convertible into common shares of the Company. The debenture was fully subscribed by Melquart Limited, an insider and control person of the Company.

During 2019 the Omagh gold mine continued limited production of gold concentrate from feed produced in the development of the Kearney vein. The plant, which produces a gold & silver concentrate using a non-toxic, froth-flotation process, is running on a batch basis from a stockpile of underground vein material plus additional feed produced from on-vein development operations. Underground development of the decline tunnel continued to be progressed with further crosscuts allowing access to lower levels of vein development which forms the development necessary to demarcate production panels. The main Kearney vein has now been exposed on four levels with a fifth level at the point of intersection.

Milling operations progressed during 2019 on a two-shift basis. The processing plant which uses non-toxic flotation processing to provide a concentrate, and which was used formerly for open-pit operations, has had the benefit of a recent upgrade and further upgrades are planned. 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 are being offset against Development assets.

Whilst the development of the mine continued during the year, progress was limited due to the blasting arrangements, which must be approved and supervised by the Police Service of Northern Ireland (PSNI), not being sufficient for the desired level of operations. The Company has been working with the PSNI to increase blasting availability to normal levels for an underground mine. During the fourth quarter Galantas announced a temporary suspension of blasting operations at the mine due mainly to the aforementioned blasting arrangement limitations imposed by the PSNI which arrangements were not sufficient to allow for the expansion of mine operations as envisaged by the Company and form an increasing financial burden which has proved a significant drain on the financial resources of the Company (see press release dated October 29, 2019). Subsequent to December 31, 2019 Galantas reported that confirmation had been received from PSNI, in regard to their satisfaction of certain secure storage and handling protocols required for an increase in blasting to a commercial level subject to financial matters being agreed. The Company understands that these financial matters have now been mutually agreed. Certain underground work continues but ore production is suspended until finance is available to expand the underground operation.

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.

The processing plant continued to operate on a limited basis in the near term and is being fed from underground stock. In March 2020 and following UK government guidelines regarding Covid-19, processing operations temporarily ceased until later in May when the Company announced that concentrate processing has recommenced. The company carried out maintenance to the processing plant during the milling suspension, to minimise future maintenance interruptions. The restart follows a review of Northern Ireland / UK government health advice regarding Covid-19, a risk assessment and the

introduction of appropriate modifications to working practices. Feedstock for the processing plant is from low grade stock until suitable arrangements are in place to recommence development underground.

In December 2019, subsequent to the announcement of the temporary suspension of blasting operations at the mine and given the current share price of the Company, a share consolidation was proposed by the Company. The Company believed that a consolidation of its common shares is required to provide for further equity financing. Subsequent to December 31, 2019 following a special meeting of shareholders and approval by the directors of the Company and the regulatory authorities the Company announced on April 17, 2020 that it had completed the share consolidation being one post consolidation share for ten pre consolidated shares resulting in the Company now having 32,321,472 shares in issue. With regards to the December 31, 2019 Consolidated Financial Statements and MD&A all common shares, per common share amounts, stock options and warrants have been retroactively restated to reflect the share consolidation.

## Review of Financial Results

### Year Ended December 31, 2019

The net loss for the year ended December 31, 2019 amounted to \$ 3,564,609 compared to a net loss of \$ 2,885,437 for the year ended December 31, 2018 as summarized below:

	Year Ended December 31, 2019 \$	Year Ended December 31, 2018 \$
<b>Revenues</b>	<b>5,788</b>	<b>71,243</b>
Production related costs	(221,691)	(180,906)
Inventory movement	0	(4,152)
<b>Cost and expenses of operations</b>	<b>(221,691)</b>	<b>(185,058)</b>
<b>Loss before the undernoted</b>	<b>(215,903)</b>	<b>(113,815)</b>
Aggregates levy	0	(352,168)
Depreciation	(457,134)	(350,999)
General administrative expenses	(2,690,952)	(2,131,872)
Unrealized gain on fair value of derivative financial liability	0	10,000
Foreign exchange gain (loss)/gain	(16,659)	53,417
Impairment of exploration and evaluation assets	(155,482)	0
Loss on disposal of property, plant, and equipment	(28,479)	0
<b>Net Loss for the Year</b>	<b>\$ (3,564,609)</b>	<b>\$ (2,885,437)</b>

Sales revenues for the year ended December 31, 2019, which consisted of jewellery sales, amounted to \$ 5,788 compared to revenues of \$ 71,243 for year ended December 31, 2018.

Shipments of concentrate commenced during the second quarter of 2019. Concentrate sales provisional revenues totalled US\$ 1,518,000 approximately for the year. However, until the mine commences commercial production, the net proceeds from concentrate sales are being offset against Development assets.

Cost and expenses of operations include production related costs at the mine and inventory movements and totalled \$ 221,691 for the year ended December 31, 2019 compared to \$ 185,058 for corresponding period of 2018. Production related costs for the year ended December 31, 2019 amounted to \$ 221,691 compared to \$ 180,906 for the year ended December 31, 2018. Production related costs at the mine were incurred mainly in connection with ongoing care, maintenance, and restoration costs at the mine site. The inventory movement of \$ Nil for the year ended December 31, 2019 compared to an inventory movement of \$ 4,152 for 2018.

This has resulted in a net operating loss of \$ 215,903 before aggregates levy, depreciation, general administrative expenses, foreign exchange loss/gain, impairment of exploration and evaluation assets and loss on disposal of property, plant and equipment for year ended December 31, 2019 compared to a net operating loss of \$ 113,815 for 2018.

The aggregates levy of \$ Nil compared with an aggregates levy of \$ 352,168 for the year ended December 31, 2018. The aggregates levy in 2018 arose because of the Company being unsuccessful in respect of an aggregates levy appeal and which was accounted for as an expense in the 2018 consolidated financial statements.

Depreciation of property, plant and equipment excluding mine development costs during the year ended December 31, 2019 totalled \$ 457,134 which compared with \$ 350,999 for the corresponding period of 2018. There was no depreciation of mine development assets during both periods. Depreciation of mine development assets will commence when the mine reaches commercial production.

General administrative expenses for the year ended December 31, 2019 amounted to \$ 2,690,952 compared to \$ 2,131,872 for 2018. General administrative expenses are reviewed in more detail in Other MD&A Requirements on pages 29 and 30 of the MD&A.

The unrealized gain on fair value of derivative financial liability, which amounted to \$ Nil compared to \$ 10,000 for 2018 arose as a result of the exercise price of the warrants issued during 2014 and 2015 being denominated in a currency other than the functional currency, resulting in these warrants being considered a derivative financial liability. There was a foreign exchange loss of \$ 16,659 for the year ended December 31, 2019 which compared with a foreign exchange gain of \$ 53,417 for 2018.

Impairment of exploration and evaluation assets amounted to \$ 155,482 which compared with \$ Nil for 2018. This impairment arose from two external prospecting licences being surrendered during 2019. There was a loss on disposal of property, plant, and equipment of \$ 28,479 for the year ended December 31, 2019 which compared with \$ Nil for 2018.

This has resulted in a net loss of \$ 3,564,609 for the year ended December 31, 2019 compared to a net loss of \$ 2,885,437 for the year ended December 31, 2018. When the net loss is adjusted for non-cash items before changes in non-cash working capital items, the cash outflow from operating activities amounted to \$ 1,826,066 for the year ended December 31, 2019 compared to a cash outflow of \$ 1,848,019 for the year ended December 31, 2018.

Exchange differences on translating foreign operations, which is included in Consolidated Statements of Comprehensive Loss, resulted in a \$ 116,262 loss for the year ended December 31, 2019 which

compared to a gain of \$ 293,807 for 2018. This resulted in a Total comprehensive loss of \$ 3,680,871 for the year ended December 31, 2019 compared to a Total comprehensive loss of \$ 2,591,630 for the year ended December 31, 2018. The exchange loss on translating foreign operations in 2019 arose as a result of the net assets of the Company's UK subsidiaries, which are denominated mainly in UK£, being translated to Canadian dollars at year end exchange rates. The Canadian dollar exchange rate strengthened against UK£ at December 31, 2019 when compared to December 31, 2018 which has resulted in a decrease in the Canadian dollar value of these net assets at December 31, 2019 when compared to December 31, 2018 resulting in the exchange loss on translating foreign operations loss in 2019. Conversely in 2018 the Canadian dollar exchange rate weakened against UK£ at December 31, 2018 when compared to December 31, 2017 resulting in the exchange gain on translating foreign operations in 2018.

Total assets at December 31, 2019 amounted to \$ 24,737,109 compared to \$ 24,257,856 at December 31, 2018. Cash at December 31, 2019 was \$ 1,913,420 compared to \$ 6,188,554 at December 31, 2018. Accounts receivable consisting mainly of trade debtors, reclaimable taxes and prepayments amounted to \$ 416,699 at December 31, 2019 compared to \$ 287,273 at December 31, 2018. Inventories at December 31, 2019 amounted to \$ 70,238 compared with \$ 11,335 at December 31, 2018.

Property, plant, and equipment totalled \$ 21,159,716 compared to \$ 16,487,501 at December 31, 2018. Exploration and evaluation assets totalled \$ 661,726 at December 31, 2019 compared to \$ 760,023 at the end of 2018. Long term deposit at December 31, 2019, representing funds held in trust in connection with the Company's asset retirement obligations, amounted to \$ 515,220 compared to \$ 523,170 at December 31, 2018.

Current liabilities at December 31, 2019 amounted to \$ 8,493,647 compared to \$ 6,759,945 at the end of 2018. The working capital deficit at December 31, 2019 amounted to \$ 6,093,200 compared to a working capital deficit of \$ 272,783 at December 31, 2018. Accounts payable and other liabilities totalled \$ 2,131,715 compared to \$ 2,257,329 at December 31, 2018. The current portion of financing facilities totalled \$ 242,280 at December 31, 2019 compared to \$ 382,974 at December 31, 2018. Amounts due to related parties at December 31, 2019 amounted to \$ 4,719,058 compared to \$ 4,119,642 at the end of 2018. Convertible debenture totalled \$ 1,400,594 at December 31, 2019 compared to \$ Nil at December 31, 2018 as set out on Note 15 of the Consolidated Financial Statements.

The non-current portion of the financing facilities totalled \$ 1,081,190 at December 31, 2019 compared to \$ 1,440,185 which mainly consisted of the Ocean Partners UK Ltd loan at December 31, 2018 as set out on Note 14 of the Consolidated Financial Statements. The decommissioning liability at December 31, 2019 amounted to \$ 580,303 compared to \$ 578,242 at December 31, 2018.

Capital and Reserves totalled \$ 14,222,974 compared to \$ 15,838,479 at December 31, 2018.

### Selected Annual Information

	Year Ended December 31 2019	Year Ended December 31 2018	Year Ended December 31 2017
Revenue (including interest income)	\$ 5,788	\$ 71,243	\$ 35,308
Net loss	\$ (3,564,609)	\$ (2,885,437)	\$ (2,078,139)

Net loss per share basic	\$ (0.12)	\$ (0.15)	\$ (0.10)
Net loss per share diluted	\$ (0.12)	\$ (0.15)	\$ (0.10)
Cash	\$ 1,913,420	\$ 6,188,554	\$ 779,758
Working Capital (Deficit)	\$ (6,093,200)	\$ (272,783)	\$ (3,492,608)
Total Assets	\$ 24,737,109	\$ 24,257,856	\$ 13,735,297
Non-current Liabilities	\$ 580,303	\$ 1,659,432	\$ 581,369
Shareholders' Equity	\$ 14,222,974	\$ 15,838,479	\$ 8,550,057

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.

Revenues in 2019 consisted of jewelry sales as discussed in Review of 2019 Financial Results on pages 9 to 12 of this MD&A. Revenues in 2018 and 2017 also consisted of jewelry sales. Shipments of concentrate commenced during the second quarter of 2019 and concentrate sales provisional revenues totalled US\$ 1,518,000 approximately for the year. However, until the mine commences commercial production, the net proceeds from concentrate sales are being offset against Development assets.

The net loss for years ended December 31, 2019 and 2018 amounted to \$ 3,564,609 and \$ 2,885,437 respectively and are discussed in Review of 2019 Financial Results on pages 9 to 12 of this MD&A. The net loss for 2017 amounted to \$ 2,078,139. The Company does not have any extraordinary items and has not declared a dividend for the years presented above.

The cash balance of \$ 1,913,420 at December 31, 2019 reflects the completion of the UK£ 1,000,000 Convertible Debenture issue in December as discussed in Review of 2019 Financing Activities on pages 12 and 13 of the December 31, 2019 MD&A. The cash balance of \$ 6,188,554 at December 31, 2018 reflect the completion of a private placement in December 2018 as discussed in Review of 2018 Financing Activities on pages 12 and 13 of the December 31, 2018 MD&A. The lower cash levels at December 31, 2017 reflect private placements completed earlier in 2017 and the subsequent expenditures incurred during that year.

The working capital deficit of \$ 6,093,200 includes amongst others both the Current portion of financing facilities \$ 242,280 and the Convertible debenture of \$ 1,400,594 together with Amounts due to Related Parties \$ 4,719,058. The high cash levels at December 31, 2018 have resulted in a reduced working capital deficit of \$ 272,783 compared to a working capital deficit of \$ 3,492,608 at December 31, 2017 which included Amounts due to Related Parties of \$ 3,381,357.

Total assets, which are denominated mainly in UK£ and translated to Canadian dollars at year end exchange rates amounted to \$ 24,737,109 at December 31, 2019 compared to \$ 24,257,856 at December 31, 2018 and \$13,735,297 at December 31, 2017. The increase in total assets at the end of

2018 was mainly the result of both the high cash levels at the end of 2018 and increased property plant and equipment expenditures during 2018.

Non-current liabilities at December 31, 2019 and 2018 consist of financing facility and decommissioning liability. Non-current liabilities at December 31, 2017 also include the derivative financial liability. The increase in non-current liabilities at December 31, 2018 is primarily due to the addition of the Ocean Partners loan during 2018 as set out in Note 14 of the December 31, 2018 financial statements.

Shareholders equity totalled \$14,222,974 compared to \$15,838,479 in 2018. The decrease in Shareholders equity in 2019 reflects the net loss and other comprehensive loss incurred in 2019 partially offset by the increased share capital following the private placement in 2019. The increase in Shareholders equity to \$ 15,838,479 in 2018 from \$ 8,550,057 in 2017 was mainly due to the increase in share capital arising from the 2018 private placements partially offset by the net loss and other comprehensive loss incurred during 2018.

## **Review of Operations**

### **2019 Financing Activities**

During the third quarter of 2019 Galantas completed a part brokered private placement of 2,352,941 common shares, at an issue price of UK£0.425 (\$0.68) per share for gross proceeds of UK£1,000,000. The net proceeds raised by the placement are intended to be used to implement recently identified optimisation initiatives at the Omagh gold mine, including increased mechanisation and improved underground infrastructure, as well as for general working capital of the Company. Commission payable in relation to the private placement totalled UK £49,500.

During the fourth quarter Galantas announced the completion of a Convertible Debenture for UK£1,000,000. The debenture is unsecured, is for a term of one year, carries a coupon of 15% per annum and is convertible into common shares of the Company. The debenture has been fully subscribed by Melquart Limited, an insider and control person of the Company as defined in the TSX Venture Exchange Corporate Finance Manual. The net proceeds raised by the debenture are intended to be used to maintain the Omagh gold mine, fund a potential resolution regarding the expansion of blasting and explore opportunities for a sale to a development partner. The Company had explored alternative funding options and the directors determined that the Debenture was the best funding option available to the Company at the time. Commission payable in relation to the Debenture offering totaled UK £50,000.

During the fourth quarter of 2019 Galantas announced a temporary suspension of blasting operations at its Omagh gold mine (see press release dated October 29, 2019). The processing plant continued to operate being fed from underground stock. In March 2020 and following UK government guidelines regarding Covid-19, processing operations temporarily ceased. Subject to UK Government health advice a potential re-start working from a stock of low-grade material currently available has been provisionally scheduled for later in May. 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 joint venture or other options with third parties and alternative financing structures.

In December 2019, subsequent to the announcement of the temporary suspension of blasting operations at the mine and given the current share price of the Company, a share consolidation was proposed by the Company. The Company believed that a consolidation of its common shares is required to provide for further equity financing. Subsequent to December 31, 2019 following a special meeting of shareholders and approval by the directors of the Company and the regulatory authorities the Company announced on April 17, 2020 that it had completed the share consolidation being one post consolidation share for ten pre consolidated shares resulting in the Company now having 32,321,472 shares in issue. With regards to the December 31, 2019 Consolidated Financial Statements and MD&A all common shares, per common share amounts, stock options and warrants have been retroactively restated to reflect the share consolidation.

## **Production/Mine Development**

During 2019 the Omagh gold mine continued limited production of gold concentrate from feed produced in the development of the Kearney vein. The plant, which produces a gold & silver concentrate using a non-toxic, froth-flotation process, ran on a batch basis from a stockpile of underground vein material plus additional feed produced from on-vein development operations (prior to the cessation of blasting).

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. On-vein development continued on the 1084 (second) level and the 1072 (third) level during the first half of 2019. Development then continued southwards on the third (1072) level with gold grades within the expected range.

During the third quarter the Company reported that the access drive on the fourth (1060) level has intersected the Kearney vein ahead of schedule. The intersection showed strongly developed mineralization. The north and south faces of the vein were channel sampled. The average of the two channels was 8.35 g/t gold over an average true width of 2.65 metres. The Company also reported that drivage from the 1072 access has been taken northwards, in-vein, for approximately 40 metres. Mineralisation beyond the first 20 metres is currently excluded from the geological model, due to paucity of data. The mineralization was shown to be persistent and has been followed in an in-vein development. Two channel samples, taken across the face as the drivage was developed at 24.1m and 27.6m into the third level (1072) north development, showed a grade of 6.2g/t gold and 16.3 g/t gold respectively, each with a true width of 3 metres. The vein will continue to be followed northwards on the third (1072) level and elevates potential for additional mineralisation to be added to the resource model if discovered on the adjacent first (1096), second (1084) and fourth (1060) levels, which have not yet accessed this area. Underground drivages have now been developed to exposure of the main Kearney vein on four levels with a fifth level at 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.

Milling operations progressed during 2019 and moved to a two-shift basis in the third quarter. The processing plant, which was used formerly for open-pit operations, has had the benefit of a recent upgrade and further upgrades are planned. 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 and until the mine reaches the commencement of commercial production, the net proceeds from concentrate sales will be offset against Development assets.

However, during the fourth quarter Galantas announced a temporary suspension of blasting operations at its Omagh gold mine (see press release dated October 29, 2019). Blasting operations are currently limited since all blasting must be supervised by the Police Service of Northern Ireland (PSNI) and were



not sufficient for the desired level of operations. The Company had been working with the PSNI to increase blasting availability to normal levels for an underground mine. While progress has been made and substantive investment incurred in accordance with recommendations the Company was still awaiting final approvals from the authorities to be able to implement its increased blasting protocols prior to the suspension. The Company had been waiting for some time for these approvals and although the Company expected to receive the approvals based on previous discussions with the relevant authorities, a date for receipt of the required approvals and therefore the date on which implementation of the increased blasting schedule was not known. The arrangements, current at that time were not sufficient to allow for the expansion of mine operations as envisaged by the Company's existing mine plan and until changes were agreed, the present inefficiencies caused by those arrangements form an increasing financial burden, which has proved a significant drain on the financial resources of the Company. Accordingly, 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. A probe drilling campaign was subsequently carried out using the retained personnel and equipment. The results of this campaign, combined with detailed mapping of the exposed mineralisation underground suggests zones of higher width of mineralisation within the vein, linking adjacent levels. This supports an implication that such zonal mineralisation may continue at depth, with enhanced exploration potential for targeting gold resources particularly to the north and within the Company's license area. Probe drilling does not provide samples suitable for use in mineral resource estimates but can provide strong indications where mineralisation is concentrated and is of significantly less cost than core drilling. Subsequently in May 2020, the Company reported that it had filed a short technical report in respect of the probe drilling campaign. The report is available on [www.sedar.com](http://www.sedar.com) and [www.galantas.com](http://www.galantas.com).

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. The Company is actively engaged in that process.

Subsequent to December 31, 2019 Galantas reported that confirmation has been received from PSNI, in regard to their satisfaction of certain secure storage and handling protocols required for an increase in blasting to a commercial level subject to financial matters being agreed. The Company now understands that these financial matters have now been mutually agreed. Certain underground work continues but ore production is suspended until finance is available to expand the underground operation.

The processing plant continued to operate on a limited basis in the near term and is being fed from underground stock. In March 2020 and following UK government guidelines regarding Covid-19, processing operations temporarily ceased until later in May when the Company announced that concentrate processing has recommenced. The company carried out maintenance to the processing plant during the milling suspension, to minimise future maintenance interruptions. The restart follows a review of Northern Ireland / UK government health advice regarding Covid-19, a risk assessment and the introduction of appropriate modifications to working practices. Feedstock for the processing plant is from low grade stock until suitable arrangements are in place to recommence development underground. The number of employees furloughed under a NI/UK government scheme has been reduced to three from seven.

Safety is a high priority and the company continued to invest in safety-related training and infra-structure. The zero lost time accident rate since the start of underground operations, continues. Environmental monitoring demonstrates a high level of regulatory compliance. Phased site restoration works continue with thousands of tree saplings recently planted.



## Reserves and Resources

During 2014 Galantas reported a revised updated estimate of gold resources together with a Preliminary Economic Assessment (PEA) update (see press release dated July 28, 2014). The revised estimate of resources is in compliance with the Pan European Reporting Code (PERC), Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and Canadian National Instrument (NI) 43-101 and is summarised below.

	RESOURCE ESTIMATE: GALANTAS 2014			Increase over  <b>GAL 2013 report</b>
	CUT-OFF 2 g/t Au			
RESOURCE  CATEGORY	TONNES	GRADE  (Au g/t)	Au Ozs	
MEASURED	138,241	7.24	32,202	55%
INDICATED	679,992	6.78	147,784	21.4%
INFERRED	1,373,879	7.71	341,123	15.4%

*Minerals Resources that are not Mineral Reserves do not have demonstrated economic viability.*

Overall, there has been a 19% increase in resources since the Galantas June 2013 Resource Report and a 60% increase in resources since the July 2012 Resource Report by ACA Howe International Ltd. The increases since 2012 largely relate to the Kearney and Joshua veins, since this is where the drilling program has been concentrated. The drilling program was mainly designed to focus on increasing the quantity of Measured and Indicated resources on these two veins, to support potential bank funding opportunities for the financing of production. The resource estimate for each vein is tabulated below.

RESOURCE ESTIMATE BY VEIN: GALANTAS 2014									
	MEASURED			INDICATED			INFERRED		
	TONNES	GRADE Au (g/t)	Contained Au (oz)	Tonnes	GRADE Au (g/t)	Contained Au (oz)	Tonnes	GRADE Au (g/t)	Contained Au (oz)
KEARNEY	76,936	7.48	18,490	383,220	6.66	82,055	909,277	6.61	193,330
JOSHUA	54,457	7.25	12,693	216,211	7.92	55,046	291,204	10.74	100,588
KERR	6,848	4.63	1,019	12,061	4.34	1,683	23,398	3.2	2,405
ELKINS				68,500	4.24	9,000	20,000	5.84	3,800
GORMLEYS							75,000	8.78	21,000
PRINCES							10,000	38.11	13,000
SAMMY'S							27,000	6.07	5,000

KEARNEY NORTH							18,000	3.47	2,000
<b>TOTAL</b>	<b>138,241</b>	<b>7.25</b>	<b>32,202</b>	<b>679,992</b>	<b>6.78</b>	<b>147,784</b>	<b>1,373,879</b>	<b>7.71</b>	<b>341,123</b>

The resources are calculated at a cut-off grade of 2 g/t gold (Au), numbers are rounded, gold grades are capped at 75 g/t gold and a minimum mining width of 0.9m has been applied.

Measured and Indicated resources on Kearney vein have increased to 100,545 ounces of gold from 69,000 ounces in 2012. Measured and Indicated resources on Joshua vein have increased to 67,739 ounces of gold from 15,800 ounces in 2012. The Kearney and Joshua veins are the early targets of underground mining. Combined Measured and Indicated resource category on these two veins are estimated at 168,284 ounces of gold, with 293,918 ounces of gold in the Inferred resource category. Both vein systems are open at depth.

## Exploration

An exploration programme carried out between 2011 and 2013 included the drilling of 17,348 metres of core and channel sampling on the Joshua, Kearney and Kerr vein systems. Assay results from both the drilling and channel sampling programmes were encouraging with significant gold intersections encountered. A new programme commenced in September 2015 to target the Joshua vein at depth. In total, 3,602 metres were drilled by March 2016. In early 2016 Galantas reported the assay results for three holes completed in 2015 (see press release dated January 26, 2016). Most notable was hole OML-DD-15-155 which intersected a wide zone (13 m true width) of the Joshua vein at a vertical depth of 117 m grading 9.9 g/t Au. This drilling programme also identified a new vein, Kestrel, running 70 m west of Joshua. An initial shallow (42.4 m) intersect returned 35.8 g/t Au over 0.7 m true width. A further drill hole targeted the Kestrel vein ~80 metres north and hit mineralisation at a vertical depth of 73 m (3.2 g/t Au over 1.2 m true width). Two 155 m deep water monitoring holes were drilled at the beginning of 2017; these were located according to planning specifications, not with the aim of mineral recovery. However, the PQ drill core provided insight to key lithological changes with depth, north and south of the site. This information was incorporated into the site mapping project instigated during the summer of 2016.

Underground mapping and ground control (Q) assessments have been completed between each blast cycle; the resource model is continuously updated with recent face maps as development progresses. There has been a general improvement in ground conditions with depth. Chip samples are collected about every second blast on-vein development, and analysed through fire assay at the on-site lab, as a means of grade control.

Geologists have recorded and analysed detailed geological information underground which could not be gained through surface exposure or diamond drilling. Plan maps of mineralisation were compiled and digitised for all of the ore drives in the third quarter. Detailed maps indicated vein swelling and marginal gold grade increase in predictable zones along ore drives in the first four levels of the mine development. Favourable zones of mineralisation appear to occur on shallow north dipping planes and may be tied in with the initial south-east directed thrusting which forced Dalradian metasediments over the Tyrone Igneous Complex. Earlier mapping by Galantas geologists in the Creevan Burn revealed evidence for a thrust stack rooted in graphitic schist. Recent spatial data analysis provides support for the continuation of this thrust stack to the north. This is being tested through a probing and sediment sampling programme, with results helping to build a clearer picture of the location and extent of dilation zones. Further confirmation of the apparent trends is expected to enhance targeting of future exploration and has potentially economic improvements to the underground mine plan.

In line with planning requirements, a sample of country rock is collected from the decline tunnel for acid generating potential testing every 25 vertical metres. Two such samples were collected during 2019, at 74 RL and 51 RL. The results were supplied by ALS Global, OMAC Laboratories Ltd, Galway, Ireland, an INAB accredited testing laboratory, through ALS Vancouver, Canada, using LECO and ICP-AES methods. These results and those relating to the open-pit and mine environs continue to demonstrate no acid generation.

Republic of Ireland prospecting licences 4034, 3234 and 3135 expired at the end of May and have not been renewed. This will allow investment of time and budget into the more promising areas. The Company still holds five licences for exploration in RoI, the two in Co. Leitrim will expire in March 2020 and are in review. Work is on-going in the remaining three licences.

The OM4 prospecting licence was renewed by the DfE during the second quarter. An exploration report for OM1 was submitted to the DfE in December, detailing work carried out between July 2018 and July 2019.

The geology team continue to provide sample material for an academic project at the University of Leeds. Small gold grains that were collected for micro geochemical analysis in nearby Botera and Creevan Burns last year, were recently analysed using a microprobe. Results show two different silver ranges within the gold grains, with a higher percentage weight more frequent in the Creevan Burn. The Cavanacaw samples are geochemically similar to the gold grains collected near another vein at Rylagh.

Soil sample results in PL 3235 highlighted two geochemical anomaly clusters which will be explored with infill grids. Further fieldwork is planned for this and PLs 3039 and 3040, in line with our work programmes.

## Summary of Quarterly Results

Revenues and financial results in Canadian dollars for the fourth quarter of 2019 and for the seven preceding quarters are summarized below.

Quarter Ended	Accounting Policies	Total Revenue	Net Income (Loss)	Net Income (Loss) per share & per share diluted
December 31, 2019	IFRS	\$ Nil	\$ (1,175,183)	\$ (0.04)
September 30, 2019	IFRS	\$ 5,788	\$ (718,046)	\$ (0.02)
June 30, 2019	IFRS	\$ 0	\$ (891,863)	\$ (0.03)
March 31, 2019	IFRS	\$ 0	\$ (779,517)	\$ (0.03)
December 31, 2018	IFRS	\$ 0	\$ (953,712)	\$ (0.05)
September 30, 2018	IFRS	\$ 14,203	\$ (706,717)	\$ (0.04)
June 30, 2018	IFRS	\$ 57,040	\$ (700,510)	\$ (0.04)
March 31, 2018	IFRS	\$ 0	\$ (524,498)	\$ (0.02)

The results for the quarter ended December 31, 2019 are discussed under Review of Financial Results on pages 22 and 23 of the MD&A. The net loss for the quarter ended December 31, 2019 totaling \$ 1,175,183 consisted of sales revenues \$ Nil, cost and expenses of operations \$ 29,085 depreciation \$ 176,779, general administrative expenses \$ 835,607, foreign exchange gain \$ 50,249, impairment of

exploration and evaluation asset \$ 155,482 and loss on disposal of property, plant and equipment \$ 28,479.

For the quarter ended September 30, 2019 the loss totaling \$ 718,046 consisted of sales revenues \$ 5,788, cost and expenses of operations \$ 37,098 depreciation \$ 93,865, general administrative expenses \$ 606,535, and foreign exchange gain \$ 13,664.

For the quarter ended June 30, 2019 the loss totaling \$ 891,863 consisted of sales revenues \$ Nil, cost and expenses of operations \$ 85,482, depreciation \$ 99,085, general administrative expenses \$ 646,381, and foreign exchange loss \$ 60,915.

For the quarter ended March 31, 2019 the loss totaling \$ 779,517 consisted of sales revenues \$ Nil, cost and expenses of operations \$ 70,026, depreciation \$ 87,405, general administrative expenses \$ 602,429, and foreign exchange loss \$ 19,657.

For the quarter ended December 31, 2018 the loss totaling \$ 953,712 consisted of sales revenues \$ Nil, cost and expenses of operations \$ 84,477, aggregates levy \$ 352,168, depreciation \$ 131,376, general administrative expenses \$ 530,573, and foreign exchange gain \$ 144,882.

For the quarter ended September 30, 2018 the net loss totaling \$ 706,717 consisted of sales revenues \$ 14,203, cost and expenses of operations \$ 42,365, depreciation \$ 77,394, general administrative expenses \$ 576,256 and foreign exchange loss \$ 24,905.

For the quarter ended June 30, 2018 the net loss totaling \$ 700,510 consisted of sales revenues \$ 57,040, cost and expenses of operations \$ 34,150, depreciation \$ 77,980, general administrative expenses \$ 616,153 and foreign exchange loss \$ 29,267.

For the quarter ended March 31, 2018 the net loss totaling \$ 524,498 consisted of sales revenues \$ Nil, cost and expenses of operations \$ 24,066, depreciation \$ 64,249, general administrative expenses \$ 408,890, unrealized gain on fair value of derivative financial liability \$ 10,000 and foreign exchange loss \$ 37,293.

## **Liquidity and Financial Position**

The Company, which is involved in mining and exploration activities, has had a limited source of operating revenue in the recent past. However, the Company anticipates receiving substantial additional revenues in the future as the planned underground mine advances. Presently the activities of the Company have been mainly financed through equity offerings and loans.

Galantas reported a working capital deficit of \$ 6,093,200 at December 31, 2019 which compared with a working capital deficit of \$ 272,783 at December 31, 2018. The Company had cash balances of \$ 1,913,420 at December 31, 2019 compared with cash balances of \$ 6,188,554 at December 31, 2018. Accounts receivable consisting mainly of trade debtors, reclaimable taxes and prepayments amounted to \$ 416,699 at December 31, 2019 compared to \$ 287,273 at December 31, 2018. Inventories at December 31, 2019 amounted to \$ 70,328 compared with an inventory of \$ 11,335 at December 31, 2018.

Accounts payable and other liabilities amounted to \$ 2,131,715 at December 31, 2019 compared with \$ 2,257,329 at December 31, 2018. The current portion of a financing facilities totaled \$ 1,682,465 at

December 31, 2019 compared to \$ 382,974 at December 31, 2018. Amounts due to related parties at December 31, 2019 amounted to \$ 4,719,058 compared to \$ 4,119,642 at the end of 2018. Convertible debenture amounted to \$ 1,400,594 compared with \$ Nil at December 31, 2018. In addition a subsidiary of Galantas, Omagh Minerals Limited, previously had a contingent liability arising from a payment demand from Her Majesty's Revenue and Customs in the amount of \$ 522,588 (UK£ 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 Limited believed this claim was without merit and had appealed the assessment. During the first quarter of 2019, the Tax Tribunals Service issued their judgement dismissing the appeal by Omagh in respect of the assessments. A provision was included in the 2018 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 the aggregates levy dispute. Omagh Minerals Limited is unable to make a reliable estimate of the amount of the potential additional penalty that may be applied by HMRC.

During the third quarter of 2019 Galantas reported the completion of a private placement of common shares. The placement included funds raised in both UK and Canadian currency for 2,352,941 shares, at an issue price of UK£0.425 (\$0.68) per share for gross proceeds of UK£1,000,000. In December 2019 Galantas announced the completion of a Convertible Debenture for UK£1,000,000. The debenture is unsecured, is for a term of one year, carries a coupon of 15% per annum and is convertible into common shares of the Company.

During the fourth quarter Galantas announced a temporary suspension of blasting operations at its Omagh gold mine (see press release dated October 29, 2019). Some mine operations continue at the Omagh gold mine, on a single shift. 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. The Company has recently appointed Whitman Howard to advise on this process.

In December 2019, subsequent to the announcement of the temporary suspension of blasting operations at the mine and given the current share price of the Company, a share consolidation was proposed by the Company. The Company believed that a consolidation of its common shares is required to provide for further equity financing. Subsequent to December 31, 2019 following a special meeting of shareholders and approval by the directors of the Company and the regulatory authorities the Company announced on April 17, 2020 that it had completed the share consolidation being one post consolidation share for ten pre consolidated shares resulting in the Company now having 32,321,472 shares in issue.

The audited annual consolidated financial statements have been prepared on a going concern basis as discussed in Note 1 of the December 31, 2019 consolidated financial statements. The Company's ongoing viability has been dependent on securing sufficient financing to fund ongoing operational activity and the development of the underground mine. The going concern assumption is dependent upon forecast cash flows at the Omagh mine being met, negotiations for the extension of short-term loans being finalised, further financing currently being negotiated being completed, blasting arrangements with the PSNI being resolved together with the continued support of both Cavanacaw Corporation and Galantas Gold Corporation. 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.

Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated statements of financial position.

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial performance or financial condition, including without limitation, such considerations as liquidity, capital expenditures and capital resources that would be considered material to investors.

### **Related Party Transactions**

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 (the amount established and agreed by the related parties) and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

The Company entered the following transactions with related parties during the year ended December 31, 2019.

Director fees of \$ 35,500 were accrued for the year ended December 31, 2019 (\$ 29,250 for the year ended December 31, 2018). Stock-based compensation for these directors totalled \$ 54,715 for the year ended December 31, 2019 (\$ 16,039 for the year ended December 31, 2018).

Remuneration for the President/CEO totalled \$ 338,900 (UK£ 200,000) for the year ended December 31, 2019 (\$ 345,980 (UK£ 200,000) for the year ended December 31, 2018). Stock-based compensation for the President/CEO totalled \$ 14,479 for year ended December 31, 2019 (\$ 16,039 for the year ended December 31, 2018).

Remuneration of the CFO totalled \$ 79,696 for the year ended December 31, 2019 (\$ 76,388 for the year ended December 31, 2018). Stock based compensation for the CFO totalled \$ 12,962 for the year ended December 31, 2019 (\$ 6,415 for the year ended December 31, 2018).

At December 30, 2019 G&F Phelps Limited, a company controlled by a director of the Company, had amalgamated loans to Galantas of \$ 3,133,850 (UK£ 1,824,764) (December 31, 2018 \$ 3,182,205 (UK£1,824,764)), repayable on demand and secured by a mortgage debenture on all the Company's assets. The interest charged on the loan for the year ended December 31, 2019 amounted to \$ 349,333 (UK£ 206,157) (year ended December 31, 2018 \$ 261,627 (UK£ 151,238)). Interest accrued on related party loans is included under due to related parties. As at December 31, 2019 the interest accrued amounted to \$ 1,002,388 (UK£ 583,666) (December 31, 2018 - \$ 658,338 (UK£ 377,509)). There were no additional loan advances from G&F Phelps Ltd during the year ended December 31, 2019. During 2018 additional loan advances from G&F Phelps Ltd totalled \$ 883,128 (UK£ 506,410). Following the increase of £600,000 to the on-demand loan facility with G&F Phelps Ltd the interest rate on the loan G&F Phelps facility was increased to USD 12-month LIBOR + 6.75% with effect from April 2018.

As at December 31, 2019 due to directors for fees totalled \$ 118,500 (December 31, 2018 - \$ 166,000) and due to key management, primarily for salaries and benefits accrued at December 30, 2019, amounted to \$ 464,320 (UK£ 270,362) (December 31, 2018 - \$ 113,099 (UK£ 64,854)) and are included under due to related parties.

During the third quarter of 2018 Galantas completed a private placement of shares for aggregate gross proceeds of \$ 1,571,771 (approximately UK£ 929,780). The placement comprised of the issue of 2,213,762 common shares of no-par value. Melquart Ltd subscribed for 1,190,476 common shares, which increased their holding to 4,022,455 common shares. Mr. Ross Beatty subscribed for 238,095 common shares which increased his holding to 3,744,749 shares resulting in Mr. Beatty currently holding 11.59% of the Company's issued common shares. Mr. Roland Phelps, President & CEO, Galantas Gold Corporation, subscribed for 476,191 common shares in the placing which increased his holding to 3,933,817 common shares.

In the fourth quarter of 2018 Galantas completed a further private placement of shares in two parts for aggregate gross proceeds of \$ 6,900,000 (approximately UK£ 4,000,000). The placement comprised of the issue of 8,000,000 common shares of no-par value. Melquart Ltd., a related party subscribed for 2,200,000 common shares which increased their holding to 6,222,455 common shares. Miton Asset Management Limited subscribed for 5,000,000 common shares which resulted in Miton becoming a related party of the Company. In addition under a Shares for Debt Arrangement and following TSXV and shareholder approvals, Mr. Roland Phelps, President & CEO, Galantas Gold Corporation, exchanged 1,000,000 common shares for debt owed to him for past management fees, in the amount of UK£ 500,000 (CAD \$ 862,500) at £0.50 (CAD \$0.8625) per share which increased his holding to 4,933,817 common shares resulting in Mr. Phelps currently holding 15.26% of the Company's issued common shares. In addition, Ms. Roisin Magee, a Director of Galantas Gold Corporation, participated in the private placement with a subscription for 50,000 common shares. Ms. Magee now owns approximately 0.15% of the Company's issued and outstanding common shares.

During the third quarter of 2019 Galantas completed a part brokered private placement of 2,352,941 common shares, at an issue price of UK£0.425 (\$0.68) per share for gross proceeds of UK£1,000,000 (\$ 1,600,000). Miton Asset Management Limited subscribed for 376,471 common shares in the private placement and now own 5,012,580 common shares representing 15.51% of the Company's issued and outstanding shares. Melquart Ltd. subscribed for 1,534,117 common shares which increased their holding to 7,756,572 common shares representing 24.00% of the Company's issued and outstanding shares.

Following the private placements noted above Melquart Ltd, Miton Asset Management Limited, Mr. Beatty and Mr. Phelps are deemed to be related parties of Galantas by virtue of being substantial shareholders of the Company.

Excluding the Melquart Ltd, Miton Asset Management Limited, Mr. Beatty and Mr. Phelps shareholdings discussed above, the remaining 32.64% of the shares are widely held, which include various small holdings which are owned by the other directors of the Company. These holdings can change at any time at the discretion of the owner.

In December 2019 Galantas announced the completion of a Convertible Debenture for UK£1,000,000 which was fully subscribed by Melquart Limited, an insider and control person of the Company (see press releases dated December 16, 2019 and December 23, 2019). The debenture is unsecured, is for a term of one year, carries a coupon of 15% per annum and is convertible into common shares of the Company. Melquart are under no obligation to convert the debenture and should Melquart choose not to convert, the Company will need to raise further funds to repay the debenture within 12 months. The shares issued pursuant to the Debenture will rank pari passu with the existing common shares issued by the Company. It has been agreed that, following the subscription by Melquart to the Debenture, G&F Phelps Ltd entered into an arrangement in respect of its loans with the Company which will provide that G&F Phelps will not call for repayment of its loans (which are repayable on demand) for a

period of six months from the date of the debenture unless certain events occur including inter alia a sale or insolvency of the Company or a material liquidity event.

## Fourth Quarter 2019 Financial Review

### Quarter Ended December 31, 2019

The net loss for the quarter ended December 31, 2019 amounted to \$ 1,175,183 compared to a net loss of \$ 953,712 for the quarter ended December 31, 2018 as summarized below:

	Quarter Ended December 31, 2019 \$	Quarter Ended December 31, 2018 \$
<b>Revenues</b>	<b>0</b>	<b>0</b>
Production related costs	(29,085)	(84,501)
Inventory movement	0	24
<b>Cost and expenses of operations</b>	<b>(29,085)</b>	<b>(84,477)</b>
<b>Loss before the undernoted</b>	<b>(29,085)</b>	<b>(84,477)</b>
Aggregates levy	0	(352,168)
Depreciation	(176,779)	(131,376)
General administrative expenses	(835,607)	(530,573)
Foreign exchange gain	50,249	144,882
Impairment of exploration and evaluation assets	(155,482)	0
Loss on disposal of property, plant, and equipment	(28,479)	0
<b>Net Loss for the Quarter</b>	<b>\$ (1,175,183)</b>	<b>\$ (953,712)</b>

Sales revenues, for the three months ended December 31, 2019 amounted to \$ Nil compared to revenues of \$ Nil for three months ended December 31, 2018.

Shipments of concentrate commenced during the second quarter of 2019. Concentrate sales provisional revenues totalled US\$ 540,000 approximately for the fourth quarter. However, until the mine commences commercial production, the net proceeds from concentrate sales are being offset against Development assets.

Cost and expenses of operations include production related costs at the mine and inventory movements and totalled \$ 29,085 for the three months ended December 31, 2019 compared to \$ 84,477 for corresponding period of 2018. Production related costs for the three months ended December 31, 2019 amounted to \$ 29,085 compared to \$ 84,501 for the three months ended December 31, 2018. Production related costs at the mine were incurred mainly in connection with ongoing care, maintenance, and restoration costs at the mine site. The inventory movement of \$ Nil for the fourth quarter of 2019 compared to an inventory movement of \$ 24 for the fourth quarter of 2018.

This has resulted in a net operating loss of \$ 29,085 before aggregates levy, depreciation, general administrative expenses, foreign exchange gain, impairment of exploration and evaluation assets and



loss on disposal of property, plant and equipment for three months ended December 31, 2019 compared to a net operating loss of \$ 84,477 for the three months ended December 31, 2018.

The aggregates levy of \$ Nil for the fourth quarter of 2019 compared with an aggregates levy of \$ 352,168 for the quarter ended December 31, 2018. The aggregates levy charge in 2018 arose as a result of the Company being unsuccessful in respect of an aggregates levy appeal. As a result, a subsidiary of the Company is now being held liable for the aggregates levy plus interest and a penalty which was accounted for as an expense in the 2018 consolidated financial statements.

Depreciation of property, plant and equipment excluding mine development costs during the three months ended December 31, 2019 totalled \$ 176,779 which compared with \$ 131,376 for the corresponding period of 2018. Depreciation of mine development assets will commence when the mine reaches commercial production.

General administrative expenses for the three months ended December 31, 2019 amounted to \$ 835,607 compared to \$ 530,573 for 2018. General administrative expenses are reviewed in more detail in Other MD&A Requirements on pages 30 and 31 of the MD&A.

There was a foreign exchange gain of \$ 50,249 for three months ended December 31, 2019 which compared with a foreign exchange gain of \$ 144,882 for 2018.

There was a loss on disposal of property, plant, and equipment of \$ 28,479 for the fourth quarter of 2019 which compared with \$ Nil for 2018.

This has resulted in a net loss of \$ 1,179,183 for the three months ended December 31, compared to a net loss of \$ 953,712 for three months ended December 31, 2018. When the net loss is adjusted for non-cash items before changes in non-cash working capital items, the cash outflow from operating activities amounted to \$ 247,453 for the three months ended December 31, 2019 compared to a cash outflow of \$ 310,999 for the corresponding period of 2018. The cash outflow from operating activities after changes in non-cash working capital items amounted to \$ 405,270 for the three months ended December 31, 2019 compared to a cash outflow of \$ 201,044 for the corresponding period of 2018.

## **Proposed Transactions**

There are no proposed transactions of a material nature that have been finalized by the Company.

## **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reported 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.

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 incurred on the Omagh underground mine 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 December 31, 2019. 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. No impairment was noted;
- the estimated life of the 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. 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.

## 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. The parent entity has determined its functional currency is the Canadian dollar and each subsidiary to be the UK £ Sterling. Determination of functional currency may involve certain judgements 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 judgement 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.

## **Accounting Policies including Initial Adoption**

The Company applies International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The accounting policies and methods of computation followed in the Galantas December 31, 2019 consolidated financial statements are set out in detail on Note 4 of the consolidated financial statements.

### **Accounting pronouncements adopted during 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. 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 unaudited condensed interim 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.

## **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, 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 revenues 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.

#### (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 a working capital deficit of \$ 6,093,200 (December 31, 2018 - working capital deficit of \$ 272,783). All the Company's financial liabilities have contractual maturities of less than 30 days other than certain related party loans which are due on demand. As at December 31, 2019, the Company was cash flow negative.

#### (iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and 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 UK£ and expenses are incurred in UK£ 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.

### **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 with a third party. 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 with a third party.

(ii) The Company is exposed to foreign currency risk on fluctuations related to cash, accounts receivable, long-term deposit, accounts payable and other liabilities, financing liability and due to related parties, that are denominated mainly in UK£ and third-party loans denominated in US Dollars. As at December 31, 2019, had the UK£ weakened/strengthened by 5% against the CAD with all other variables held constant the Company's consolidated comprehensive loss for the three and nine months 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 UK£ 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.

## 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, which is comprised of share capital, reserves and accumulated deficit which at December 31, 2019 totalled \$ 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 operating expenditures, and other investing and financing activities. The forecast is updated based on its 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.

## Disclosure of Internal Controls

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the audited consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements, and (ii) the audited consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate do not make any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The issuer's certifying officers are responsible for ensuring that processes are in place to provide



them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## Disclosure of Other MD&A Requirements

### Additional Disclosure for Venture Issuers without Significant Revenue or Exploration, Disclosure of Outstanding Share Data

**General Administrative Expenses for the Years Ended December 31, 2019 and December 31, 2018 are detailed below:**

Expense Account	Year Ended December 31, 2019	Year Ended December 31, 2018
Management & administrative wages	\$ 902,822	\$ 784,545
Other operating expenses	436,585	198,493
Accounting and corporate	63,897	68,933
Legal & audit	74,690	91,419
Stock-based compensation	321,433	225,169
Shareholder communication and investor relations	209,903	194,992
Transfer agent	11,206	10,213
Directors fees	35,500	29,250
General office	11,653	9,486
Accretion expenses	271,365	251,547
Loan interest and bank charges	351,898	267,825
	-----	-----
<b>Total</b>	<b>\$ 2,690,952</b>	<b>\$ 2,131,872</b>

General administrative expenses for the year ended December 31, 2019 totaled \$ 2,690,952 compared to \$ 2,131,872 for the year ended December 31, 2018.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs of both Galantas corporate and at the Omagh mine, totaled \$ 902,822 for the year ended December 31, 2019 compared to \$ 784,545 for 2018. The higher costs in 2019 are mainly due to the employment of additional administrative personnel during 2019 reflecting the increased level of activity at the Omagh mine. Other operating expenses, the majority of which are also incurred in UK£ and include amongst others professional fees, insurance costs, travel, and other costs, amounted to \$ 436,585 for the year ended December 31, 2019 compared to \$ 198,493 for 2018. The increase in costs in 2019 was mainly due the inclusion in other operating costs of the redundancy costs and rehabilitation costs in connection with leased equipment returned to the supplier both of which arose as a direct result of the temporary suspension of blasting in the fourth quarter. Accounting and corporate costs for the year ended December 31, 2019 amounted to \$ 63,897 compared to \$ 68,933 for 2018. The decrease in the 2019 was mainly due to lower corporate costs incurred during the year. Legal and audit costs totalled \$ 74,690 for the year ended December 31, 2019 compared to \$ 91,419 for 2018. Legal costs amounted to

\$ 14,353 which compared with \$ 40,346 for 2018. The higher legal fees in 2018 were in connection with fees incurred in connection with the 2018 aggregates appeal hearing referred to in Note 23 of the financials. Audit fees for 2019 amounted to \$ 60,337 compared to \$ 51,073 for 2018. The lower level of audit fees in 2018 was because of an under provision for audit fees in 2018.

Stock-based compensation costs for the year ended December 31, 2019 amounted to \$ 321,433 compared to \$ 225,169 for 2018. The increase in the 2019 stock-based compensation costs was mainly due to stock options granted earlier in 2019. These options vested as to one third on the date granted and one third on each of the following two anniversaries.

Shareholder communication and investor relations costs amounted to \$ 209,903 for the year ended December 31, 2019 compared to \$ 194,992 for 2018. Shareholder communication and investor relations costs include shareholders information, investor relations, filing fees, listing fees and certain costs in connection with the holding of the Company's AGM. The increase in costs in 2019 was due mainly to increased investor relations costs incurred during the year. Transfer agents' fees amounted to \$ 11,206 compared to \$ 10,213 for 2018. Transfer agent's costs for both periods include certain costs in connection with the holding of the Company's AGM. Directors' fees totalled \$ 35,500 compared to \$ 29,250 for 2018. General office expenses for 2019 amounted to \$ 11,653 compared to \$ 9,486 for 2018.

Accretion expenses for the year ended December 31, 2019 amounted to \$ 271,365 which compared to \$ 251,547 for 2018. Accretion expenses are mainly in connection with the accretion of the fair value of the 15,000,000 bonus warrants being issued in the second quarter of 2018 in connection with the Ocean Partners US\$ 1.6 million loan as set out in Note 14 of the December 31, 2019 consolidated financial statements. Accretion expense also includes accretion on the decommissioning liability as set out in Note 12 of the consolidated financial statements. In 2019 there was also an accretion expense relating to the conversion feature of the convertible debenture as set out in Note 15 of consolidated financial statements which mainly accounts for the increase in accretion expenses in 2019. Loan interest and bank charges for the year ended December 31, 2019 were mainly in connection with interest on the G&F Phelps loan and debenture interest, net of deposit interest and amounted to \$ 351,898 compared to \$ 267,825 for the year ended December 31, 2018. The increase in 2019 was mainly due to the increased interest rate charged on the G&F Phelps loan effective April 2018.

**General Administrative Expenses for the Quarters ended December 31, 2019 and December 31, 2018 are detailed below:**

<b>Expense Account</b>	<b>Quarter Ended December 31, 2019</b>	<b>Quarter Ended December 31, 2018</b>
Management & administrative wages	\$ 227,177	\$ 188,404
Other operating expenses	274,688	46,574
Accounting & corporate	22,250	22,203
Legal & audit	15,226	14,469
Stock-based compensation	51,739	39,657
Shareholder communication and investor relations	51,017	46,152
Transfer agent	2,138	2,147
Directors fees	9,500	10,000
General office	2,738	2,987
Accretion expenses	85,048	66,106



Loan interest and bank charges	94,086	91,874
	-----	-----
<b>Total</b>	<b>\$ 835,607</b>	<b>\$ 530,573</b>

General administrative expenses for the quarter ended December 31, 2019 totaled \$ 835,607 compared to \$ 530,573 for the quarter ended December 31, 2018.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs of both Galantas corporate and the Omagh mine, totaled \$ 227,177 for the quarter ended December 31, 2019 compared with \$ 188,404 for the fourth quarter of 2018. The higher costs in the fourth quarter of 2019 are mainly due to the employment of additional administrative personnel reflecting the increased level of activity at the Omagh mine. Other operating expenses, the majority of which are also incurred in UK£ and include amongst others professional fees, insurance costs and travel and in the fourth quarter of 2019 included redundancy costs and rehabilitation costs in connection with leased equipment returned to the supplier, amounted to \$ 274,688 for the quarter ended December 31, 2019 compared to \$ 46,574 for the fourth quarter of 2018. The increased costs in 2019 were mainly due to an increase in insurance costs, the redundancy costs and rehabilitation costs which arose as a direct result of the temporary suspension of blasting in the fourth quarter of 2019. Accounting and corporate costs for the quarter amounted to \$ 22,250 compared to \$ 22,203 for the corresponding quarter of 2018. Legal and audit costs totalled \$ 15,226 for the quarter compared to \$ 14,469 for the fourth quarter of 2018. Legal costs for the fourth quarter amounted to \$ 130 which compared with \$ 5,337 for the fourth quarter of 2018. Audit fees for the fourth quarter amounted to \$ 15,096 compared to \$ 9,132 for the fourth quarter of 2018. The lower level of audit fees in 2018 was because of an under provision for audit fees in the fourth quarter of 2018.

Shareholder communication and investor relations costs amounted to \$ 51,017 for the fourth quarter of 2019 compared to \$ 46,152 for the corresponding quarter of 2018. Shareholder communication costs include shareholders information, investor relations, filing fees and listing fees. The increase in costs in the fourth quarter of 2019 was mainly due to increased investor relations costs. Transfer agents' fees for the fourth quarter of 2019 amounted to \$ 2,138 compared to \$ 2,147 for the corresponding period of 2018. Directors' fees for the fourth quarter of 2019 totalled \$ 9,500 compared to \$ 10,000 for 2018. General office expenses for the fourth quarter of 2019 amounted to \$ 2,738 compared to \$ 2,987 for 2018. Accretion expenses for the fourth quarter of 2018 amounted to \$ 85,048 which compared to \$ 66,106 for the fourth quarter of 2018. Accretion expenses were mainly in connection with accretion on the fair value of the 15,000,000 bonus warrants issued during the second quarter of 2018 in connection with the Ocean Partners US\$ 1.6 million loan. Accretion expense also includes accretion on the decommissioning liability as set out in Note 12 of the consolidated financial statements. In 2019 there was also an accretion expense relating to the conversion feature of the convertible debenture which mainly accounts for the increase in accretion expenses in 2019. Loan interest and bank charges for the quarter ended December 31, 2019 were mainly in connection with interest on the G&F Phelps loan and debenture interest net of deposit interest and amounted to \$ 94,086 compared to \$ 91,874 for the quarter ended December 31, 2018.

### Disclosure of Outstanding Share Data

The Company is authorized to issue in series an unlimited number of common and preference shares. At June 10, and following the April 17, 2020 share consolidation, there were a total of 32,321,472 shares issued, and 1,060,000 stock options with expiry dates from June 12, 2020 to June 27, 2024.

### Events after 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.

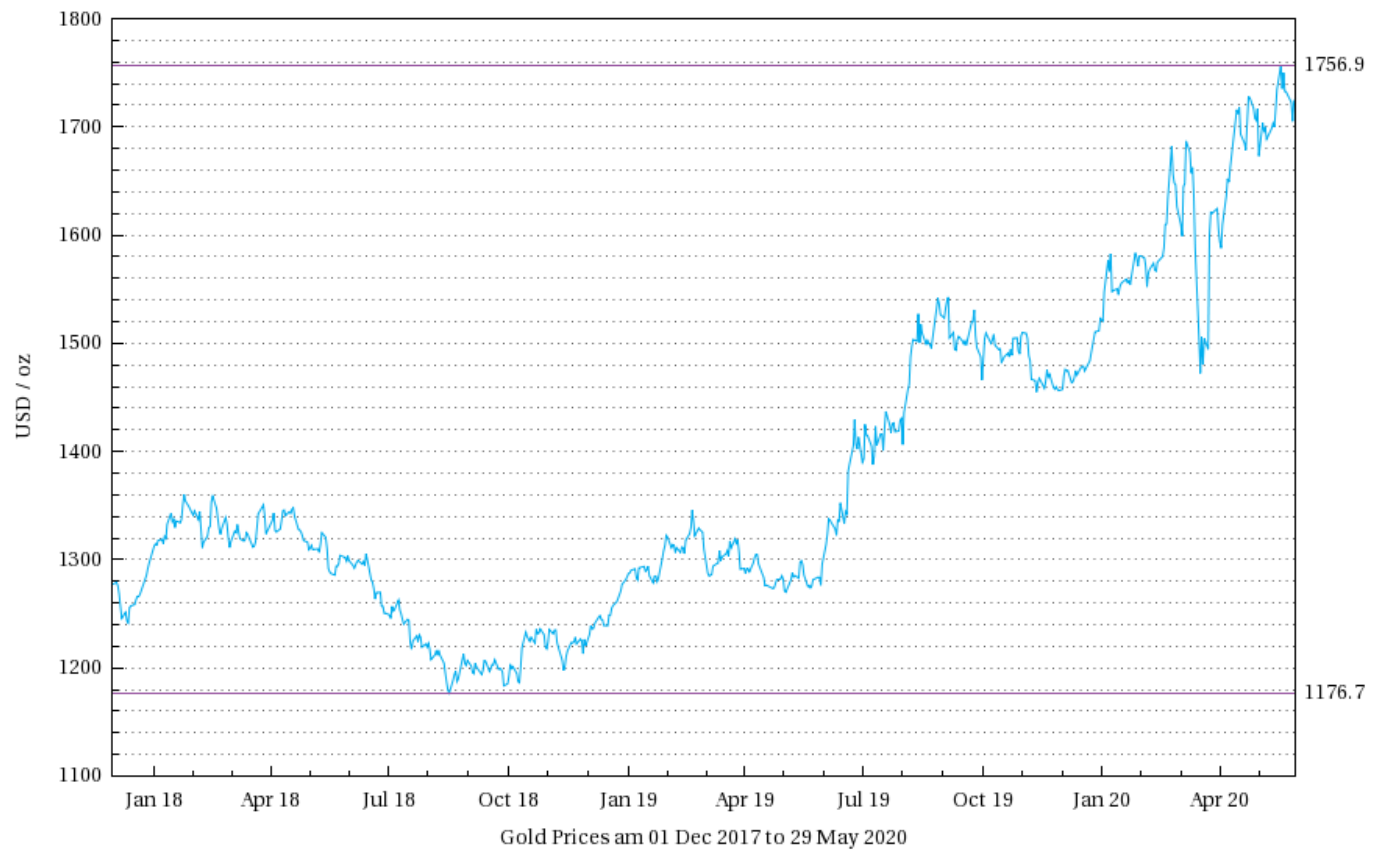
## **Trends Affecting the Company's Business**

### **Gold Price in US Dollars and UK Sterling**

The Gold concentrate output from the Omagh Mine is sold in US dollars. Most of the value is accrued from the gold content. The following graphs are published by LBMA.org.uk. The first graph shows the gold price expressed in US dollars (USD) from January 2018 to May 2020. The graph shows USD gold price in a generally upward trend since June 2019, with a price above US\$ 1,500 during August and September 2019 easing back below \$ 1,500 during the fourth quarter of 2019. Subsequent to December 31, 2019 the gold price firmed back up to above \$ 1,600 by the end of the first quarter 2020 following worldwide coronavirus issues.

The second graph shows the gold price expressed in UK£ sterling terms. The Sterling gold price has also been in an upward trend since June 2019. Part of the increase is attributable to an increase in the US Dollar gold price but has been further enhanced by a fall in Sterling compared to the US Dollar. The increases seen in early September created all time highs in Sterling terms but the Sterling gold price subsequently eased back in line with the US Dollar gold price during the fourth quarter. Subsequent to December 31, 2019 the UK£ sterling gold price has increased to a greater extent than the US\$ gold price on the back of a fall in Sterling compared to the US Dollar.

The gold price for the three months ended December 31, 2019 averaged US\$ 1,482 and UK£ 1,151 compared to US\$ 1,229 and UK£ 956 for the three months ended December 31, 2018. The gold price for the year ended December 31, 2019 averaged US\$ 1,393 and UK£ 1,092 compared to US\$ 1,269 and UK£ 950 for the year ended December 31, 2018.



Graph of USD Gold Price for the period Dec 1, 2017 to May 29 2020 : source LBMA



Graph of GBP Gold price for the period Dec 1, 2017 to May 29, 2020 : source LBMA

Galantas has a policy of being un-hedged in regard to gold production.

#### The US Dollar / UK£ Sterling Currency Exchange Rate

The following graphs are sourced from the Bank of England database for the spot exchange rate of US \$ and Canadian \$ to UK£ Sterling (GBP or UK£). Sales revenues at the Omagh mine are designated in US Dollars and are converted to UK£, as operating, exploration and capital costs are designated in UK£ Sterling. Thus, a stronger US\$ / weaker UK£ is to the Company's financial benefit.

The US Dollar had been on an upward trend against a weakening UK£ Sterling since March 2019 with UK£ Sterling showing continuing weakness. The exchange rate had been driven by Brexit considerations. However, following a more positive Brexit prognosis the UK£ Sterling regained some ground during the fourth quarter of 2019. However by the end of the first quarter 2020 sterling had resumed its downward trend against the dollar due to the ongoing economic impact of the coronavirus on the UK economy.

The US dollar averaged \$ 1.29 and \$ 1.28 against UK£ sterling for the fourth quarter and year ended December 31, 2019 compared to \$1.28 and \$ 1.34 for the fourth quarter and year ended December 31, 2018.

A currency policy has been adopted of converting incoming payments into the currency required within a short period of receipt, thus avoiding the taking of a large currency position on either side of the market.



GBP / USD Exchange Rate : 5 year Trend : Source Bloomberg



GBP / CAN Exchange Rate : 5 year Trend : Source Bloomberg

#### The Canadian Dollar / UK£ Sterling Currency Exchange Rate.

The accounts of the Company are expressed in Canadian Dollars. The majority of costs at the mine are incurred in UK£ Sterling and are converted to Canadian Dollars at the average rate for the relevant accounting period. When costs are expressed in Canadian Dollars terms within the Company's financials, there is an increase in costs when there is a fall in value or weakening of the Canadian Dollar against Sterling. A weakening of the Canadian dollar also increases the value of UK£ based net assets, which are converted at period end rates, when expressed in Canadian dollars.

Although on a generally strengthening trend against UK£ Sterling, considered to be related to Brexit, the Canadian Dollar has not shown the same strength against Sterling as the US Dollar, with recent retrenchment considered by some to be related to weaknesses in the world economy and relationships with oil prices together with a more positive Brexit prognosis during the fourth quarter of 2019.

The Canadian Dollar averaged \$ 1.70 against UK£ Sterling during the fourth quarter of 2019 compared to \$1.70 for the fourth quarter of 2018. For the year ended December 31, 2019 the Canadian dollar averaged \$ 1.69 against UK£ Sterling compared to \$ 1.73 for the year ended December 31, 2018.

### The Financing Trends & Political Trends

Difficulties in the Western credit markets have impacted on all companies entering into banking credit arrangements. The Canadian and UK equity markets for junior mining companies appears to have weakened during 2018 and remains weak. Whilst the remaining malaise in this market sector has restricted financing opportunities, Galantas has been able to secure funding arrangements during 2018, and 2019 based upon early cash flow expectations.

In Northern Ireland, the widely acknowledged previous political agreement consolidated the positive financial effects of peace and stability in the province, but there continues a low level of activity by those not allied to the peace process. There remains continued uncertainty about a return to the power sharing agreement, which had been further complicated by arrangements made with one of the political parties in Northern Ireland lending its support to the UK governing party. There has been an increase in political antipathy against gold mining companies, based upon opinions regarding the use of cyanide reagents. Galantas does not utilise cyanide reagents and has therefore not suffered the same level of opprobrium. Potential delays related to Brexit issues may cause some interruption to supplies. These have been minimised in advance as much as possible. No tariff issues on the company's products is anticipated.

### **Risks and Uncertainties**

Galantas operates in a sector – mineral production and exploration – which carries inherent risks only some of which are within management's ability to reduce or remove. The main sector risk is always metal price. The Company's other business, the supply of Irish gold at a premium price for jewellery production, is dependent upon the mine consistently being able to supply certified Irish gold on a reliable basis.

The Company has assessed the risks surrounding its business. It has concluded that most if not all of the risks are standard to the industry and none of them so profound as to inhibit pursuit of the Company's strategy. The main risks identified and considered are:

### **Current Global Financial and Economic Conditions**

Current global financial and economic conditions have been characterized by extreme volatility. Several financial institutions and other major business have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to financing has been negatively impacted by many factors as a result of the global financial crisis. This may impact the Company's ability to obtain funding in the future and on favourable terms. Additionally, global economic conditions may cause decreases in asset values that are deemed to be other than temporary. If such volatility and market turmoil continue, the Company's business and financial condition could be adversely impacted

### **Additional Funding Requirements**

Additional funds, if required, may not be available. Further exploration and development of the Company's properties will require substantial additional financing. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production at the Omagh mine. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business performance of the Company.

There can be no assurance that the Company will be successful in its efforts to arrange additional financing on satisfactory terms. If additional financing is raised by the issuance of shares from the Company's treasury, control of the Company may change and existing security holders may suffer additional dilution of their interests.

### **Uncertainty of Mineral Resource and Mineral Reserve Estimates**

The estimates for mineral resources and mineral reserves are determined in accordance with NI 43-101 and CIM Standards. There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of metals from such resources may not be realized. Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect in the future on the Company's financial position and results of operations. Estimated mineral resources may have to be recalculated based on changes in mineral resource prices, further exploration or development activity, or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence reserve or resource estimates. Market price fluctuations for mineral resources, increased production costs or reduced recovery rates, or other factors can render proven and probable mineral reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated mineral reserves could require material write-downs in investment in the affected mining property and increased depreciation, reclamation and closure charges.

### **Uncertainty of Inferred Mineral Resources**

Inferred mineral resources that are not mineral reserves do not demonstrate economic viability and are considered too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that the estimated tonnage and grades as stated will be achieved or that they will be upgraded to measured and indicated mineral resources or proven and probable mineral reserves as a result of continued exploration.

### **Exploration, Development and Operations Risks**

Mining operations generally involve a high degree of risk. The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold, other minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability.

The nature of the Company's business is highly speculative due to its proposed involvement in the exploration, development and production of minerals. The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate. No assurance can be given that additional minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis or at all. While the discovery of an ore body may result in substantial rewards,

few properties that are explored are ultimately developed into producing mines. Substantial additional expenditures will be required to locate and establish additional mineral reserves, to develop metallurgical processes and to expand mining and processing facilities at the Omagh site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. The commercial viability of an additional mineral deposit, if one is discovered, depends on a number of factors, including the particular attributes of the deposit (such as size and grade), proximity to infrastructure, metal prices, which are highly cyclical, and regulations imposed by various levels of government, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Most of these factors are beyond the control of the Company. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Mineral exploration and development are highly speculative and few properties that are explored are ultimately placed into commercial production. There is no certainty that the expenditures made by the Company on the search and evaluation of additional mineral deposits will result in discoveries of commercial quantities of ore.

### **Mineral Processing**

Generally, the plant performs in line with the prior technical guidance. Alterations and modifications to equipment and operating practices have been made and have resulted in improvements in comminution and concentrate quality. However, there is no certainty that the improvements will persist and were these not to do so there would be a risk to cash flow and budget.

### **Environmental**

The project was subject to one of Ireland's lengthiest public enquiries whereat its design and operating fundamentals were challenged and defended to the satisfaction of the independent assessors and industry experts representing regulators and the Company. In operation, the facilities are subject to self-monitoring and monitoring by regulators. The Company's activities are subject to laws and regulations controlling not only mining activities but also the possible effects of such activities upon the environment. Environmental legislation may change and make the mining and processing of ore uneconomic or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mineral exploitation activities, such as seepage from tailings disposal areas that could result in environmental pollution. A breach of environmental legislation may result in the imposition of fines and penalties or the suspension or closure of operations and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities.

Environmental legislation is evolving in a manner which may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation. Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of closure and reclamation plans, the Company must comply with standards and



laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

The Company notes the positive results of a recent detailed Compliance Study by the Northern Ireland Environment Agency and continues its policy of best achievable environmental practice.

### **Permitting**

The Company has permission to carry out its activities. Consents, related to open pit mining were granted in 2000 after fulfillment of more than 30 pre-conditions which attached to the provisional consent granted in 1995. In all jurisdictions, regulatory provisions are subject to change and the Company may be faced with additional constraints in the future. The Company received consent for underground operations on July 27, 2015..

### **Regulations and Permits**

While Galantas holds the required permits for current operations at the Omagh Mine there is no guarantee that these permits, if and when required, will be renewed, or renewed on terms acceptable to the Company. Furthermore, the Company may be required to obtain additional licenses and permits from various governmental authorities to continue and expand its development and production activities. The Company's activities are also subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered and protected species and other matters. Galantas is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's operating and exploration activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict Galantas from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

### **Risks Relating to Government Regulation**

The Company's operations and properties are subject to laws and regulations governing mineral concession acquisition, mine development and prospecting, mining, production, occupational health and safety, labor standards, employment, waste disposal, toxic substances, land use, environmental protection, use of water, exports, taxes, royalties and other matters. It is possible that the Company may not be able to comply with existing and future laws and regulations. In addition, future changes in applicable laws, regulations, agreements or changes in their enforcement or regulatory interpretation could result in changes to the terms of the Company's permits and agreements, which could have a material adverse impact on the Company's current operations and future development projects. The Company may experience increased costs and delays in production as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there is no assurance that Galantas will be able to obtain all required permits on reasonable terms or on a timely basis. Any failure to comply with applicable laws and regulations or

permits, even if inadvertent, could result in enforcement actions thereunder including the loss of the Company's mining concessions, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, fines, penalties or other liabilities. The Company may be required to compensate those suffering loss or damage by reason of its mining operations and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

## **Title**

The Company owns the land in secure freehold on which the project is located. Precious metal licenses and mining licenses have been granted to the Company by the Crown Estate and renewed as required since the mid – 1990's when initially granted. Licenses and Leases are subject in the usual way to minimum performance requirements which are set at a level so as not to inhibit development. There was dialogue with the Northern Ireland Development of Enterprise Trade and Industry (DETI) concerning a license to extract base metals which occur with the gold and silver in the quartz-sulphide veins and which may be recovered as a by-product of gold and silver. The license if applicable may require a fee payable to owners of surface rights. In the case of the Company's mine, since the owner is the Company itself, it is thought unlikely that there will be a material impact. There has been no final determination by DETI.

## **Political**

Northern Ireland has achieved a stable political status conducive to business as is evidenced by the relatively large amounts of inward investment that the province has enjoyed over the past decade. It is noted that there was recently an increase in activity by parties not allied to the peace process which now appears to have abated. The mine is well removed from areas of potential urban disturbance.

## **Insurance and Uninsurable Risks**

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability. The Company currently has liability insurance in an amount that management considers adequate. However, such insurance may not cover all the potential risks associated with a mining company's operations. In addition, in the future, the costs of such insurance may become prohibitive and, in any event, the nature of the risks for mining companies is such that liabilities might exceed policy limits. Insurance coverage may not continue to be available at all or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards that may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

## **Revenue**

Up to December 2018, the Company has contracted sale of its concentrate to a smelter. Deliveries made after December 2018 are contracted to Ocean Partners UK Ltd. While the payment terms are specific, there is risk that unit income may fall short of forecast. This could be due to a number of factors including failure of the concentrate to be within the specification contracted as regards both value elements and penalty elements and failure to produce concentrate of consistent quantity.

### **Currency Fluctuations**

Currency fluctuations may affect the Company's future operations, financial position and results. The Company's revenues are in US dollars. Most of the costs and expenditures of the Company are incurred in UK Pounds Sterling resulting in dollar revenues being converted to sterling on an ongoing basis. The value of sterling against the US dollar constantly fluctuates which impacts on sterling revenue available to the Company. The appreciation of the UK£ against the U.S. dollar would reduce the UK£ revenues at the Omagh mine which could materially and adversely affect the Company's profitability, results of operation and financial condition. Financial results are published in Canadian dollars with the UK£ operating results being converted at average exchange rates for each period. There is also a currency risk arising mainly from the Company's net liabilities being denominated in sterling, which liabilities will fluctuate in Canadian dollar terms giving rise to exchange gains/losses in line with the ongoing fluctuations in the exchange rates.

### **Gold Price**

The price of gold may affect the Company's future operations. The price of gold is beyond the Company's control, can fluctuate drastically and could adversely affect the Company. Gold prices have fluctuated significantly in recent years. Market prices for gold are volatile and are affected by numerous factors beyond the Company's control, including expectations regarding inflation, global and regional demand, speculative activities, political and economic conditions and production costs in major gold-producing regions. The aggregate effect of these factors on gold prices, both in the current financial environment and generally, is impossible for the Company to predict. While Galantas would benefit from an increase in the value of gold, the Company could be adversely affected by a decrease in the value of gold. The Company's policy is to not sell forward its bullion.

### **Construction and Development**

Most construction costs have been incurred and are therefore known and reflected in the accounts. Future development risk is attached to the surface and underground development of the Kearney orebody, where quantities are only estimated and subject to adverse variance.

### **Dependence on Key Employees and Skilled Personnel**

The Company's business and operations are dependent on recruiting and retaining the services of a small number of key employees and qualified personnel. To a significant extent, the success of the Company is, and will continue to be, dependent on the expertise and experience of these employees. Continued operations at the Omagh Mine will require the Company to successfully retain its skilled personnel. The number of persons skilled in the development and production of mining properties is limited and competition for this workforce is intense. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success. The loss of one or more of the Company's key employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

### **Share Price Fluctuations**

In recent years, and particularly in the current global financial conditions, the securities markets in Canada and the UK have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly development stage companies, have experienced wide fluctuations in price that have not necessarily been related to the underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur.

## **Dividends**

The Company has not declared or paid any dividends since the date of its incorporation and does not currently anticipate that dividends will be declared in the short or medium term. Earnings, if any, will be retained to finance further exploration and development of the Company's business.

## **Potential Dilution**

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional option and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted.

## **Qualified Person Statement**

The financial components of this disclosure have been reviewed by Leo O' Shaughnessy (Chief Financial Officer) and the production, exploration and permitting components by Roland Phelps C.Eng. MIMMM (President & CEO), both Qualified Persons under the meaning of NI. 43-101 and AIM rules. The information in this disclosure is based upon local production and financial data prepared under their supervision. The statement of mineral resource estimates is based upon a report announced 28<sup>th</sup> July 2014 and prepared by the Galantas Geological and Mining Team under Mr. Phelps' supervision.