
HANNAN METALS LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020**

(Unaudited - Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

HANNAN METALS LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	Note	August 31, 2020	May 31, 2020
		\$	\$
ASSETS			
Current assets			
Cash		2,251,225	1,690,911
GST/VAT receivable		14,003	9,172
Prepaid expenses		<u>219,539</u>	<u>85,877</u>
Total current assets		<u>2,484,767</u>	<u>1,785,960</u>
Non-current assets			
Exploration and evaluation assets	4	<u>4,879,031</u>	<u>4,664,427</u>
TOTAL ASSETS		<u>7,363,798</u>	<u>6,450,387</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	215,514	234,626
Due to related party	7(c)	20,000	20,000
Promissory notes payable	5	-	214,850
TOTAL LIABILITIES		<u>235,514</u>	<u>469,476</u>
SHAREHOLDERS' EQUITY			
Share capital	6	12,023,177	10,454,991
Share-based payments reserve		4,261,069	4,276,541
Deficit		<u>(9,155,962)</u>	<u>(8,750,621)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>7,128,284</u>	<u>5,980,911</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>7,363,798</u>	<u>6,450,387</u>

Nature of Operations and Continuing Operations - Note 1

Events after the Reporting Period - Note 11

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on October 28, 2020 and are signed on its behalf by:

/s/ Nick DeMare
Nick DeMare
Director

/s/ Michael Hudson
Michael Hudson
Director

HANNAN METALS LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian Dollars)

		Three Months Ended August 31,	
	Note	2020 \$	2019 \$
Expenses			
Accounting and administration	7(b)	7,153	7,019
Audit		-	7,272
Corporate development		181,235	9,356
Drill core storage		3,114	1,958
Insurance		3,495	4,612
Legal		8,548	4,064
Management compensation	7	64,451	44,807
Office, rent and miscellaneous		9,334	8,353
Professional fees		8,859	-
Regulatory fees		2,250	2,020
Salaries and wages		-	33,108
Share-based compensation	6(d)	102,508	-
Shareholder costs		9,635	-
Transfer agent		2,684	1,032
Travel		842	19,239
Vehicle rentals		-	829
		<u>404,108</u>	<u>143,669</u>
Loss before other items		<u>(404,108)</u>	<u>(143,669)</u>
Other items			
Interest income		3,735	1,233
Foreign exchange		(3,160)	(4,526)
Interest expense	5	(1,808)	(5,117)
		<u>(1,233)</u>	<u>(8,410)</u>
Net loss and comprehensive loss for the period		<u>(405,341)</u>	<u>(152,079)</u>
Basic and diluted loss per common share		<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares outstanding - basic and diluted		<u>77,641,156</u>	<u>52,664,602</u>

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

HANNAN METALS LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended August 31, 2020				
	Share Capital		Share-Based Payments Reserve		
	Number of Shares	Amount \$		Deficit \$	Total Equity \$
Balance at May 31, 2020	74,664,211	10,454,991	4,276,541	(8,750,621)	5,980,911
Common shares issued for:					
- private placements	4,000,000	1,000,000	-	-	1,000,000
- share options exercised	660,000	133,500	-	-	133,500
- warrants exercised	1,353,774	337,052	-	-	337,052
Share issue costs	-	(20,346)	-	-	(20,346)
Transfer on exercise of share options	-	116,700	(116,700)	-	-
Transfer on exercise of warrants	-	1,280	(1,280)	-	-
Share-based compensation	-	-	102,508	-	102,508
Net loss for the period	-	-	-	(405,341)	(405,341)
Balance at August 31, 2020	80,677,985	12,023,177	4,261,069	(9,155,962)	7,128,284

	Three Months Ended August 31, 2019				
	Share Capital		Share-Based Payments Reserve		
	Number of Shares	Amount \$		Deficit \$	Total Equity \$
Balance at May 31, 2019	52,664,602	7,869,329	3,709,194	(7,586,487)	3,992,036
Net loss for the period	-	-	-	(152,079)	(152,079)
Balance at August 31, 2019	52,664,602	7,869,329	3,709,194	(7,738,566)	3,839,957

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

HANNAN METALS LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended August 31,	
	2020 \$	2019 \$
Operating activities		
Net loss for the period	(405,341)	(152,079)
Adjustments for:		
Interest expense	1,808	5,117
Share-based compensation	102,508	-
Changes in non-cash working capital items:		
GST/VAT receivable	(4,831)	(2,657)
Prepaid expenses	(133,662)	4,682
Accounts payable and accrued liabilities	<u>(19,112)</u>	<u>(21,215)</u>
Net cash used in operating activities	<u>(458,630)</u>	<u>(166,152)</u>
Investing activity		
Exploration and evaluation asset expenditures	<u>(214,604)</u>	<u>(65,024)</u>
Net cash used in investing activity	<u>(214,604)</u>	<u>(65,024)</u>
Financing activities		
Issuance of common shares	1,470,552	-
Share issue costs	(20,346)	-
Repayment of promissory notes	<u>(216,658)</u>	<u>-</u>
Net cash provided by financing activities	<u>1,233,548</u>	<u>-</u>
Net change in cash during the period	560,314	(231,176)
Cash at beginning of period	<u>1,690,911</u>	<u>371,663</u>
Cash at end of period	<u>2,251,225</u>	<u>140,487</u>

Supplemental cash flow information - Note 10

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

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations and Continuing Operations

The Company was incorporated under the provisions of the Company Act (British Columbia). The Company's common shares currently trade on the TSX Venture Exchange ("TSXV") under the symbol "HAN". The Company's principal, registered and records office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7.

The Company is a junior mineral exploration company engaged in the acquisition and exploration of mineral properties. As at August 31, 2020 the Company has not earned any production revenue, nor has it determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral resource interests is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and upon future profitable production. Mineral resource interests represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. As a mineral Company in the exploration stage the ability of the Company to complete the exploration and development of its mineral property interests will be affected primarily by its ability to raise adequate amounts of capital through equity financings, debt financings, joint venturing of projects and other means.

The Company has a history of losses with no operating revenues and, as at August 31, 2020, the Company had working capital of \$2,249,253. The Company's operations are funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. As at August 31, 2020 management considers that the Company has adequate resources to maintain its core operations, conduct planned exploration programs on its existing exploration and evaluation assets and discharge its obligations as they become due in the next twelve months.

On March 11, 2020 the World Health Organization ("WHO") declared the outbreak of a novel coronavirus, identified as "COVID-19", as a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. A state of emergency in Peru has been in place since March 16, 2020 under which Peru enacted mandatory quarantine and all borders were closed. The state of emergency is currently scheduled to remain in place until October 31, 2020. In June 2020 the Peruvian government began to ease lock-down restrictions on the country's mining sector, with a phased restart of activities. All work requires the implementation of health protocols including self-distancing, disinfection procedures, use of protective masks and COVID-19 testing. Activities in Ireland have been restricted to minimal care and maintenance levels.

The Company has implemented safety and physical distancing procedures, including working from home and continuing desktop and office work remotely where possible. In Peru, local social work continues to build on relationships remotely with existing stakeholders. The Company will continue to monitor the impact of the COVID-19 outbreak, the duration and impact which is unknown at this time, as is the efficacy of any intervention. It is not possible to reliably estimate the length and severity of these developments, however the Company remains well funded and will have Peruvian teams back in the field when it is safe and appropriate to do so.

These condensed consolidated interim financial statements do not reflect any adjustments related to conditions that occurred subsequent to August 31, 2020.

2. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended May 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's audited consolidated financial statements for the year ended May 31, 2020.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020
(Unaudited - Expressed in Canadian Dollars)

2. Basis of Preparation (continued)

Adoption of New Accounting Standard

Effective June 1, 2020 the Company adopted the Amendments to IFRS 3 - *Definition of a Business*, which clarifies the definition of a business for the purpose of determining whether a transaction should be accounted for as an asset acquisition or a business combination. The amendments:

- clarify the minimum attributes that the acquired assets and activities must have to be considered a business;
- remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs;
- narrow the definition of a business and the definition of outputs; and
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

There was no impact on the Company's condensed consolidated interim financial statements upon the adoption of the amendments of this standard.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. These condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

3. Subsidiaries

The subsidiaries of the Company are as follows:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
Hannan Metals BC Ltd. ("Hannan BC")	British Columbia, Canada	100%
Hannan Metals Ireland Limited ("Hannan Ireland")	Ireland	100%
Minera Hannan Peru S.A.C. ("Hannan Peru")	Peru	100%
Hannan Metals Peru Ltd.	British Columbia, Canada	100%

4. Exploration and Evaluation Assets

	<u>August 31, 2020</u>			<u>May 31, 2020</u>		
	<u>Acquisition Costs</u>	<u>Deferred Exploration Costs</u>	<u>Total</u>	<u>Acquisition Costs</u>	<u>Deferred Exploration Costs</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Ireland - Claire Project	1,452,949	2,468,603	3,921,552	1,452,949	2,468,603	3,921,552
Peru - San Martin Project	497,492	459,987	957,479	347,896	394,979	742,875
	<u>1,950,441</u>	<u>2,928,590</u>	<u>4,879,031</u>	<u>1,800,845</u>	<u>2,863,582</u>	<u>4,664,427</u>

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020
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4. Exploration and Evaluation Assets (continued)

	<u>Ireland</u>	<u>Peru</u>	
	Clare Project \$	San Martin Project \$	Total \$
Balance at May 31, 2019	<u>3,906,364</u>	<u>301,478</u>	<u>4,207,842</u>
Exploration costs			
Field supplies	-	46,674	46,674
Community	-	57,021	57,021
Geological	-	170,525	170,525
Sampling	-	11,731	11,731
Travel	-	28,509	28,509
	<u>—</u>	<u>314,460</u>	<u>314,460</u>
Acquisition costs			
License applications and fees	<u>15,188</u>	<u>126,937</u>	<u>142,125</u>
Balance at May 31, 2020	<u>3,921,552</u>	<u>742,875</u>	<u>4,664,427</u>
Exploration costs			
Community	-	1,948	1,948
Geological	-	44,497	44,497
Other	-	17,880	17,880
Sampling	-	683	683
	<u>—</u>	<u>65,008</u>	<u>65,008</u>
Acquisition costs			
License applications and fees	<u>—</u>	<u>149,596</u>	<u>149,596</u>
Balance at August 31, 2020	<u>3,921,552</u>	<u>957,479</u>	<u>4,879,031</u>

Clare Project

The Company holds a 100% interest in seven prospecting licences located in County Clare, Ireland (the “Licences”) pursuant to an assignment agreement. Under a separate asset purchase agreement dated June 3, 2016 (the “Asset Purchase Agreement”) between the Company and Lundin Mining Exploration Limited (“Lundin”), the Company purchased all exploration data associated with the Licences for an initial cash payment of \$191,910 (US \$150,000) in fiscal 2017 and additional cash payments totalling \$1,057,473 (US \$850,000) in fiscal 2018.

The Company is also required to pay Lundin a one-time bonus payment of US \$5,000,000 within the earlier of: (i) a decision to proceed with mine construction, or: (ii) within 90 days of the establishment of a commercial financing to finance capital costs for mine construction. Lundin retains a 2% net smelter return royalty on all sales of mineral products extracted from the area of land subject to the Licences, subject to a 0.5% buy back right of the Company for US \$5,000,000, which must be exercised within one year from the date of commercial production.

The Company also holds a further 15 prospecting licences which have been granted.

San Martin Project

As at August 31, 2020 the Company had a total of 87 mineral concessions granted or under application (the “San Martin Project”) located in San Martin Province of the Department of San Martin, northern Peru.

HANNAN METALS LTD.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020***(Unaudited - Expressed in Canadian Dollars)***5. Promissory Notes Payable**

	August 31, 2020 \$	May 31, 2020 \$
Promissory notes	-	145,000
Accrued interest	-	69,850
	<hr/>	<hr/>
	-	214,850

The promissory notes were issued by Hannan BC and bore interest at 7% per annum. The principal amounts and accrued interest were due December 31, 2020. During the three months ended August 31, 2020 the Company recorded \$1,808 of interest expense and in August 2020 repaid the remaining \$145,000 principal amounts of promissory notes and \$71,658 of accrued interest payable. The promissory notes were held by shareholders of the Company, including a family trust of the CEO of the Company.

6. Share Capital(a) *Authorized Share Capital*

The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Equity Financings**Three Months ended August 31, 2020*

On July 13, 2020 the Company completed a private placement of 4,000,000 units at \$0.25 per unit for \$1,000,000. Each unit consisted of one common share of the Company and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at an exercise price of \$0.35 per share expiring July 13, 2022.

Fiscal 2020

During fiscal 2020 the Company completed non-brokered private placements as follows:

- (i) 4,753,847 common shares, at \$0.065 per share, for gross proceeds of \$309,000. Certain directors and officers of the Company purchased a total of 653,847 common shares for \$42,500;
- (ii) 1,500,000 common shares at \$0.10 per share, for gross proceeds of \$150,000; and
- (iii) 14,683,262 units, at \$0.15 per unit, for gross proceeds of \$2,202,489. Each unit comprised one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.30 per share, expiring February 18, 2022.

The Company paid a total of \$97,600 finder's fee to two finders in respect to a portion of the private placement.

The Company incurred a total of \$100,727 for legal and filing costs associated with these private placements.

HANNAN METALS LTD.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020***(Unaudited - Expressed in Canadian Dollars)***6. Share Capital (continued)****(c) Warrants**

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at August 31, 2020 and 2019 and the changes for the three months ended on those dates, is as follows:

	2020		2019	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	24,249,162	0.28	17,267,385	0.20
Issued	2,000,000	0.35	-	-
Exercised	(1,353,774)	0.25	-	-
Expired	<u>-</u>	<u>-</u>	<u>(6,638,985)</u>	0.40
Balance, end of period	<u>24,895,388</u>	<u>0.28</u>	<u>10,628,400</u>	0.22

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at August 31, 2020:

Number	Exercise Price \$	Expiry Date
1,527,500	0.15	April 24, 2021
322,500	0.15	April 30, 2021
6,984,300	0.25	July 6, 2021
14,061,088	0.30	February 18, 2022
<u>2,000,000</u>	<u>0.35</u>	<u>July 31, 2022</u>
<u>24,895,388</u>		

See also Note 11(b)

(d) Share Option Plan

The Company has established a rolling share option plan (the "Plan") in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years.

During the three months ended August 31, 2020 the Company granted share options to purchase 500,000 common shares and recorded compensation expense of \$102,508 on the granting and vesting of share options. During the three months ended August 31, 2019 the Company did not grant any share options.

The fair value of share options granted during the three months ended August 31, 2020 was estimated using the Black-Scholes Option Pricing Model using the following assumptions:

	2020
Risk-free interest rate	0.27% - 0.28%
Estimated volatility	107% - 110%
Expected life	3 years
Expected dividend yield	0%
Estimated forfeiture rate	0%

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020
(Unaudited - Expressed in Canadian Dollars)

6. Share Capital (continued)

The weighted average grant date fair value of all share options granted and vested during the three months ended August 31, 2020 was \$0.30 per share option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at August 31, 2020 and 2019 and the changes for the three months ended on those dates, is as follows:

	2020		2019	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	5,711,000	0.22	2,743,000	0.18
Granted	500,000	0.45	-	-
Exercised	(660,000)	0.20	-	-
Expired	(75,000)	0.40	-	-
Forfeited	-	-	(327,000)	0.15
Balance, end of period	<u>5,476,000</u>	0.24	<u>2,416,000</u>	0.17

The following table summarizes information about the share options outstanding and exercisable at August 31, 2020:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
50,000	50,000	0.28	November 9, 2020
861,000	861,000	0.10	November 14, 2021
120,000	120,000	0.10	November 15, 2021
50,000	50,000	0.26	February 1, 2022
3,545,000	3,545,000	0.25	January 23, 2023
100,000	25,000	0.28	May 28, 2023
250,000	-	0.44	July 21, 2023
250,000	250,000	0.455	August 11, 2023
<u>250,000</u>	<u>-</u>	0.13	September 4, 2023
<u>5,476,000</u>	<u>4,901,000</u>		

See also Note 11(a)

7. Related Party Transactions

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) Transactions with Key Management Personnel

The Company has determined that key management personnel consists of the Chief Executive Officer, the President and the Chief Financial Officer of the Company. During the three months ended August 31, 2020 and 2019 the following amounts were incurred with respect to these positions:

HANNAN METALS LTD.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020***(Unaudited - Expressed in Canadian Dollars)***7. Related Party Transactions (continued)**

	2020 \$	2019 \$
Management compensation	<u>51,477</u>	<u>52,439</u>

During the three months ended August 31, 2020 the Company allocated the \$51,477 (2019 - \$52,439) management fees based on the nature of the services provided: expensed \$45,791 (2019 - \$27,687) to management compensation; and capitalized \$5,686 (2019 - \$24,752) to exploration and evaluation assets. As at August 31, 2020, \$49,487 (May 31, 2020 - \$41,171) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

- (i) During the three months ended August 31, 2020 and 2019 the following amounts were incurred with respect to the positions of non-management directors and the Corporate Secretary of the Company:

	2020 \$	2019 \$
Management compensation	<u>18,660</u>	<u>17,120</u>

As at August 31, 2020 \$147,890 (May 31, 2020 - \$150,350) remained unpaid and has been included in accounts payable and accrued liabilities.

- (ii) During the three months ended August 31, 2020 the Company incurred a total of \$3,650 (2019 - \$5,300) for accounting and administration services provided by Chase Management Ltd., a private corporation owned by a director of the Company. As at August 31, 2020 \$3,000 (May 31, 2020 - \$4,500) remained unpaid and has been included in accounts payable and accrued liabilities.

- (c) As at May 31, 2019 accounts payable and accrued liabilities included \$50,000 outstanding to an arms-length party for professional service rendered. In fiscal 2020 the indebtedness was settled on behalf of the Company by a private company owned by a director of the Company and was recorded as an advance to the Company. The Company subsequently repaid \$30,000 of that advance and \$20,000 remained unpaid as at May 31, 2020. In September 2020 the Company paid the remaining \$20,000 balance.

- (d) See also Notes 5 and 6(b).

8. Financial Instruments and Risk Management*Categories of Financial Assets and Financial Liabilities*

Financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"); amortized cost; and fair value through other comprehensive income ("FVOCI"). The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	August 31, 2020 \$	May 31, 2020 \$
Cash	FVTPL	2,251,225	1,690,911
Accounts payable and accrued liabilities	Amortized cost	(215,514)	(234,626)
Due to related party	Amortized cost	(20,000)	(20,000)
Promissory notes payable	Amortized cost	-	(214,850)

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(Unaudited - Expressed in Canadian Dollars)

8. Financial Instruments and Risk Management (continued)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for accounts payable and accrued liabilities, due to related party and promissory notes payable approximate their fair value. The Company's cash under the fair value hierarchy is measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

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. Management believes that the credit risk concentration with respect to cash is remote as cash is held with high quality financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

	Contractual Maturity Analysis at August 31, 2020				
	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	\$	\$	\$	\$	\$
Cash	2,251,225	-	-	-	2,251,225
Accounts payable and accrued liabilities	(215,514)	-	-	-	(215,514)
Due to related party	(20,000)	-	-	-	(20,000)

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 and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash is not considered significant. The Company has interest bearing debt at fixed rates and is therefore not subject to fluctuating interest rate risk on its non-current loans.

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8. Financial Instruments and Risk Management (continued)

(b) Foreign Currency Risk

The Company has operations in Canada, Ireland and Peru. The Company's functional currency is the Canadian dollar and major transactions are conducted in Canadian Dollars, US Dollars and Euros. The Company maintains Euro bank accounts in Ireland and a US Dollar bank account with its Canadian bank to support the cash needs of its foreign operations. The Company has minimal transactions in Peruvian Nuevos Soles. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At August 31, 2020, 1 Canadian Dollar was equal to 0.64 Euro and 0.77 US Dollar.

Balances are as follows:

	Euros	US Dollars	CDN \$ Equivalent
Cash	6,321	156,299	212,863
VAT receivable	5,307	-	8,292
Accounts payable and accrued liabilities	<u>(2,755)</u>	<u>(1,061)</u>	<u>(5,683)</u>
	<u>8,873</u>	<u>155,238</u>	<u>215,472</u>

Based on the net exposures as of August 31, 2020 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Euro and US Dollar would result in the Company's comprehensive loss being approximately \$22,500 higher (or lower).

Capital Risk Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

9. Segmented Information

The Company operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. The Company's exploration and evaluation assets are located in Ireland and Peru and its corporate assets, comprising mainly of cash, are located in Canada. The Company is in the exploration stage and has no reportable segment revenues or operating results.

The Company's total assets are segmented geographically as follows:

	As at August 31, 2020			
	Canada \$	Ireland \$	Peru \$	Total \$
Current assets	2,385,439	18,176	81,152	2,484,767
Exploration and evaluation assets	<u>-</u>	<u>3,921,552</u>	<u>957,479</u>	<u>4,879,031</u>
	<u>2,385,439</u>	<u>3,939,728</u>	<u>1,038,631</u>	<u>7,363,798</u>

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9. Segmented Information (continued)

	As at May 31, 2020			
	Canada \$	Ireland \$	Peru \$	Total \$
Current assets	1,734,649	22,040	29,271	1,785,960
Exploration and evaluation assets	-	3,921,552	742,875	4,664,427
	1,734,649	3,943,592	772,146	6,450,387

10. Supplemental Cash Flow Information

During the three months ended August 31, 2020 and 2019 non-cash activities were conducted by the Company as follows:

	2020 \$	2019 \$
Operating activity		
Accounts payable and accrued liabilities	-	(50,000)
Financing activities		
Advance	-	50,000
Share-based payments reserve	(117,980)	-
Transfer on exercise of share options	117,980	-
	-	50,000

11. Events after the Reporting Period

- (a) On October 8, 2020 the Company granted share options to purchase a total of 100,000 common shares at an exercise price of \$0.365 expiring October 8, 2023.
- (b) Subsequent to August 31, 2020 the Company issued a total of 169,500 common shares for proceeds of \$32,100 on the exercise of warrants.
- (c) See also Note 7(c).