
HANNAN METALS LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018**

(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 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, 2018 \$	May 31, 2018 \$
ASSETS			
Current assets			
Cash		1,047,788	477,866
GST/VAT receivable		16,256	6,324
Prepaid expenses		<u>67,773</u>	<u>41,986</u>
Total current assets		<u>1,131,817</u>	<u>526,176</u>
Non-current assets			
Exploration and evaluation assets	4	<u>3,673,594</u>	<u>3,538,159</u>
Total non-current assets		<u>3,673,594</u>	<u>3,538,159</u>
TOTAL ASSETS		<u>4,805,411</u>	<u>4,064,335</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	<u>275,617</u>	<u>385,669</u>
Total current liabilities		<u>275,617</u>	<u>385,669</u>
Non-current liabilities			
Promissory notes payable	5	<u>327,209</u>	<u>322,093</u>
Total non-current liabilities		<u>327,209</u>	<u>322,093</u>
TOTAL LIABILITIES		<u>602,826</u>	<u>707,762</u>
SHAREHOLDERS' EQUITY			
Share capital	7	7,379,990	6,290,147
Share-based payments reserve		3,631,094	3,632,469
Deficit		<u>(6,808,499)</u>	<u>(6,566,043)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>4,202,585</u>	<u>3,356,573</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>4,805,411</u>	<u>4,064,335</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 25, 2018 and are signed on its behalf by:

/s/ Nick DeMare
 Nick DeMare
 Director

/s/ Michael Hudson
 Michael Hudson
 Director

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

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

	Note	Three Months Ended August 31,	
		2018 \$	2017 \$
Expenses			
Accounting and administration	7(b)	18,949	20,391
Accretion of property acquisition obligation		-	12,984
Audit		21,420	21,500
Corporate development		17,804	38,298
Drill core storage		9,253	5,925
General exploration		743	5,226
Insurance		10,755	7,289
Legal		3,433	1,752
Office, rent and miscellaneous		16,052	13,182
Management and director compensation	7	55,074	71,142
Professional fees		41,717	39,350
Regulatory fees		1,894	2,454
Salaries and wages		13,654	1,230
Share-based compensation	6(e)	-	104,232
Shareholder costs		1,000	12,702
Transfer agent		1,615	1,746
Travel		18,527	28,842
Vehicle rental		7,072	8,181
		<u>238,862</u>	<u>396,426</u>
Loss before other items		<u>(238,862)</u>	<u>(396,426)</u>
Other items			
Interest income		3,978	3,694
Foreign exchange (loss) gain		(2,455)	19,685
Interest expense	5	<u>(5,117)</u>	<u>(5,117)</u>
		<u>(3,594)</u>	<u>18,262</u>
Net loss and comprehensive loss for the period		<u>(242,456)</u>	<u>(378,164)</u>
Basic and diluted loss per common share		<u>\$(0.01)</u>	<u>\$(0.01)</u>
Weighted average number of common shares outstanding - basic and diluted		<u>44,832,086</u>	<u>29,260,532</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, 2018					
	<u>Share Capital</u>		Share-Based Payments Reserve \$	Deficit \$	Total (Deficiency) Equity \$
	Number of Shares	Amount \$			
Balance at May 31, 2018	40,263,702	6,290,147	3,632,469	(6,566,043)	3,356,573
Common shares issued for:					
- private placement	7,370,900	1,105,635	-	-	1,105,635
- share options exercised	30,000	3,000	-	-	3,000
Share issue costs	-	(21,447)	1,280	-	(20,167)
Transfer on exercise of share options	-	2,655	(2,655)	-	-
Net loss for the period	-	-	-	(242,456)	(242,456)
Balance at August 31, 2018	<u>47,664,602</u>	<u>7,379,990</u>	<u>3,631,094</u>	<u>(6,808,499)</u>	<u>4,202,585</u>

Three Months Ended August 31, 2017					
	<u>Share Capital</u>		Share-Based Payments Reserve \$	Deficit \$	Total (Deficiency) Equity \$
	Number of Shares	Amount \$			
Balance at May 31, 2017	27,458,989	47,142,801	3,471,043	(49,488,147)	1,125,697
Common shares issued for cash:					
- private placement	12,804,713	3,329,225	-	-	3,329,225
Share issue costs	-	(145,421)	49,641	-	(95,780)
Share-based compensation	-	-	104,232	-	104,232
Net loss for the period	-	-	-	(378,164)	(378,164)
Balance at August 31, 2017	<u>40,263,702</u>	<u>50,326,605</u>	<u>3,624,916</u>	<u>(49,866,311)</u>	<u>4,085,210</u>

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,	
	2018 \$	2017 \$
Operating activities		
Net loss for the period	(242,456)	(378,164)
Adjustments for:		
Accretion of property acquisition obligation	-	12,984
Foreign exchange on property acquisition obligation	-	(79,056)
Interest expense	5,117	5,117
Share-based compensation	-	104,232
Changes in non-cash working capital items:		
GST/VAT receivable	(9,932)	(30,110)
Prepaid expenses	(25,787)	(34,676)
Accounts payable and accrued liabilities	25,046	(15,619)
Net cash used in operating activities	<u>(248,012)</u>	<u>(415,292)</u>
Investing activity		
Exploration and evaluation asset expenditures	<u>(270,535)</u>	<u>(168,588)</u>
Net cash used in investing activity	<u>(270,535)</u>	<u>(168,588)</u>
Financing activities		
Issuance of common shares	1,108,635	3,329,225
Share issue costs	<u>(20,166)</u>	<u>(95,780)</u>
Net cash provided by financing activities	<u>1,088,469</u>	<u>3,233,445</u>
Net change in cash during the period	569,922	2,649,565
Cash at beginning of period	<u>477,866</u>	<u>1,172,836</u>
Cash at end of period	<u>1,047,788</u>	<u>3,822,401</u>

Supplemental cash flow information - Note 13

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, 2018
(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, 2018 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, 2018, the Company had working capital in the amount of \$856,200 and an accumulated deficit of \$6,808,499. 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. The Company will require additional financing 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. While the Company has been successful in securing financings in the past there can be no assurance that it will be able to do so in the future. If the Company is unable to obtain adequate additional financing the Company will be required to curtail operations and exploration and development activities. These factors cast significant doubt about the Company's ability to continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business. These condensed consolidated interim financial statements do not reflect any adjustments which could be material to the carrying values of assets and liabilities, which may required should the Company be unable to continue as a going concern.

These condensed consolidated interim financial statements do not reflect any adjustments related to conditions that occurred subsequent to August 31, 2018.

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, 2018, 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, 2018 other than the other than the adoption of IFRS 9 - *Financial Instruments* ("IFRS 9").

Financial Instruments

Effective June 1, 2018, the Company adopted IFRS 9 using the modified retrospective approach. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities. The standard did not have an impact on the carrying amounts of the Company's financial instruments at the transition date. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

2. Basis of Preparation (continued)

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

Basis of Measurement

The condensed consolidated interim financial statements of the Company have been prepared on an accrual basis except for cash flow information, and are based on historical costs except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at fair value.

These condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

Comparative figures

Certain of the prior period's comparative figures have been reclassified to conform with the current fiscal period's presentation.

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%

4. Exploration and Evaluation Assets

	<u>Ireland</u>
	<u>Clare Projects</u>
Balance at May 31, 2017	<u>1,574,036</u>
Exploration costs	
Airborne geophysics	6,773
Drilling	838,325
Environmental	30,099
Field supplies	3,235
Geochemistry	143,072
Geology	56,614
Ground geophysics	797,940
Metallurgical testing	20,623
Other	<u>67,442</u>
	<u>1,964,123</u>
Balance at May 31, 2018 (table continued on next page)	<u>3,538,159</u>

(table continued on next page)

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

4. Exploration and Evaluation Assets (continued)

(table continued from previous page)

	<u>Ireland</u>
	<u>Clare Project</u>
	<u>\$</u>
Balance at May 31, 2018	<u>3,538,159</u>
Exploration costs	
Drilling	15,740
Environmental	7,831
Geochemistry	27,689
Geology	19,894
Ground geophysics	15,020
Metallurgical testing	29,365
Other	19,896
	<u>135,435</u>
Balance at August 31, 2018	<u>3,673,594</u>

Hannan Ireland is the registered holder of a 100% interest in seven prospecting licences located in County Clare, Ireland (the "Licences"), which were transferred to Hannan Ireland effective September 21, 2016 pursuant to an Assignment Agreement (the "Assignment Agreement"). Under a separate asset purchase agreement dated June 3, 2016 (the "Asset Purchase Agreement") between Hannan Ireland and Lundin Mining Exploration Limited ("Lundin"), Hannan Ireland purchased all exploration data associated with the Licences from Lundin 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.

Hannan Ireland is also required to pay Lundin a one-time bonus payment of US \$5,000,000 within the earlier of: (i) Hannan Ireland's 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. Additionally, Hannan Ireland will be required to pay a one-time cash fee of US \$2,000,000 less cash payments already made to Lundin, if it transfers its rights to the Licences to an arm's length party for US \$10,000,000 or greater within 18 months of the execution of the Asset Purchase Agreement. Lundin retains a 2% net smelter return royalty (the "NSR") 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 Hannan Ireland for US \$5,000,000, which must be exercised within one year from the date of commercial production (the "Buy-Back Option").

The Company also holds a further 16 prospecting licences which have been granted.

5. Promissory Notes Payable

	August 31, 2018	May 31, 2018
	\$	\$
Promissory notes	290,000	290,000
Accrued interest	<u>37,209</u>	<u>32,093</u>
	<u>327,209</u>	<u>322,093</u>

The promissory notes have been issued by Hannan BC and bear interest at 7% per annum. The principal amounts and accrued interest are due December 31, 2019. During the three months ended August 31, 2018 the Company recorded \$5,117 (2017 - \$5,117) of interest expense. The promissory notes are held by shareholders of the Company including a family trust of the CEO of the Company.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

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) *Reduction of Deficit and Capital*

On November 14, 2017 the shareholders of the Company passed a special resolution to reduce the Company's capital by \$44,036,006 being an amount equal to the deficit of the Company at May 31, 2013. This deficit arose as a result of prior unsuccessful business activities carried out by the Company under the direction of its former management and board. The reduction of capital resulted in a corresponding elimination of \$44,036,006 of the deficit.

(c) *Equity Financings*

Three Months Ended August 31, 2018

During the three months ended August 31, 2018 the Company completed a non-brokered private placement of 7,370,900 units for gross proceeds of \$1,105,635. Each unit comprised one common share and one common share purchase warrant to purchase an additional share of the Company, with an exercise price of \$0.25 per share, for a period of three years from closing. Each warrant is subject to a forced conversion once the common shares trade above a weighted average trading price of \$0.45 per share for any 20 consecutive trading days commencing at any time after November 7, 2018. Directors and officers of the Company and a close family member, purchased a total of 1,333,333 units for \$200,000.

The Company paid a finder's fee of \$3,000 cash and issued 20,000 finder's warrants. The finder's warrants have the same terms as the warrants issued in the private placement. The fair value of the finder's warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 1.98%; expected volatility of 83.99%; an expected life of 3 years; a dividend yield of 0%; and an expected forfeiture rate of 0%. The value assigned to the finder's warrants was \$1,280.

The Company incurred \$17,167 for legal and filing costs associated with the private placement.

Fiscal 2018

During August 2017 the Company completed a non-brokered private placement financing of 12,804,713 units, at a price of \$0.26 per unit for proceeds of \$3,329,225. Each unit consisted of one common share of the Company and one half of one non-transferable warrant. Each whole warrant entitles the holder to purchase an additional common share, at an exercise price of \$0.40 per share, expiring two years from closing. Directors, officers and close family members purchased 886,000 units for \$230,360.

The Company paid a finder's fee of \$61,519 cash and issued 236,630 finder's warrants. The finder's warrants have the same terms as the private placement warrants. The fair value of the finder's warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 0.69%; expected volatility of 140.27%; an expected life of 2 years; a dividend yield of 0%; and an expected forfeiture rate of 0%. The value assigned to the finder's warrants was \$49,641. The weighted average fair value of the finder's warrants issued was \$0.21 per warrant.

The Company incurred \$34,713 for legal and filing costs associated with the private placement.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

6. Share Capital (continued)

(d) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at August 31, 2018 and 2017 and the changes for the three months ended on those dates, is as follows:

	2018		2017	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	7,885,185	0.37	4,284,200	0.34
Issued	7,390,900	0.25	6,638,985	0.40
Expired	<u>(389,750)</u>	0.40	<u>-</u>	-
Balance, end of period	<u>14,886,335</u>	0.31	<u>10,923,185</u>	0.38

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at August 31, 2018:

Number	Exercise Price \$	Expiry Date
118,950	0.20	November 12, 2018
5,442,505	0.40	August 18, 2019
1,196,480	0.40	August 24, 2019
737,500	0.10	March 5, 2020
<u>7,390,900</u>	0.25	July 6, 2021
<u>14,886,335</u>		

(e) *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, 2018 the Company did not grant any share options.

During the three months ended August 31, 2017 the Company granted share options to purchase 425,000 common shares and recorded compensation expense of \$104,232.

The fair value of share options granted is estimated using the Black-Scholes option pricing model using the following assumptions:

	2017
Risk-free interest rate	0.79%
Estimated volatility	116.70% - 118.53%
Expected life	3 years
Expected dividend yield	0%
Estimated forfeiture rate	0%

The weighted average grant date fair value of all share options granted during the three months ended August 31, 2017 was \$0.24 per share option.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

6. Share Capital (continued)

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, 2018 and 2017 and the changes for the three months ended on those dates, is as follows:

	2018		2017	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	1,766,000	0.18	1,291,000	0.14
Granted	-	-	425,000	0.29
Exercised	<u>(30,000)</u>	0.10	<u>-</u>	-
Balance, end of period	<u>1,736,000</u>	0.18	<u>1,716,000</u>	0.18

The following table summarizes information about the share options outstanding and exercisable at August 31, 2018:

Number	Exercise Price \$	Expiry Date
30,000	0.10	December 3, 2018
75,000	0.40	February 13, 2020
65,000	0.45	May 12, 2020
75,000	0.40	July 4, 2020
100,000	0.30	July 21, 2020
250,000	0.26	August 28, 2020
50,000	0.28	November 8, 2020
921,000	0.10	November 14, 2021
120,000	0.10	November 15, 2021
<u>50,000</u>	0.26	February 1, 2022
<u>1,736,000</u>		

See also Note 11.

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, the Vice-President of Exploration and the Chief Financial Officer of the Company. During the three months ended August 31, 2018 and 2017 the following amounts were incurred with respect to these positions:

	2018 \$	2017 \$
Management compensation paid	<u>62,131</u>	<u>66,493</u>

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

7. Related Party Transactions (continued)

During the three months ended August 31, 2018 the Company allocated the \$62,131 (2017 - \$66,493) management fees based on the nature of the services provided: expensed \$41,604 (2017 - \$57,072) to management and director compensation; and capitalized \$20,527 (2017 - \$9,421) to exploration and evaluation assets. As at August 31, 2018, \$139,939 (May 31, 2018 - \$132,845) 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, 2018 and 2017 the following amounts were incurred with respect to the positions of non-management directors and the Corporate Secretary of the Company:

	2018 \$	2017 \$
Director and officer compensation	<u>13,470</u>	<u>14,070</u>

As at August 31, 2018, \$65,850 (May 31, 2018 - \$73,600) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During the three months ended August 31, 2018 the Company incurred a total of \$4,000 (2017 - \$5,800) for accounting and administration services provided by Chase Management Ltd., a private corporation owned by the President of the Company. As at August 31, 2018, \$3,200 (May 31, 2018 - \$5,700) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) See also Notes 5 and 6(c).

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”); held-to-maturity investments; loans and receivables; available-for-sale; and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	August 31, 2018 \$	May 31, 2018 \$
Cash	FVTPL	1,047,788	477,866
Accounts payable and accrued liabilities	Other financial liabilities	(275,617)	(385,669)
Promissory notes payable	Other financial liabilities	(327,209)	(322,093)

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.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

8. Financial Instruments and Risk Management (continued)

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 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, 2018				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	1,047,788	-	-	-	1,047,788
Accounts payable and accrued liabilities	(275,617)	-	-	-	(275,617)
Promissory notes payable	-	-	(327,209)	-	(327,209)

	Contractual Maturity Analysis at May 31, 2018				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	477,866	-	-	-	477,866
Accounts payable and accrued liabilities	(385,669)	-	-	-	(385,669)
Promissory notes payable	-	-	(322,093)	-	(322,093)

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.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

8. Financial Instruments and Risk Management (continued)

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian Dollars, US Dollars and Euros. The Company maintains Euros bank accounts in Ireland and a US Dollar bank account with its Canadian bank to support the cash needs of its foreign operations. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At August 31, 2018, 1 Canadian Dollar was equal to 0.66 Euro and 0.77 US Dollar.

Balances are as follows:

	Euros	US Dollars	CDN \$ Equivalent
Cash	12,166	683	19,411
VAT receivable	7,505	-	11,425
Accounts payable and accrued liabilities	<u>(20,041)</u>	<u>-</u>	<u>(30,890)</u>
	<u>(370)</u>	<u>683</u>	<u>(54)</u>

Based on the net exposures as of August 31, 2018 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Euro and US Dollar would be insignificant to the Company.

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 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:

	<u>As at August 31, 2018</u>		
	<u>Canada</u> \$	<u>Ireland</u> \$	<u>Total</u> \$
Current assets	1,073,626	58,191	1,131,817
Exploration and evaluation assets	<u>-</u>	<u>3,673,594</u>	<u>3,673,594</u>
	<u>1,073,626</u>	<u>3,731,785</u>	<u>4,805,411</u>

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2018
(Unaudited - Expressed in Canadian Dollars)

9. Segmented Information (continued)

	As a May 31, 2018		
	Canada \$	Ireland \$	Total \$
Current assets	395,859	130,317	526,176
Exploration and evaluation assets	-	3,538,159	3,538,159
	<u>395,859</u>	<u>3,668,476</u>	<u>4,064,335</u>

10. Supplemental Cash Flow Information

During the three months ended August 31, 2018 and 2017 non-cash activities were conducted by the Company as follows:

	2018 \$	2017 \$
Investing activity		
Exploration and evaluation assets included in accounts payable	<u>(10,989)</u>	<u>(64,180)</u>
Financing activities		
Share-based payments reserve	(1,375)	-
Share issue costs	(1,280)	(49,641)
Transfer on exercise of options	<u>2,655</u>	<u>-</u>
	<u>-</u>	<u>(49,641)</u>

11. Event after the Reporting Period

Subsequent to August 31, 2018 the Company granted, to a consultant, options to purchase up to 500,000 common shares of the Company at an exercise price of \$0.13 per share, expiring September 4, 2023. The options granted are subject to certain vesting conditions.