
HANNAN METALS LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2021

(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	February 28, 2021 \$	May 31, 2020 \$
ASSETS			
Current assets			
Cash		1,542,734	1,690,911
Amounts receivable		16,148	-
GST/VAT receivable		12,809	9,172
Prepaid expenses		<u>325,472</u>	<u>85,877</u>
Total current assets		<u>1,897,163</u>	<u>1,785,960</u>
Non-current assets			
Exploration and evaluation assets	4	<u>5,201,583</u>	<u>4,664,427</u>
TOTAL ASSETS		<u>7,098,746</u>	<u>6,450,387</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	247,406	234,626
Due to related party	7(c)	-	20,000
Promissory notes payable	5	<u>-</u>	<u>214,850</u>
TOTAL LIABILITIES		<u>247,406</u>	<u>469,476</u>
SHAREHOLDERS' EQUITY			
Share capital	6	12,384,848	10,454,991
Share-based payments reserve		4,342,076	4,276,541
Deficit		<u>(9,875,584)</u>	<u>(8,750,621)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>6,851,340</u>	<u>5,980,911</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>7,098,746</u>	<u>6,450,387</u>

Nature of Operations and Continuing Operations - Note 1

Event after the Reporting Period - Note 11

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on April 28, 2021 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 COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian Dollars)

	Note	Three Months Ended		Nine Months Ended	
		February 28, 2021 \$	February 29, 2020 \$	February 28, 2021 \$	February 29, 2020 \$
Expenses					
Accounting and administration	7(b)	11,783	6,918	43,647	41,154
Audit		-	-	20,000	20,000
Community work		-	41,444	-	41,444
Corporate development		118,482	40,359	453,512	51,715
Director and officers compensation	7	45,391	43,350	157,749	103,073
Drill core storage		3,092	2,933	9,316	7,805
General exploration		-	-	50,000	-
Insurance		3,437	3,040	7,870	10,674
Legal		17,052	1,383	33,467	9,077
Office		6,037	13,978	20,055	32,272
Professional fees		9,245	51,044	32,680	51,044
Regulatory fees		3,249	3,193	12,307	9,162
Salaries and wages		-	-	-	33,108
Share-based compensation	6(e)	53,292	567,200	205,473	567,200
Shareholder costs		3,965	7,695	17,398	17,826
Transfer agent fees		4,641	2,151	9,843	7,299
Travel		-	15,472	842	35,705
Vehicle rental		-	-	-	829
		<u>279,666</u>	<u>800,160</u>	<u>1,074,159</u>	<u>1,039,387</u>
Loss before other items		<u>(279,666)</u>	<u>(800,160)</u>	<u>(1,074,159)</u>	<u>(1,039,387)</u>
Other items					
Interest income		1,805	2,678	8,815	4,443
Foreign exchange		(57,503)	3,249	(57,811)	(1,938)
Interest expense	5	-	(4,722)	(1,808)	(14,899)
		<u>(55,698)</u>	<u>1,205</u>	<u>(50,804)</u>	<u>(12,394)</u>
Net loss and comprehensive loss for the period		<u>(335,364)</u>	<u>(798,955)</u>	<u>(1,124,963)</u>	<u>(1,051,781)</u>
Basic and diluted loss per common share		<u>\$(0.00)</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>	<u>\$(0.02)</u>
Weighted average number of common shares outstanding		<u>81,283,030</u>	<u>60,062,242</u>	<u>79,955,516</u>	<u>55,200,909</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)

Nine Months Ended February 28, 2021					
	Share Capital		Share-Based Payments Reserve \$	Deficit \$	Total Equity \$
	Number of Shares	Amount \$			
Balance at May 31, 2020	74,664,211	10,454,991	4,276,541	(8,750,621)	5,980,911
Common shares issued for cash:					
- private placement	4,000,000	1,000,000	-	-	1,000,000
- share options	785,000	154,000	-	-	154,000
- warrants	2,839,067	656,265	-	-	656,265
Share issue costs	-	(20,346)	-	-	(20,346)
Transfer on exercise of share options	-	138,658	(138,658)	-	-
Transfer on exercise of finder's warrants	-	1,280	(1,280)	-	-
Share-based compensation	-	-	205,473	-	205,473
Net loss for the period	-	-	-	(1,124,963)	(1,124,963)
Balance at February 28, 2021	82,288,278	12,384,848	4,342,076	(9,875,584)	6,851,340

Nine Months Ended February 29, 2020					
	Share Capital		Share-Based Payments Reserve \$	Deficit \$	Total Equity \$
	Number of Shares	Amount \$			
Balance at May 31, 2019	52,664,602	7,869,329	3,709,194	(7,586,487)	3,992,036
Common shares issued for:					
- private placements	20,937,109	2,661,489	-	-	2,661,489
- warrants	1,062,500	122,500	-	-	122,500
Share issue costs	-	(198,327)	-	-	(198,327)
Share-based compensation	-	-	567,200	-	567,200
Net loss for the period	-	-	-	(1,051,781)	(1,051,781)
Balance at February 29, 2020	74,664,211	10,454,991	4,276,394	(8,638,268)	6,093,117

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)

	Nine Months Ended	
	February 28, 2021 \$	February 29, 2020 \$
Operating activities		
Net loss for the period	(1,124,963)	(1,051,781)
Adjustments for:		
Interest expense	1,808	14,899
Share-based compensation	205,473	567,200
Changes in non-cash working capital items:		
Amounts receivable	(16,148)	-
GST/VAT receivable	(3,637)	1,268
Prepaid expenses	(239,595)	(77,080)
Accounts payable and accrued liabilities	12,780	(35,614)
Due to related party, net of \$30,000 repayment	-	20,000
Net cash used in operating activities	<u>(1,164,282)</u>	<u>(561,108)</u>
Investing activity		
Exploration and evaluation asset expenditures	<u>(537,156)</u>	<u>(285,219)</u>
Net cash used in investing activity	<u>(537,156)</u>	<u>(285,219)</u>
Financing activities		
Issuance of common shares	1,810,265	2,783,989
Share issue costs	(20,346)	(198,327)
Repayment of promissory notes	(216,658)	(145,000)
Repayment of advances from related party	<u>(20,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>1,553,261</u>	<u>2,440,662</u>
Net change in cash during the period	(148,177)	1,594,335
Cash at beginning of period	<u>1,690,911</u>	<u>371,663</u>
Cash at end of period	<u>1,542,734</u>	<u>1,965,998</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 NINE MONTHS ENDED FEBRUARY 28, 2021
(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 February 28, 2021 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 February 28, 2021, the Company had working capital of \$1,649,757. 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 February 28, 2021 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.

These condensed consolidated interim financial statements do not reflect any adjustments related to conditions that occurred subsequent to February 28, 2021.

In March 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. 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.

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
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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")	Canada	100%
Hannan Metals Ireland Limited ("Hannan Ireland")	Ireland	100%
Hannan Metals Peru Ltd.	Canada	100%
Hannan Metals Peru S.A.C. ("Hannan Peru")	Peru	100%
Hannan Resources Peru S.A.C.	Peru	100%
Hannan Servicios Peru S.A.C.	Peru	100%

4. Exploration and Evaluation Assets

	<u>February 28, 2021</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> \$
Peru						
- San Martin JV Project	-	605,588	605,588	347,896	394,979	742,875
- San Martin 100% Project	147,282	12,316	159,598	-	-	-
- Previsto Project	351,936	28,926	380,862	-	-	-
Ireland - Claire Project	1,452,949	2,468,603	3,921,552	1,452,949	2,468,603	3,921,552
Other	8,545	125,438	133,983	-	-	-
	<u>1,960,712</u>	<u>3,240,871</u>	<u>5,201,583</u>	<u>1,800,845</u>	<u>2,863,582</u>	<u>4,664,427</u>

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4. Exploration and Evaluation Assets (continued)

	Peru			Ireland	Other	Total \$
	San Martin JV Project \$	San Martin 100% Project \$	Previsto \$	Clare Project \$	\$	
Balance at May 31, 2019	301,478	-	-	3,906,364	-	4,207,842
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>314,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>314,460</u>
Acquisition costs						
License applications and fees	126,937	-	-	15,188	-	142,125
Balance at May 31, 2020	<u>742,875</u>	<u>-</u>	<u>-</u>	<u>3,921,552</u>	<u>-</u>	<u>4,664,427</u>
Exploration costs						
Community	7,600	-	-	-	-	7,600
Consulting	175,806	-	13,122	-	-	188,928
Exploration site	2,931	-	146	-	-	3,077
Field equipment	-	-	-	-	125,438	125,438
Geological	130,761	12,316	10,985	-	-	154,062
Insurance	7,426	-	-	-	-	7,426
Legal	14,046	-	-	-	-	14,046
Logistics	45,235	-	4,335	-	-	49,570
Sampling	683	-	-	-	-	683
Traveling	-	-	-	-	-	-
VAT incurred	15,700	-	338	-	-	16,038
	<u>400,188</u>	<u>12,316</u>	<u>28,926</u>	<u>-</u>	<u>125,438</u>	<u>566,868</u>
Acquisition costs						
License applications and fees	319,045	147,282	351,936	-	8,545	826,808
Other						
Cost recoveries	(797,067)	-	-	-	-	(797,067)
Management fees	(59,453)	-	-	-	-	(59,453)
	<u>(856,520)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(856,520)</u>
Balance at February 28, 2021	<u>605,588</u>	<u>159,598</u>	<u>380,862</u>	<u>3,921,552</u>	<u>133,983</u>	<u>5,201,583</u>

(a) **Peru**

San Martin

(i) *San Martin JV Project*

On November 27, 2020 the Company entered into a binding letter agreement for an option and joint venture agreement (the "Agreement") with Japan Oil, Gas and Metals National Corporation ("JOGMEC"). Under the Agreement, JOGMEC has the option to earn up to a 75% interest in 87 mining concessions in San Martin Province of the Department of San Martin, northern Peru (the "San Martin JV Project").

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4. Exploration and Evaluation Assets (continued)

The Agreement grants JOGMEC the option to earn an initial 51% interest by funding US \$8,000,000 in project expenditures on the San Martin JV Project over a four year period, subject to acceleration at JOGMEC's discretion.

JOGMEC, at its election, can then earn:

- an additional 16% interest for a total 67% interest by achieving either a prefeasibility study or funding a further US \$12,000,000 in project expenditures in amounts of at least US \$1,000,000 per annum (for a US \$20,000,000 total expenditure); and,
- subject to owning a 67% interest, a further 8% interest for a total 75% interest by achieving either a feasibility study or funding a further US \$15,000,000 in project expenditures in amounts of at least US \$1,000,000 per annum (for a US \$35,000,000 total expenditure).

Should JOGMEC not proceed to a prefeasibility study or spend US \$20,000,000 in total, the Company shall have the right to purchase from JOGMEC for US \$1, a 2% interest, whereby the Company's interest will be increased to 51% and JOGMEC's interest will be reduced to 49%.

At the completion of a feasibility study, JOGMEC has the right to either:

- purchase up to an additional 10% interest from the Company (for a total 85% interest) at fair value as determined in accordance with internationally recognized professional standards by an agreed upon independent third-party valuator; or
- receive up to an additional 10% interest from the Company (for a total 85% interest) in consideration of JOGMEC's agreement to fund development of the San Martin JV Project, by loan carrying the Company until the San Martin JV Project generates positive cash flow.

After US \$35,000,000 has been spent by JOGMEC and before a feasibility study has been achieved, both parties will fund expenditures pro rata or dilute via a standard industry dilution formula:

- if the interest in any party is diluted to less than 5% then that party's interest will be automatically converted to a 2% net smelter royalty ("NSR"), and the other party may at any time purchase 1% of the 2% NSR for a cash payment of US \$1,000,000; and
- the Company will manage exploration at least until JOGMEC earns a 51% interest, after which the majority interest holder will be entitled to act as the operator of the San Martin JV Project.

(ii) *San Martin 100% Project*

As at February 28, 2021 the Company had 28 mining concessions under application outside of the San Martin JV Project.

Previsto Project

As at February 28, 2021 the Company had under application 109 mining concessions located in central eastern Peru.

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(b) **Ireland**

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.

5. Promissory Notes Payable

	February 28, 2021 \$	May 31, 2020 \$
Promissory notes	-	145,000
Accrued interest	-	69,850
	<u>-</u>	<u>214,850</u>

The promissory notes were issued by Hannan BC to shareholders of the Company, including a family trust of the CEO of the Company, and bore interest at 7% per annum. During the nine months ended February 28, 2021 the Company repaid the promissory notes and \$71,658 of accrued interest payable.

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*

Nine Months ended February 28, 2021

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.

The Company incurred a total of \$20,346 for legal and filing costs associated with this private placement.

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6. Share Capital (continued)

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.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at February 28, 2021 and February 29, 2020 and the changes for the nine months ended on those dates, is as follows:

	<u>2021</u>		<u>2020</u>	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	24,249,162	0.28	17,267,385	0.29
Issued	2,000,000	0.35	14,683,262	0.30
Exercised	(2,839,067)	0.23	(1,062,500)	0.12
Expired	<u>-</u>	-	<u>(6,638,985)</u>	0.40
Balance, end of period	<u>23,410,095</u>	0.28	<u>24,249,162</u>	0.27

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at February 28, 2021:

Number	Exercise Price \$	Expiry Date
1,062,500	0.15	April 24, 2021
6,819,300	0.25	July 6, 2021
13,528,295	0.30	February 18, 2022
<u>2,000,000</u>	0.35	July 31, 2022
<u>23,410,095</u>		

See also Note 11.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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6. Share Capital (continued)

(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 nine months ended February 28, 2021 the Company granted share options to purchase 700,000 (February 29, 2020 - 3,545,000) common shares and recorded compensation expense of \$131,000 (February 29, 2020 - \$567,200). The Company also recorded additional compensation expense of \$74,473 (February 29, 2020 - \$nil) on the vesting of share options previously granted.

The fair value of share options granted and vested during the nine months ended February 28, 2021 and February 29, 2020 was estimated using the Black-Scholes Option Pricing Model using the following assumptions:

	<u>2021</u>	<u>2020</u>
Risk-free interest rate	0.22% - 0.36%	1.47%
Estimated volatility	103% - 112%	100%
Expected life	2.25 years - 3 years	3 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted and vested during the nine months ended February 28, 2021 was \$0.26 (February 29, 2020 - \$0.16) 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 February 28, 2021 and February 29, 2020 and the changes for the nine months ended on those dates, is as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price \$</u>	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price \$</u>
Balance, beginning of period	5,711,000	0.22	2,743,000	0.17
Granted	700,000	0.43	3,545,000	0.25
Exercised	(785,000)	0.20	-	-
Expired	(125,000)	0.35	(285,000)	0.22
Forfeited	-	-	(327,000)	0.15
Balance, end of period	<u>5,501,000</u>	0.24	<u>5,676,000</u>	0.22

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6. Share Capital (continued)

The following table summarizes information about the share options outstanding and exercisable at February 28, 2021:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
786,000	786,000	0.10	November 14, 2021
120,000	120,000	0.10	November 15, 2021
3,545,000	3,545,000	0.25	January 23, 2023
100,000	75,000	0.28	May 28, 2023
250,000	125,000	0.44	July 21, 2023
250,000	250,000	0.455	August 11, 2023
250,000	-	0.13	September 4, 2023
100,000	100,000	0.365	October 8, 2023
<u>100,000</u>	<u>100,000</u>	0.435	December 1, 2023
<u>5,501,000</u>	<u>5,101,000</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 and the Chief Financial Officer of the Company. During the nine months ended February 28, 2021 and February 29, 2020 the following amounts were incurred with respect to these positions:

	2021 \$	2020 \$
Management compensation paid	181,646	136,602
Share-based compensation	<u>-</u>	<u>161,600</u>
	<u>181,646</u>	<u>298,202</u>

During the nine months ended February 28, 2021 the Company incurred a total of \$181,646 (February 29, 2020 - \$136,602) to key management personnel for their services which have been allocated based on the nature of the services provided: expensed \$106,389 (February 29, 2020 - \$67,593) to directors and officers compensation; and capitalized \$75,257 (February 29, 2020 - \$69,009) to exploration and evaluation assets. As at February 28, 2021, \$54,531 (May 31, 2020 - \$41,171) remained unpaid and has been included in accounts payable and accrued liabilities.

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7. Related Party Transactions (continued)

(b) *Transactions with Other Related Parties*

- (i) During the nine months ended February 28, 2021 and February 29, 2020 the following amounts were incurred with respect to the positions of non-management directors and the Corporate Secretary of the Company:

	2021 \$	2020 \$
Director and officer compensation	51,360	35,480
Share-based compensation	-	200,000
	<u>51,360</u>	<u>235,480</u>

As at February 28, 2021 \$148,370 (May 31, 2020 - \$150,350) remained unpaid and has been included in accounts payable and accrued liabilities.

- (ii) During the nine months ended February 28, 2021 the Company incurred a total of \$29,750 (February 29, 2020 - \$24,250) for accounting and administration services provided by Chase Management Ltd., a private corporation owned by a director of the Company. As at February 28, 2021 \$1,000 (May 31, 2020 - \$4,500) remained unpaid and has been included in accounts payable and accrued liabilities.
- (c) In fiscal 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	February 28, 2021 \$	May 31, 2020 \$
Cash	FVTPL	1,542,734	1,690,911
Amounts receivable	Amortized cost	16,148	-
Accounts payable and accrued liabilities	Amortized cost	(247,406)	(234,626)
Due to related party	Amortized cost	-	(20,000)
Promissory notes payable	Amortized cost	-	(214,850)

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.

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8. Financial Instruments and Risk Management (continued)

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 amounts receivable, 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 February 28, 2021				Total \$
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	
Cash	1,542,734	-	-	-	1,542,734
Amounts receivable	16,148	-	-	-	16,148
Accounts payable and accrued liabilities	(247,406)	-	-	-	(247,406)

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.

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar. The Company maintains foreign currency bank accounts 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 February 28, 2021, 1 Canadian Dollar was equal to 2.88 Peruvian Nuevo Soles, 0.66 Euro, and 0.79 US Dollar.

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8. Financial Instruments and Risk Management (continued)

Balances are as follows

	Neuvo Soles	Euros	US Dollars	CDN \$ Equivalent
Cash	1,471,397	5,086	89,122	631,420
Amounts receivable	-	-	12,730	16,148
VAT receivable	-	7,144	-	10,824
Accounts payable and accrued liabilities	(27,811)	(2,005)	(17,560)	(34,922)
	<u>1,443,586</u>	<u>10,225</u>	<u>84,292</u>	<u>623,470</u>

Based on the net exposures as of February 28, 2021 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Peruvian Nuevo Soles, Euro and US Dollar would result in the Company's comprehensive loss being approximately \$63,000 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 February 28, 2021			
	Canada \$	Ireland \$	Peru \$	Total \$
Current assets	1,360,393	18,666	518,104	1,897,163
Exploration and evaluation assets	-	3,921,552	1,280,031	5,201,583
	<u>1,360,393</u>	<u>3,940,218</u>	<u>1,798,135</u>	<u>7,098,746</u>
	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
	<u>1,734,649</u>	<u>3,943,592</u>	<u>772,146</u>	<u>6,450,387</u>

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10. Supplemental Cash Flow Information

During the nine months ended February 28, 2021 and February 29, 2020 non-cash activities were conducted by the Company as follows:

	2021 \$	2020 \$
Operating activity		
Accounts payable and accrued liabilities	-	21,054
Investing activity		
Exploration and evaluation assets	-	(21,054)
Financing activities		
Share-based payments reserve	(139,938)	-
Transfer on exercise of share options and finder's warrants	139,938	-
	<u>-</u>	<u>-</u>

11. Event after the Reporting Period

Subsequent to February 28, 2021 the Company issued 2,038,166 common shares for \$442,075 on the exercise of warrants and 145,000 common shares for \$14,500 on the exercise of share options.