

---

---

**HANNAN METALS LTD.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 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	August 31, 2021 \$	May 31, 2021 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		3,240,889	1,799,811
GST/VAT receivable		5,777	16,234
Prepaid expenses		54,964	72,280
<b>Total current assets</b>		<u>3,301,630</u>	<u>1,888,325</u>
<b>Non-current assets</b>			
Equipment	4	119,213	120,412
Exploration and evaluation assets	5, 7(a)	5,253,745	5,240,168
<b>Total non-current assets</b>		<u>5,372,958</u>	<u>5,360,580</u>
<b>TOTAL ASSETS</b>		<u>8,674,588</u>	<u>7,248,905</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	342,800	237,979
<b>TOTAL LIABILITIES</b>		<u>342,800</u>	<u>237,979</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6	14,549,806	13,017,064
Share-based payments reserve		4,392,917	4,338,292
Deficit		(10,610,935)	(10,344,430)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>8,331,788</u>	<u>7,010,926</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>8,674,588</u>	<u>7,248,905</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 October 26, 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 LOSS AND COMPREHENSIVE LOSS**  
*(Unaudited - Expressed in Canadian Dollars)*

	Note	Three Months Ended August 31,	
		2021 \$	2020 \$
<b>Expenses</b>			
Accounting and administration	7(b)	12,226	7,153
Audit		2,284	-
Corporate development		8,465	36,221
Depreciation		8,298	-
Drill core storage		2,965	3,114
Insurance		3,122	3,495
Investor relations		35,299	41,404
Legal		1,623	8,548
Management compensation	7	116,260	64,451
Marketing		12,835	-
Office		3,561	9,334
Professional fees		40,240	112,469
Regulatory fees		2,125	2,250
Share-based compensation	6(d)	54,625	102,508
Shareholder costs		3,570	9,635
Transfer agent		2,358	2,684
Travel		-	842
		<u>309,856</u>	<u>404,108</u>
<b>Loss before other items</b>		<u>(309,856)</u>	<u>(404,108)</u>
<b>Other items</b>			
Interest income		3,894	3,735
Foreign exchange		39,457	(3,160)
Interest expense		-	(1,808)
		<u>43,351</u>	<u>(1,233)</u>
<b>Loss and comprehensive loss for the period</b>		<u>(266,505)</u>	<u>(405,341)</u>
<b>Basic and diluted loss per common share</b>		<u>\$(0.00)</u>	<u>\$(0.01)</u>
<b>Weighted average number of common shares outstanding</b>		<u>89,155,418</u>	<u>77,641,156</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 SHAREHOLDERS' EQUITY***(Unaudited - Expressed in Canadian Dollars)*

<b>Three Months Ended August 31, 2021</b>					
	<b>Share Capital</b>		<b>Share-Based Payments Reserve \$</b>	<b>Deficit \$</b>	<b>Total Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance at May 31, 2021</b>	85,075,644	13,017,064	4,338,292	(10,344,430)	7,010,926
Common shares issued for:					
- warrants exercised	6,130,967	1,532,742	-	-	1,532,742
Share-based compensation	-	-	54,625	-	54,625
Loss for the period	-	-	-	(266,505)	(266,505)
<b>Balance at August 31, 2021</b>	<b>91,206,611</b>	<b>14,549,806</b>	<b>4,392,917</b>	<b>(10,610,935)</b>	<b>8,331,788</b>

<b>Three Months Ended August 31, 2020</b>					
	<b>Share Capital</b>		<b>Share-Based Payments Reserve \$</b>	<b>Deficit \$</b>	<b>Total Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance at May 31, 2020</b>	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
Loss for the period	-	-	-	(405,341)	(405,341)
<b>Balance at August 31, 2020</b>	<b>80,677,985</b>	<b>12,023,177</b>	<b>4,261,069</b>	<b>(9,155,962)</b>	<b>7,128,284</b>

*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,	
	2021	2020
	\$	\$
<b>Operating activities</b>		
Loss for the period	(266,505)	(405,341)
Adjustments for:		
Depreciation	8,298	-
Interest expense	-	1,808
Share-based compensation	54,625	102,508
Changes in non-cash working capital items:		
GST/VAT receivable	10,457	(4,831)
Prepaid expenses	17,316	(133,662)
Accounts payable and accrued liabilities	104,821	(19,112)
<b>Net cash used in operating activities</b>	<u>(70,988)</u>	<u>(458,630)</u>
<b>Investing activities</b>		
Addition to equipment	(7,099)	-
Exploration and evaluation asset expenditures	(13,577)	(214,604)
<b>Net cash used in investing activities</b>	<u>(20,676)</u>	<u>(214,604)</u>
<b>Financing activities</b>		
Issuance of common shares	1,532,742	1,470,552
Share issue costs	-	(20,346)
Repayment of promissory notes	-	(216,658)
<b>Net cash provided by financing activities</b>	<u>1,532,742</u>	<u>1,233,548</u>
<b>Net change in cash during the period</b>	1,441,078	560,314
<b>Cash at beginning of period</b>	<u>1,799,811</u>	<u>1,690,911</u>
<b>Cash at end of period</b>	<u>3,240,889</u>	<u>2,251,225</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, 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 August 31, 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 August 31, 2021, the Company had working capital of \$2,958,830. 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, 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 August 31, 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, 2021, 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, 2021.

***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.

***Comparative Figures***

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

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

**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.	Canada	100%
Hannan Metals Peru Ltd.	Canada	100%
Hannan Metals Ireland Limited	Ireland	100%
Hannan Metals Peru S.A.C.	Peru	100%
Hannan Resources Peru S.A.C.	Peru	100%
Hannan Servicios Peru S.A.C.	Peru	100%

**4. Equipment**

	<b>Field Equipment \$</b>	<b>Office Equipment \$</b>	<b>Total \$</b>
<b>Cost:</b>			
Balance at May 31, 2020	-	-	-
Additions	125,438	10,966	136,404
Balance at May 31, 2021	125,438	10,966	136,404
Additions	7,099	-	7,099
Balance at August 31, 2021	132,537	10,966	143,503
<b>Accumulated Depreciation:</b>			
Balance at May 31, 2020	-	-	-
Depreciation	(15,680)	(312)	(15,992)
Balance at May 31, 2021	(15,680)	(312)	(15,992)
Depreciation	(7,840)	(458)	(8,298)
Balance at August 31, 2021	(23,520)	(770)	(24,290)
<b>Carrying Value:</b>			
Balance at May 31, 2021	109,758	10,654	120,412
Balance at August 31, 2021	109,017	10,196	119,213

**5. Exploration and Evaluation Assets**

	<u>August 31, 2021</u>			<u>May 31, 2021</u>		
	<b>Acquisition Costs \$</b>	<b>Deferred Exploration Costs \$</b>	<b>Total \$</b>	<b>Acquisition Costs \$</b>	<b>Deferred Exploration Costs \$</b>	<b>Total \$</b>
Peru						
- San Martin JV Project	-	504,864	504,864	-	601,602	601,602
- San Martin 100% Project	191,264	10,684	201,948	191,264	10,684	201,948
- Previsto Project	474,796	147,269	622,065	417,947	93,803	511,750
Ireland - Claire Project	1,452,949	2,468,603	3,921,552	1,452,949	2,468,603	3,921,552
Other	3,316	-	3,316	3,316	-	3,316
	<u>2,122,325</u>	<u>3,131,420</u>	<u>5,253,745</u>	<u>2,065,476</u>	<u>3,174,692</u>	<u>5,240,168</u>



**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

**5. Exploration and Evaluation Assets (continued)**

	Peru			Ireland	Other	Total \$
	San Martin JV Project \$	San Martin 100% Project \$	Previsto \$	Clare Project \$	\$	
<b>Balance at May 31, 2020</b>	742,875	-	-	3,921,552	-	4,664,427
<b>Exploration costs</b>						
Community	9,941	-	-	-	-	9,941
Consulting	618,202	-	38,066	-	-	656,268
Exploration site	14,940	-	-	-	-	14,940
Geological	62,060	10,684	31,310	-	-	104,054
Insurance	2,264	-	142	-	-	2,406
Legal	13,644	-	-	-	-	13,644
Logistics	94,434	-	19,953	-	-	114,387
VAT incurred	59,130	-	4,332	-	-	63,462
	874,615	10,684	93,803	-	-	979,102
<b>Acquisition costs</b>						
License applications and fees	305,347	191,264	417,947	-	3,316	917,874
<b>Other</b>						
Cost recoveries	(1,251,886)	-	-	-	-	(1,251,886)
Management fees	(69,349)	-	-	-	-	(69,349)
	(1,321,235)	-	-	-	-	(1,321,235)
<b>Balance at May 31, 2021</b>	601,602	201,948	511,750	3,921,552	3,316	5,240,168
<b>Exploration costs</b>						
Community	2,938	-	-	-	-	2,938
Consulting	135,959	-	28,546	-	-	164,505
Exploration site	-	-	952	-	-	952
Insurance	1,541	-	-	-	-	1,541
Legal	558	-	-	-	-	558
Logistics	43,048	-	18,684	-	-	61,732
Salaries	102,771	-	-	-	-	102,771
VAT incurred	20,330	-	5,284	-	-	25,614
	307,145	-	53,466	-	-	360,611
<b>Acquisition costs</b>						
License applications and fees	164,130	-	56,849	-	-	220,979
<b>Other</b>						
Cost recoveries	(556,035)	-	-	-	-	(556,035)
Management fees	(11,978)	-	-	-	-	(11,978)
	(568,013)	-	-	-	-	(568,013)
<b>Balance at August 31, 2021</b>	504,864	201,948	622,065	3,921,552	3,316	5,253,745

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**5. Exploration and Evaluation Assets (continued)**

(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 mining concessions in San Martin Province of the Department of San Martin, northern Peru (the "San Martin JV Project").

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.

As at August 31, 2021 the Company had 103 mining concessions granted or under application for the San Martin JV Project.

(ii) *San Martin 100% Project*

As at August 31, 2021 the Company had 27 mining concessions granted or under application outside of the San Martin JV Project.

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**5. Exploration and Evaluation Assets (continued)**

*Previsto Project*

As at August 31, 2021 the Company had 116 mining concessions granted or under application located in central eastern Peru.

(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.

**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*

During the three months ended August 31, 2021 the Company did not complete any equity financings.

*Fiscal 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.

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(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, 2021 and 2020 and the changes for the three months ended on those dates, is as follows:

	2021		2020	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	20,767,729	0.29	24,249,162	0.28
Issued	-	-	2,000,000	0.35
Exercised	(6,130,967)	0.25	(1,353,774)	0.25
Expired	(119,333)	0.25	-	-
Balance, end of period	14,517,429	0.31	24,895,388	0.28

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at August 31, 2021:

Number	Exercise Price \$	Expiry Date
12,517,429	0.30	February 18, 2022
2,000,000	0.35	July 13, 2022
14,517,429		

(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, 2021 the Company granted share options to purchase 275,000 (2020 - 500,000) common shares and recorded compensation expense of \$55,000 (2020 - \$102,508) on the granting of share options. The Company also recorded additional compensation expense recovery of \$375 (2020 - \$nil) on the vesting of share options previously granted.

The fair value of share options granted during the three months ended August 31, 2021 and 2020 was estimated using the Black-Scholes Option Pricing Model using the following assumptions:

	2021	2020
Risk-free interest rate	0.43% - 0.54%	0.27% - 0.28%
Estimated volatility	98% - 105%	107% - 110%
Expected life	2 years - 3 years	3 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The estimated volatility was based on the historical share prices of the Company. The weighted average grant date fair value of all share options granted during the three months ended August 31, 2021 was \$0.20 (2020 - \$0.30) per share option.

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(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, 2021 and 2020 and the changes for the three months ended on those dates, is as follows:

	2021		2020	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	5,356,000	0.25	5,711,000	0.22
Granted	275,000	0.285	500,000	0.45
Exercised	-	-	(660,000)	0.20
Expired	-	-	(75,000)	0.40
Balance, end of period	<u>5,631,000</u>	0.25	<u>5,476,000</u>	0.24

The following table summarizes information about the share options outstanding and exercisable at August 31, 2021:

Number Outstanding	Exercise Price \$	Expiry Date
701,000	0.10	November 14, 2021
60,000	0.10	November 15, 2021
3,545,000	0.25	January 23, 2023
100,000	0.28	May 28, 2023
250,000	0.44	July 21, 2023
250,000	0.455	August 11, 2023
250,000	0.13	September 4, 2023
100,000	0.365	October 8, 2023
100,000	0.435	December 2, 2023
<u>275,000</u>	0.285	June 14, 2024
<u>5,631,000</u>		

**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, 2021 and 2020 the following amounts were incurred with respect to these positions:

	2021 \$	2020 \$
Management compensation paid	<u>124,200</u>	<u>51,477</u>

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**7. Related Party Transactions** (continued)

During the three months ended August 31, 2021 the Company incurred a total of \$124,200 (2020 - \$51,477) to key management personnel for their services which have been allocated based on the nature of the services provided: expensed \$87,320 (2020 - \$45,791) to director and officer compensation; and capitalized \$36,880 (2020 - \$5,686) to exploration and evaluation assets. As at August 31, 2021 \$107,613 (May 31, 2021 - \$51,132) 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, 2021 and 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	<u>28,940</u>	<u>18,660</u>

As at August 31, 2021 \$154,450 (May 31, 2021 - \$151,550) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During the three months ended August 31, 2021 the Company incurred a total of \$6,000 (2020 - \$3,650) for accounting and administration services provided by Chase Management Ltd., a private corporation owned by a director of the Company. As at August 31, 2021 \$3,000 (May 31, 2021 - \$6,500) remained unpaid and has been included in accounts payable and accrued liabilities.

**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, 2021 \$	May 31, 2021 \$
Cash	Amortized cost	3,240,889	1,799,811
Accounts payable and accrued liabilities	Amortized cost	(342,800)	(237,979)

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.

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

**8. Financial Instruments and Risk Management** (continued)

The recorded amounts for cash and accounts payable and accrued liabilities approximate their fair value.

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, 2021				Total \$
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	
Cash	3,240,889	-	-	-	3,240,889
Accounts payable and accrued liabilities	(342,800)	-	-	-	(342,800)

*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 had interest bearing debt at fixed rates and was therefore not subject to fluctuating interest rate risk on its promissory note payable.

(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 August 31, 2021, 1 Canadian Dollar was equal to 3.24 Peruvian Nuevo Soles, 0.67 Euro, and 0.79 US Dollar.

Balances are as follows

	Nuevo Soles	Euros	US Dollars	CDN \$ Equivalent
Cash	2,178,094	11,140	117,056	837,050
VAT receivable	-	1,064	-	1,588
Accounts payable and accrued liabilities	<u>(166,026)</u>	<u>(2,981)</u>	<u>(12,480)</u>	<u>(71,849)</u>
	<u>2,012,068</u>	<u>9,223</u>	<u>104,576</u>	<u>767,149</u>

**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

**8. Financial Instruments and Risk Management (continued)**

Based on the net exposures as of August 31, 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 loss and comprehensive loss being approximately \$69,500 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 and cash. 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, being the exploration and evaluation 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:

	<b>As at August 31, 2021</b>			
	<b>Canada</b>	<b>Ireland</b>	<b>Peru</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	2,575,022	18,219	708,389	3,301,630
Equipment	-	-	119,213	119,213
Exploration and evaluation assets	-	3,921,552	1,332,193	5,253,745
	<u>2,575,022</u>	<u>3,939,771</u>	<u>2,159,795</u>	<u>8,674,588</u>
	<b>As at May 31, 2021</b>			
	<b>Canada</b>	<b>Ireland</b>	<b>Peru</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	1,373,019	17,358	497,948	1,888,325
Equipment	-	-	120,412	120,412
Exploration and evaluation assets	-	3,921,552	1,318,616	5,240,168
	<u>1,373,019</u>	<u>3,938,910</u>	<u>1,936,976</u>	<u>7,248,905</u>



**HANNAN METALS LTD.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2021**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**11. Supplemental Cash Flow Information**

During the three months ended August 31, 2021 and 2020 non-cash activities were conducted by the Company as follows:

	2021 \$	2020 \$
Financing activities		
Share-based payments reserve	-	(117,980)
Transfer on exercise of share options	-	117,980
	<u>-</u>	<u>-</u>

**12. Event after the Reporting Period**

On October 4, 2021 the Company granted share options to purchase 30,000 common shares at an exercise price of \$0.285 expiring October 4, 2024.