
HANNAN METALS LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2017**

(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, 2017 \$	May 31, 2017 \$
ASSETS			
Current assets			
Cash		3,822,401	1,172,836
GST/VAT receivable		101,187	71,077
Prepaid expenses		62,918	28,242
Total current assets		3,986,506	1,272,155
Non-current assets			
Exploration and evaluation assets	5	1,806,804	1,574,036
Total non-current assets		1,806,804	1,574,036
TOTAL ASSETS		5,793,310	2,846,191
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	350,358	301,797
Property acquisition obligation	7	1,050,732	1,116,804
Total current liabilities		1,401,090	1,418,601
Non-current liabilities			
Promissory notes payable	6	307,010	301,893
Total non- current liabilities		307,010	301,893
TOTAL LIABILITIES		1,708,100	1,720,494
SHAREHOLDERS' EQUITY			
Share capital	8	50,326,605	47,142,801
Share-based payments reserve		3,624,916	3,471,043
Deficit		(49,866,311)	(49,488,147)
TOTAL SHAREHOLDERS' EQUITY		4,085,210	1,125,697
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,793,310	2,846,191

Nature of Operations - Note 1

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on October 27, 2017 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 August 31,	
		2017 \$	2016 \$
Expenses			
Accounting and administration	9(b)	20,391	2,700
Accretion of property acquisition obligation	7	12,984	-
Audit		21,500	9,500
Corporate development		38,298	-
General exploration		5,226	-
Insurance		7,289	-
Legal		1,752	-
Office		20,337	124
Management and director compensation	10	71,142	13,650
Professional fees		39,350	-
Regulatory fees		2,454	4,315
Share-based compensation	8(d)	104,232	-
Shareholder costs		12,702	425
Transfer agent		1,746	1,632
Travel		37,023	-
		<u>396,426</u>	<u>32,346</u>
Loss before other items		<u>(396,426)</u>	<u>(32,346)</u>
Other items			
Interest income		3,694	91
Foreign exchange gain		19,685	-
Interest expense	6	(5,117)	-
Financing expense		-	(7,000)
		<u>18,262</u>	<u>(6,909)</u>
Net loss and comprehensive loss for the period		<u>(378,164)</u>	<u>(39,255)</u>
Basic and diluted loss per common share		<u>\$(0.01)</u>	<u>\$(0.00)</u>
Weighted average number of common shares outstanding - basic and diluted		<u>29,260,532</u>	<u>10,522,989</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 (DEFICIENCY)***(Unaudited - Expressed in Canadian Dollars)*

Three Months Ended August 31, 2017					
	Share Capital		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	40,263,702	50,326,605	3,624,916	(49,866,311)	4,085,210

Three Months Ended August 31, 2016					
	Share Capital		Share-Based Payments Reserve	Deficit	Total Deficiency
	Number of Shares	Amount \$			
Balance at May 31, 2016	10,522,989	44,856,869	3,311,839	(48,808,205)	(639,497)
Net loss for the period	-	-	-	(39,255)	(39,255)
Balance at August 31, 2016	10,522,989	44,856,869	3,311,839	(48,847,460)	(678,752)

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,	
	2017 \$	2016 \$
Operating activities		
Net loss for the period	(378,164)	(39,255)
Adjustments for:		
Accretion of property acquisition obligation	12,984	-
Foreign exchange on property acquisition obligation	(79,056)	-
Interest expense	5,117	7,000
Share-based compensation	104,232	-
Changes in non-cash working capital items:		
GST/VAT receivable	(30,110)	(760)
Prepaid expenses	(34,676)	1,300
Accounts payable and accrued liabilities	(15,619)	25,408
Net cash used in operating activities	(415,292)	(6,307)
Investing activity		
Exploration and evaluation asset expenditures	(168,588)	-
Net cash used in investing activity	(168,588)	-
Financing activities		
Issuance of common shares	3,329,225	-
Share issue costs	(95,780)	-
Net cash provided by financing activities	3,233,445	-
Net change in cash during the period	2,649,565	(6,307)
Cash at beginning of period	1,172,836	39,752
Cash at end of period	3,822,401	33,445

Supplemental cash flow information - Note 12

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, 2017

(Unaudited - Expressed in Canadian Dollars)

1. Nature of 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. On the basis of information to date, the Company has not yet 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 at August 31, 2017 the Company had working capital in the amount of \$2,585,416. These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business operations for the foreseeable future. To date the Company has not earned significant revenues and is considered to be in the exploration stage. 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. 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 retire its property acquisition obligation as it becomes due in the next twelve months. The Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. 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. These condensed consolidated interim financial statements do not reflect any adjustments related to conditions that occurred subsequent to August 31, 2017.

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 financial statements for the year ended May 31, 2017, 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 financial statements for the year ended May 31, 2017.

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.

3. Subsidiaries

The subsidiaries of the Company as at August 31, 2017 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%

HANNAN METALS LTD.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2017***(Unaudited - Expressed in Canadian Dollars)***4. Acquisition**

On January 9, 2017 the Company completed an agreement (the "Share Purchase Agreement") with the shareholders of Hannan BC, a private British Columbia company, to acquire all of the issued and outstanding shares of Hannan BC (the "Acquisition") for cash consideration of \$20 and the assumption of all debts owed by Hannan BC and its wholly-owned subsidiary, Hannan Ireland. See also Note 5.

The Company incurred \$28,929 for legal, filing and other costs associated with the transactions conducted pursuant to the Acquisition. These transactions costs were capitalized to exploration and evaluation assets.

The Acquisition was accounted for as an acquisition of the net assets, as follows:

	\$
Cash paid	20
Assumption of accounts payable	12,317
Assumption of promissory notes and accrued interest payable	293,995
Advances to Hannan BC prior to Acquisition	67,000
Property acquisition obligation	1,081,051
Costs incurred	<u>28,929</u>
Acquisition cost	<u>1,483,312</u>

The Acquisition cost was allocated to the individual identifiable assets on the basis of their relative fair value at the date of purchase. The results of operations have been recorded in the consolidated statements of comprehensive loss from January 9, 2017.

Assets acquired consists of:

	\$
Cash and VAT	45,551
Exploration and evaluation assets	<u>1,437,761</u>
Assets acquired	<u>1,483,312</u>

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2017
(Unaudited - Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets

	<u>Ireland</u>
	<u>Clare Project</u>
	<u>\$</u>
Balance at May 31, 2016	<u>-</u>
Acquisition cost (Note 4)	<u>1,437,761</u>
Exploration costs	
Drilling	70,883
Geochemistry	761
Geology	17,533
Ground geophysics	40,649
Other	6,449
	<u>136,275</u>
Balance at May 31, 2017	<u>1,574,036</u>
Exploration costs	
Airborne geophysics	6,722
Drilling	140,699
Field supplies	3,235
Geochemistry	41,375
Geology	20,854
Ground geophysics	1,330
Other	18,553
	<u>232,768</u>
Balance at August 31, 2017	<u>1,806,804</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 US \$150,000 and two additional cash payments of US \$425,000. See also Note 7.

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 retained 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 three prospecting licenses which have been granted or are under application.

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

6. Promissory Notes Payable

	August 31, 2017 \$	May 31, 2017 \$
Promissory notes	290,100	290,100
Accrued interest	<u>16,910</u>	<u>11,793</u>
	<u>307,010</u>	<u>301,893</u>

The promissory notes bear interest at 7% per annum. The principal amounts and accrued interest are due and payable on December 31, 2018. During the three months ended August 31, 2017 the Company recorded \$5,117 (2016 - \$nil) of interest expense. The promissory notes are held by shareholders of the Company including a family trust of the CEO of the Company.

7. Property Acquisition Obligation

On January 9, 2017 the Company completed the Share Purchase Agreement, as described in Notes 4 and 5. Pursuant to the Asset Purchase Agreement the Company must make two additional cash payments of US \$425,000 on each of September 21, 2017 and March 21, 2018. The obligation has been measured at the discounted value of the future payments. The discounted value is accreted to the future value over the period of payment obligation. As at August 31, 2017 the Company applied a discount rate of 5% to the future payments.

A continuity of the property acquisition obligation for the Licences is as follows:

	\$
Property acquisition obligation recorded on acquisition	1,081,051
Accretion of property acquisition obligation	17,048
Foreign exchange adjustment	<u>18,705</u>
Balance at May 31, 2017	1,116,804
Accretion of property acquisition obligation	12,984
Foreign exchange adjustment	<u>(79,056)</u>
Balance at August 31, 2017	<u>1,050,732</u>

On September 7, 2017 the Company made the initial US \$425,000 additional cash payment.

8. Share Capital

(a) *Authorized Share Capital*

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

(b) *Equity Financings*

Three Months Ended August 31, 2017

During the three months ended August 31, 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.

HANNAN METALS LTD.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2017***(Unaudited - Expressed in Canadian Dollars)***8. Share Capital (continued)**

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 year; 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 \$34,261 for legal and filing costs associated with the private placement.

Fiscal 2017

During fiscal 2017 the Company:

- (i) completed a non-brokered private placement of 10,486,000 common shares, at a price of \$0.075 per share for proceeds of \$786,450. Directors, officers and close family members purchased 2,870,084 common shares for \$215,256; and
- (ii) completed a non-brokered private placement financing of 5,800,000 units, at a price of \$0.26 per unit for proceeds of \$1,508,000. 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 February 17, 2018.

The Company paid a finder's fee of \$35,880 cash and issued 138,000 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 0.64%; expected volatility of 173%; an expected life of one year; a dividend yield of 0%; and an expected forfeiture rate of 0%. The value assigned to the finder's warrants was \$33,833. The weighted average fair value of the finder's warrants issued was \$0.24 per warrant.

The Company incurred \$29,161 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 August 31, 2017 and 2016 and the changes for the three months ended on those dates, is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	4,284,200	0.34	1,283,700	0.20
Issued	<u>6,638,985</u>	0.40	<u>-</u>	-
Balance, end of period	<u>10,923,185</u>	0.38	<u>1,283,700</u>	0.20

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

8. Share Capital (continued)

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at August 31, 2017:

Number	Exercise Price \$	Expiry Date
3,038,000	0.40	February 17, 2018
277,250	0.40	August 2, 2018
112,500	0.40	August 12, 2018
118,950	0.20	November 12, 2018
737,500	0.10	March 5, 2020
5,442,505	0.40	August 18, 2019
<u>1,196,480</u>	0.40	August 24, 2019
<u>10,923,185</u>		

(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, 2017 the Company granted share options to purchase 425,000 common shares and recorded compensation expense of \$104,232. No share options were granted during the three months ended August 31, 2016.

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

	<u>2017</u>
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.

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.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2017
(Unaudited - Expressed in Canadian Dollars)

8. Share Capital (continued)

A summary of the Company's share options at August 31, 2017 and 2016 and the changes for the three months ended on those dates, is as follows:

	2017		2016	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	1,291,000	0.14	642,500	0.10
Granted	<u>425,000</u>	0.29	<u>-</u>	-
Balance, end of period	<u>1,716,000</u>	0.18	<u>642,500</u>	0.10

The following table summarizes information about the share options outstanding and exercisable at August 31, 2017:

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
921,000	0.10	November 14, 2021
150,000	0.10	November 15, 2021
<u>50,000</u>	0.26	February 1, 2022
<u>1,716,000</u>		

9. Related Party Disclosures

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 2017 and 2016 the following amounts were incurred with respect to these positions:

	2017 \$	2016 \$
Management compensation paid	<u>66,493</u>	<u>8,100</u>

During the three months ended August 31, 2017 the Company expensed \$57,072 (2016 - \$8,100) to management and director compensation. In addition the Company capitalized \$9,421 (2016 - \$nil) in management fees to exploration and evaluation assets.

As at August 31, 2017, \$140,630 (May 31, 2017 - \$136,867) remained unpaid and has been included in accounts payable and accrued liabilities.

HANNAN METALS LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2017
(Unaudited - Expressed in Canadian Dollars)

9. Related Party Disclosures (continued)

(b) *Transactions with Other Related Parties*

- (i) During the three months ended August 31, 2017 and 2016 the following amounts were incurred with respect to the positions of non-management directors of the Company:

	2017 \$	2016 \$
Director compensation	<u>14,070</u>	<u>5,550</u>

As at August 31, 2017, \$69,100 (May 31, 2017 - \$70,000) remained unpaid and has been included in accounts payable and accrued liabilities.

- (ii) During the three months ended August 31, 2017 the Company incurred a total of \$5,800 (2016 - \$2,700) for accounting and administration services provided by Chase Management Ltd., a private corporation owned by the President of the Company. As at August 31, 2017, \$4,800 (May 31, 2017 - \$7,700) remained unpaid and has been included in accounts payable and accrued liabilities.

- (c) See also Notes 6 and 8(b).

10. 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, 2017 \$	May 31, 2017 \$
Cash	FVTPL	3,822,401	1,172,836
Accounts payable and accrued liabilities	Other financial liabilities	(350,358)	(301,797)
Property acquisition obligation	Other financial liabilities	(1,050,732)	(1,116,804)
Promissory notes payable	Other financial liabilities	(307,010)	(301,893)

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, 2017***(Unaudited - Expressed in Canadian Dollars)***10. Financial Instruments and Risk Management (continued)**

The recorded amounts for accounts payable and accrued liabilities, property acquisition obligation and promissory notes payable approximate their fair value due to their short-term nature. 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 a high quality financial institution.

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. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. 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, 2017					
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	3,822,401	-	-	-	3,822,401
Accounts payable and accrued liabilities	(350,358)	-	-	-	(350,358)
Property acquisition obligation	(525,366)	(525,366)	-	-	(1,050,732)
Promissory notes payable	-	-	(307,010)	-	(307,010)
Contractual Maturity Analysis at May 31, 2017					
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	1,172,836	-	-	-	1,172,836
Accounts payable and accrued liabilities	(301,797)	-	-	-	(301,797)
Property acquisition obligation	(558,402)	(558,402)	-	-	(1,116,804)
Promissory notes payable	-	-	(301,893)	-	(301,893)

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.
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10. 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, 2017, 1 Canadian Dollar was equal to 0.67 Euro and 0.80 US Dollar.

Balances are as follows:

	Euros	US Dollars	CDN \$ Equivalent
Cash	189,355	1,098,297	1,658,235
VAT receivable	65,709	-	97,654
Accounts payable and accrued liabilities	(45,379)	(6,123)	(75,115)
Property acquisition obligation	-	(836,045)	(1,050,732)
	<u>209,685</u>	<u>256,129</u>	<u>630,042</u>

Based on the net exposures as of August 31, 2017 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Euro and US Dollar would result in the Company's net loss being approximately \$70,000 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.

11. 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:

	As at August 31, 2017		
	Canada \$	Ireland \$	Total \$
Current assets	3,579,639	406,867	3,986,506
Exploration and evaluation assets	-	1,806,804	1,806,804
	<u>3,579,639</u>	<u>2,213,671</u>	<u>5,793,310</u>

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	As a May 31, 2017		
	Canada \$	Ireland \$	Total \$
Current assets	1,159,451	112,704	1,272,155
Exploration and evaluation assets	-	1,574,036	1,574,036
	<u>1,159,451</u>	<u>1,686,740</u>	<u>2,846,191</u>

12. Supplemental Cash Flow Information

During the three months ended August 31, 2017 and 2016 non-cash activities were conducted by the Company as follows:

	2017 \$	2016 \$
Investing activity		
Exploration and evaluation assets included in accounts payable	<u>(64,180)</u>	<u>-</u>
Financing activity		
Share issue costs	<u>(49,641)</u>	<u>-</u>