Teras Resources Inc.

Consolidated Financial Statements

For the years ended May 31, 2018 and 2017

(Expressed in Canadian Dollars)

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Management Report

To the Shareholders of Teras Resources Inc.

The consolidated financial statements of Teras Resources Inc. were prepared by management in accordance with appropriately selected International Financial Reporting Standards and have been approved by the Board of Directors. Management has used estimates and careful judgment, particularly in those circumstances where transactions affecting current periods are dependent on information not known until a future period.

Management is responsible for the integrity of the financial and operational information contained in these financial statements. The Company has designed and maintains internal controls to provide reasonable assurance that assets are properly safeguarded and that the financial records are well maintained and provide relevant, timely and reliable information to management. The consolidated financial statements have been prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in the notes to the consolidated financial statements.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the consolidated financial statements. The Audit Committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Teras Resources Inc.

(Signed) "Peter Leger"
President Chief Executive Officer

(Signed) "Kuldip Baid"
Chief Financial Officer

Calgary, Canada
September 28, 2018

Crowe

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Independent Auditor's Report

To the Shareholders of
Teras Resources Inc.

We have audited the accompanying consolidated financial statements of Teras Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at May 31, 2018 and May 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Teras Resources Inc. and its subsidiaries as at May 31, 2018 and May 31, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Teras Resources Inc. to continue as a going concern.

Calgary, Alberta
September 28, 2018

(*Signed*) "Crowe MacKay LLP"
Chartered Professional Accountants

Teras Resources Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	May 31, 2018	May 31, 2017
Assets		
Current		
Cash	**$ 284,975**	$ 655,850
GST receivable	**23,060**	25,727
Prepaid expenses and deposits	**18,998**	17,943
	327,033	699,520
Investment (note 4)	**64,740**	40,500
Equipment (note 5)	**3,369**	5,895
Exploration and evaluation assets (note 6)	**24,916,502**	24,094,597
	$ 25,311,644	$ 24,840,512
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 7 and 11)	**$ 181,448**	$ 200,250
Shareholders' Equity		
Share capital (note 8)	**43,165,270**	42,114,372
Subscriptions received (note 8)	**70,000**	-
Contributed surplus (note 9)	**3,880,467**	3,733,764
Accumulated other comprehensive income	**149,536**	113,599
Deficit	**(22,135,077)**	(21,321,473)
	25,130,196	24,640,262
	$ 25,311,644	$ 24,840,512

Nature of operations and going concern (note 1)
Commitments and contingencies (note 15)
Subsequent events (note 16)

Approved by the Board of Directors on September 28, 2018

(*Signed*) "Peter Leger" , Director

(*Signed*) "John Batiuk" , Director

Teras Resources Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended May 31,	2018	2017
Revenues		
Oil and gas royalty and lease income	**$ 851**	$ 883
Expenses		
General and administrative (note 11)	**678,710**	649,517
Amortization	**2,526**	2,526
Stock-based compensation (note 8(vi) and 11)	**133,219**	176,956
	814,455	828,999
Net loss before other item	**(813,604)**	(828,116)
Other item		
Unrealized loss on investment (note 4)	**-**	(116,213)
Unrealized loss on investment reclassified from accumulated other comprehensive income (note 4)	**-**	(322,021)
	-	(438,234)
Net loss for the year	**(813,604)**	(1,266,350)
Other comprehensive income (loss)		
Unrealized gain on investment (note 4)	**24,240**	-
Unrealized gain on translation	**11,697**	20,930
Unrealized loss on investment reclassified to profit and loss (note 4)	**-**	322,021
	35,937	342,951
Net and comprehensive loss for the year	**$ (777,667)**	$ (923,399)
Basic and diluted loss per share	**$ (0.00)**	$ (0.01)
Weighted average number of shares outstanding	**173,376,975**	153,977,848

Teras Resources Inc.

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Number of shares	Share capital	Subscriptions received	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance May 31, 2016	143,547,146	$ 40,540,542	$ -	$ 3,623,334	$ (229,352)	$ (20,055,123)	$ 23,879,401
Net and comprehensive loss	-	-	-	-	342,951	(1,266,350)	(923,399)
Issued for private placement, net	9,454,332	1,097,850	-	9,454	-	-	1,107,304
Issue on exercise of warrants	8,000,000	400,000	-	-	-	-	400,000
Fair value ascribed to broker warrants	-	(4,020)	-	4,020	-	-	-
Transfer of value ascribed to warrants	-	80,000	-	(80,000)	-	-	-
Stock-based compensation	-	-	-	176,956	-	-	176,956
Balance, May 31, 2017	161,001,478	42,114,372	-	3,733,764	113,599	(21,321,473)	24,640,262
Net and comprehensive loss	-	-	-	-	35,937	(813,604)	(777,667)
Issued for private placement, net	13,483,750	1,050,898	-	13,484	-	-	1,064,382
Share subscriptions received	-	-	70,000	-	-	-	70,000
Stock-based compensation	-	-	-	133,219	-	-	133,219
Balance, May 31, 2018	174,485,228	$ 43,165,270	$ 70,000	$ 3,880,467	$ 149,536	$ (22,135,077)	$ 25,130,196

Teras Resources Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended May 31,	**2018**	2017
Operating activities		
Net loss	**$ (813,604)**	$ (1,266,350)
Items not affecting cash		
Amortization	**2,526**	2,526
Stock-based compensation	**133,219**	176,956
Gain on sale of assets	**-**	-
Gain on settlement of obligation to issue shares	**-**	-
Unrealized loss on investment	**-**	116,213
Unrealized loss on investment reclassified from accumulated other comprehensive income	**-**	322,021
	(677,859)	(648,634)
Changes in working capital items:		
GST receivable	**2,667**	(237)
Prepaid expenses and deposits	**(1,055)**	48,263
Accounts payable and accrued liabilities	**(31,065)**	(44,738)
	(707,312)	(645,346)
Financing activity		
Issuance of share capital, net of issuance costs	**1,064,382**	1,107,304
Subscriptions received	**70,000**	-
Proceeds from exercise of warrants	**-**	400,000
	1,134,382	1,507,304
Investing activities		
Exploration and evaluation expenditures	**(797,945)**	(541,079)
Purchase of equipment	**-**	(8,421)
	(797,745)	(549,500)
Increase (decrease) in cash	**(370,875)**	312,458
Cash, beginning of year	**655,850**	343,392
Cash, end of year	**$ 284,975**	$ 655,850

1. Nature of operations and going concern

Teras Resources Inc. (the “Company”) is incorporated in Alberta, Canada. The address of the Company’s head office is 206, 6025 - 12th Street SE, Calgary, Alberta, T2H 1K1. The address of the Company’s registered office is 1000, 250 - 2nd Street SW, Calgary, Alberta, T2P 0C1. The Company is involved in the acquisition and exploration of mineral property interests in Montana, Nevada and Cahuilla in California. At the date of these consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its properties. The ability of the Company to recover the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, complete the processing mill and obtain commercial grade ore for processing, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the properties.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The Company’s ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its strategic business plan. To date, the Company has no ongoing recurring source of revenue. At May 31, 2018 the Company had cash of $284,975 and a working capital of $145,585.

In the first quarter of fiscal 2018, the Company issued 13,483,750 units at a price of $0.08 per unit consisting of one common share and one common share purchase warrant exercisable into one common share at a price of $0.15 per share for a period of one year from issuance for net proceeds of $1,064,382.

In the third quarter of fiscal 2017, 8,000,000 warrants were exercised for proceeds of $400,000.

In the first quarter of fiscal 2017, the Company issued 9,454,332 units at a price of $0.12 per unit consisting of one common share and one common share purchase warrant exercisable into one common share at a price of $0.24 per share for a period of two years from issuance for net proceeds of $1,107,304. The Company also issued 33,950 finders warrants exercisable at $0.12 per common share for a period of two years from issuance.

While management believes the Company has sufficient cash to discharge its obligations in the normal course of operations for the short-term, future operations will continue to be dependent upon the successful ongoing exploration and development of the Company’s mineral property interests and/or raising of sufficient capital, and the corresponding generation of future cash flows. Management believes the going concern assumption is appropriate for these consolidated financial statements. The Company’s ability to continue as a going concern on a longer term basis depends on its ability to successfully raise additional financing for further exploration activity and development or to enter into profitable operations. While the Company has been successful to date in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These factors may cast significant doubt on the Company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments might be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

2. Basis of presentation

These consolidated financial statements for the years ended May 31, 2018 and 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

3. Significant accounting policies

Basis of consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the Company and its wholly-owned subsidiaries, Profile (US) Inc. and Teras Resources Ltd. USA.

All significant intercompany transactions and balances have been eliminated.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value as described in the policies below.

Foreign currency translation

The functional and presentation currency of the Company is the Canadian dollar. The functional currency for each of the subsidiaries is the US dollar. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation. Items in the consolidated statements of loss and comprehensive loss are translated using average exchange rates. Assets and liabilities are translated at the closing spot exchange rate. Exchange differences on the translation of the net assets of entities with functional currencies other than the Canadian dollar are recognized in a separate component of equity through other comprehensive income (loss).

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in Accumulated other comprehensive income (loss) are recognized in the consolidated statement of loss.

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include bank balances and temporary money market instruments with initial maturities of three months or less. The Company places its cash with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

Exploration and evaluation expenditures

Pre-exploration costs

Pre-exploration costs are expensed as incurred.

Exploration and evaluation expenditures

The cost of mineral properties and their related exploration costs are deferred until the properties are placed into production, sold or abandoned. These costs are amortized on a unit-of-production basis following the commencement of production or written-off if the properties are sold or abandoned. If the properties are considered to be impaired in value, an appropriate charge will be made at the time.

Costs include the cash consideration and the fair market value of share and options issued on the acquisition of mineral properties. Properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined the property is to be under development and is classified as development properties. The carrying value of exploration and evaluation assets is transferred to development properties after being tested for impairment.

The recorded cost of mineral claims and deferred exploration costs represents costs incurred to date less write-down and are not intended to reflect present or future values. The ultimate recovery of such capitalized costs is dependent upon the discovery and development of economic reserves or the sale of mineral rights.

On an ongoing basis, the Company evaluates each mineral property based on results obtained to date to determine the nature of exploration, other assessment and development work, if any, that is warranted in the future and the potential for recovery of the capitalized costs. If there is little prospect of future work on a property being carried out within a three-year period from completion of previous activities, the deferred costs related to that property are written-down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

3. Significant accounting policies (continued)

Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense immediately. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit ("CGU") to which the asset belongs is determined. For mining assets, CGU's are based on an individual property basis.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mining assets, fair value less cost to sell is often estimated using a discounted cash flow approach as a fair value from an active market or binding sale agreement is not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Tangible assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized into the consolidated statement of loss immediately.

Valuation of equity instruments issued in private placements

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any was allocated to the attached warrants and is recorded as contributed surplus.

Joint venture contributions

Joint venture contributions related to equipment and exploration and evaluation assets are applied to reduce the related carrying costs.

3. Significant accounting policies (continued)

Equipment

Equipment is recorded at cost, being the purchase price and the directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of equipment comprises major components having different useful lives, they are accounted for as separate items of equipment. Maintenance and repairs of equipment of a routine nature are expensed as incurred. Equipment is depreciated on a declining balance basis at the rate of 30% per annum. No amortization is provided for equipment not in use by the Company. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

The gain or loss arising on disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of loss.

Income taxes

Current income taxes are recognized for the estimated taxes payable for the current year.

Deferred taxes are accounted for using the asset and liability method of tax accounting. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of the respective assets and liabilities, using the enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Revenue recognition

Revenue from the sale of ore is recognized when the significant risks and rewards of ownership have passed to the purchaser, it is probable that economic benefits associated with the transaction will flow to the Company, the sales price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalty and leasing revenue is recognized at the time it is earned and the Company has a contractual right to receive the revenue.

3. Significant accounting policies (continued)

Decommissioning obligations

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a credit-adjusted risk-free rate of return. The decommissioning obligation is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the credit-adjusted risk-free discount rate. The liability is also accreted to full value over time through periodic charges to earnings. This unwinding of the discount is charged to financing expense in the consolidated statement of loss and comprehensive loss.

The amount of the obligation initially recognized is capitalized as part of the related asset's carrying value and amortized to earnings. The method of amortization follows that of the underlying asset. The costs related to the obligation are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. For a closed site or where the asset which generated an obligation no longer exists, there is no longer a future benefit related to the costs and as such, the amounts are expensed. For operating sites, a revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the capitalized retirement cost. For closed sites, adjustments to the obligation that are required as a result of changes in estimates are charged to earnings in the period in which the adjustment is identified. The Company has assessed each of its mineral properties and has determined that decommissioning obligations exist as at May 31, 2018, see note 7.

Stock-based compensation

The fair value for each stock option granted is estimated at the date of the grant using the Black-Scholes option pricing model. This expense is recognized over a graded vesting period, the fair value of each tranche is recognized over its respective vesting period. When recognizing the fair value of each tranche over its respective vesting period, the Company incorporates an estimate of the number of options expected to vest and revises the estimate when subsequent information indicates that the number of options expected to vest differs from previous estimates. These fair values are recognized as stock-based compensation in the consolidated statement of loss and comprehensive loss with a corresponding increase to contributed surplus over the vesting period of the grant.

As the options are exercised, the consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed.

Equity-settled stock-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

3. Significant accounting policies (continued)

Per share amounts

Per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options and warrants would be used to purchase common shares at the average price during the period. Where the effect of options and warrants is anti-dilutive, they are not included in the calculation of diluted per share amounts.

Joint interest operations

The Company conducts some of its mineral property exploration and production activities jointly with other non-affiliated companies and accordingly, the consolidated accounts reflect only the Company's share in such activities.

Financial instruments

The Company recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net income (loss) or other comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value shall be recognized in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For financial instruments designated as being available-for-sale ("AFS"), such as the long-term investment, changes in the fair value shall be recorded directly in shareholders' equity in a separate account called "accumulated other comprehensive income (loss)" until the asset is disposed of or is impaired. At that time, the gains and losses are transferred to the consolidated statement of loss.

The Company has implemented the following classifications:

- Cash is recorded as fair value through profit or loss ("FVTPL") and measured at fair value.
- GST receivable is classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost.
- Investment in equity instruments is classified as available for sale and measured at fair value.
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost.

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

3. Significant accounting policies (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account.

When a receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss.

On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Critical judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies apart from those involving estimations that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

- Economic recoverability and probability of future economic benefits of exploration and evaluation assets

  Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans at each reporting period date.

3. Significant accounting policies (continued)

Critical judgments in applying accounting policies (continued)

- Long-term investment and assessment of whether a decline in value is temporary or permanent

  Management at each period end assesses any decline in assets classified as available-for-sale in determining whether the decline represents a temporary or permanent decline in value. Management uses qualitative and quantitative criteria available in the determination at the point in time in the assessment of whether any decline represents a permanent change in value.

Key sources of estimation uncertainty

The preparation of consolidated financial statements requires that the Company's management makes assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of the Company's assets and liabilities are as follows:

- Impairment of exploration and evaluation assets.

  The Company considers both external and internal sources of information in assessing whether there are any indications that exploration and evaluation assets are impaired at each reporting period date. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining interests.

  In determining the recoverable amounts of the Company's exploration and evaluation assets, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties and the appropriate discount rate. The projected cash flows are significantly affected by changes in assumptions about prices, future capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, production cost estimates, discount rates and exchange rates. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

3. Significant accounting policies (continued)

Key sources of estimation uncertainty (continued)

- Contingencies

  Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur.

- Stock-based compensation

  The Company uses the Black-Scholes option pricing model in determining stock-based compensation which requires a number of assumptions to be made, including the risk-free interest rate, expected option life, forfeiture rate, and expected share price volatility which is based upon historical volatility determined in reference to the expected option life.

  Consequently, the actual stock-based compensation expense may vary from the amount estimated.

- Income taxes

  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual fact and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

- Decommissioning liabilities

  Decommissioning costs are incurred when certain of the Company's long-lived assets are retired. Assumptions, based on current economic factors which Management believes are reasonable, have been made to estimate the future liability. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. The impact to net earnings over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available.

3. Significant accounting policies (continued)

New and revised standards and interpretations

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective June 1, 2017. These changes were made in accordance with the transitional provisions outlined in the respective standards and interpretations and had no material impact on the consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows

These amendments (Disclosure Initiative) require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

Amendments to IAS 12 Income Taxes

These amendments, Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Future accounting pronouncements

The following accounting standards and amendments are effective for future periods.

Amendments to IFRS 2 Share-based Payment

These amendments added guidance that introduces accounting requirements for cash-settled share-based payments that follow the same approach as used for equity-settled share-based payments. They introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Finally, they clarify the accounting treatment in situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The Company does not believe this new standard will have a material impact when adopted.

These amendments are effective for reporting periods beginning on or after January 1, 2018.

3. Significant accounting policies (continued)

New and revised standards and interpretations (continued)

IFRS 9 Financial Instruments

This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Company does not believe this new standard will have a material impact when adopted.

This standard is effective for reporting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The Company does not believe this new standard will have a material impact when adopted.

This standard is effective for reporting periods beginning on or after January 1, 2018.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Company is still assessing the impact of this new standard.

This standard is effective for reporting periods beginning on or after January 1, 2019.

4. Investment

During the year ended May 31, 2010, the Company purchased 1,000,000 shares of NexGen Mining (formerly "Brilliant Sands Incorporated"), a Montana mining company originally valued at US $0.45 per share giving it approximately 10% ownership of the outstanding shares of the mining company at the time. The original purchase price was US $450,000 (CDN $478,734). The long-term investment does not provide the Company the ability to exercise significant influence over the operations of the entity. The available for sale investment is measured at fair value using level one input as the shares have a quoted market price in an active market.

		May 31, 2018		May 31, 2017
Balance, beginning of year	**$**	**40,500**	$	156,713
Unrealized gain on investment		**24,240**		(116,213)
Balance, end of year	**$**	**64,740**	$	40,500

During the year ended May 31, 2017, management assessed the investment for impairment. Due to a significant and prolonged decline in fair value, management has determined that the investment was impaired. As a result, the accumulated unrealized loss on investment of $322,021 has been reclassified to profit and loss for the year ending May 31, 2017.

5. Equipment

						May 31, 2018
		Cost		**Accumulated amortization**		**Net book Value**
Other equipment	**$**	**14,035**	**$**	**10,666**	**$**	**3,369**

						May 31, 2017
		Cost		Accumulated amortization		Net book value
Other equipment	$	14,035	$	8,140	$	5,895

6. Exploration and evaluation assets

Accumulated costs in respect of mineral tenures and mineral rights owned, leased or under option, consist of the following:

	Watseca Mills	Golden Jubilee	Other	Cahuilla	Total
Balance, May 31, 2016	$ 51,888	$ 96,132	$ 11,623	$ 23,353,154	$23,512,797
Deferred exploration costs:					
Contract services	-	-	-	555,222	555,222
Revisions to ARO estimate	-	19,791	-	-	19,791
Administration costs	-	-	6,787	-	6,787
Total expenditures for the year	-	19,791	6,787	555,222	581,800
Balance, May 31, 2017	51,888	115,923	18,410	23,908,376	24,094,597
Deferred exploration costs:					
Contract services	-	-	-	793,752	793,752
Administration costs	-	4,289	12,891	-	17,180
Revisions to ARO estimate	388	10,585	-	-	10,973
Total expenditures for the year	388	14,874	12,891	793,752	821,905
Balance, May 31, 2018	**$ 52,276**	**$ 130,797**	**$ 31,301**	**$ 24,702,128**	**$24,916,502**

Watseca Mills

On October 22, 2012, the Company sold its Watseca property for a cash price of US $3,000,000 (the "Purchase Price") with the following payment terms: (i) a non-refundable payment of US $500,000 has been received; (ii) a payment of US $250,000 to be received on the day that is 6 months after closing; and (iii) payments of US $250,000 to be received on the first day of each calendar quarter commencing after the payment made in (ii) above until the Company has received the full Purchase Price. As a result of the payment terms, subject to increasing quarterly payments, the full payment of the Purchase Price for the Watseca Property is anticipated to be received by the Company 36 months after closing. If certain conditions in respect of the processing of ore on the Watseca property are met, quarterly payments will be increased to US$500,000, thus shortening the time period for receipt of the full payment of the Purchase Price.

In the event that there is a default by the Purchaser in respect of its obligations in the Purchase Agreement ("Agreement"), including in respect of the quarterly payments as set forth above, after the expiry of a cure period of up to 30 days, the Purchaser will forfeit all rights and interests in the Watseca Property and the Watseca Property will revert, unencumbered, back to the Company. Upon such a default, all payments received by the Company to the date of such default remain non-refundable and shall be kept by the Company.

6. Exploration and evaluation assets (continued)

The Purchaser was in default of its obligations under the Agreement in that none of the ten payments of US $250,000 each due after closing have been made. On March 22, 2017, Teras provided a formal termination letter to the Purchaser, terminating the Agreement. As a result, the property reverted, unencumbered, back to Teras.

During the year ending May 31, 2017, $50,000 of reclamation work was performed on the Watseca Mills property. The remaining costs required to complete the reclamation are estimated to be $2,000 at May 31, 2018, which is included in accounts payable and accrued liabilities (note 7).

Golden Jubilee

The Golden Jubilee property consists of twenty-two mineral lode claims located in Granite County, Montana.

An estimate for reclamation obligations in the amount of US $54,175 has been included in the carrying costs of Golden Jubilee. The Company is required to reclaim the property if it decides that no further exploration work will be performed (note 7).

In December 2012, the Company leased its Golden Jubilee property to the same company who purchased Watseca on a royalty basis whereby the company will receive a 3% net smelter royalty on production. The lessor has the option to purchase 2% of the royalty for a cash payment of $2,000,000. The Purchaser is currently in default of this Agreement. On January 5, 2018 Teras provided a formal termination letter to the Purchaser terminating the Agreement. As a result the property reverted, unencumbered, back to Teras.

Cahuilla

The Company entered into an Earn-In Agreement with NexGen Mining (formerly “Brilliant Sands Incorporated”), a Montana corporation (“NexGen”) for an exclusive option to earn a 65% undivided interest in certain properties, including Cahuilla. Pursuant to this Agreement, the Company during the year ended May 31, 2011 paid NexGen US $1,000,000 (2010 - US $800,000) and issued 5,000,000 (2010 - 4,000,000) common shares. For the years ended May 31, 2013 and 2012, the Company recorded the commitment to issue 5,300,000 common shares within equity and an addition to the exploration and evaluation assets for $3,074,000 determined based on the closing price on the Company’s shares on September 14, 2011, the date the second earn-in agreement was signed. The value of the property has been recorded in reference to the consideration given up due to the exploration nature of the property at the point in time the earn-in agreement was signed. The commitment was initially included in equity and not as a financial liability, as it can only be settled through the issuance of shares upon the request by NexGen. NexGen acknowledged the Company’s interest to issue the shares and has granted the full working interest as outlined in the agreement. The Company issued 5,300,000 shares on May 29, 2014.

On September 14, 2011, the Company received confirmation from NexGen accepting the exercise of the 65% Earn-In Agreement. At which point the Company owned 65% of the Cahuilla project.

6. Exploration and evaluation assets (continued)

Cahuilla (continued)

On September 29, 2011, the Company signed an Exploration and Earn-In Agreement with NexGen for the 35% balance of the Cahuilla project giving the Company 100% interest in the Project. In addition to controlling 100% of the Cahuilla project, the Company will receive four other high ranking gold projects.

The terms of the agreement specify that the Company will have a twenty-four month option to earn the 35% balance of the Cahuilla gold project and 100% interest in four other high ranking gold projects. The Company can exercise the option at any time within the twenty-four month period by issuing 10 million common shares of the Company to NexGen and spending $1,000,000 in work commitment on the Cahuilla project within that period. The Company issued the 10,000,000 shares in June 2014 and has met the work commitment to spend $1,000,000. It now owns 100% of the Cahuilla project.

The Company previously purchased 1,000,000 common shares of NexGen at an original cost of US $0.45 per share (note 4).

7. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a $70,088 (2017 - $62,100) provision for estimated reclamation costs on the Company's Golden Jubilee Property and an additional $2,000 (2017 - $2,000) for estimated costs expected to be incurred related to the reclamation of the Company's Watseca Mills property. As the Company is in the initial exploration phase of its mineral properties, there are no other legal obligations relating to reclamation at May 31, 2018. The total amount included in accounts payable and accrued liabilities relating to these obligations as at May 31, 2018 is $72,088 (2017 - $64,100).

The estimated reclamation costs have been charged to the exploration and evaluation assets for Golden Jubilee and Watseca Mills (note 6).

8. Share capital

i) Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

ii) Issued:

		May 31, 2018		May 31, 2017
	Number	**Amount**	Number	Amount
Balance, beginning of year	**161,001,478**	**$ 42,114,372**	143,547,146	$ 40,540,542
Issued for private placement	**13,483,750**	**1,078,700**	9,454,332	1,134,520
Issued for exercise of warrants	**-**	**-**	8,000,000	400,000
Transfer of value ascribed to warrants exercised	**-**	**-**	-	80,000
Value assigned to warrants	**-**	**(13,484)**	-	(9,454)
Share issue costs	**-**	**(14,318)**	-	(27,216)
Value ascribed to broker warrants	**-**	**-**	-	(4,020)
Balance, end of year	**174,485,228**	**$ 43,165,270**	161,001,478	$ 42,114,372

iii) Share capital transactions in 2018

In the first quarter 13,483,750 units consisting of one common share and one common share purchase warrant exercisable into one common share at a price of $0.15 per share for a period of one year from issuance for gross proceeds of $1,078,700 with related share issue costs of $14,318, were issued.

The Company received share subscriptions of $70,000 from a private placement unit offering. The shares from this private placement were issued subsequent to year end (note 16).

iv) Share capital transactions in 2017

In the third quarter 8,000,000 warrants were exercised at a price of $0.05 per warrant for proceeds of $400,000.

In the first quarter 9,454,332 units consisting of one common share and one common share purchase warrant exercisable into one common share at a price of $0.24 per share for a period of two years from issuance for gross proceeds of $1,134,520 with related share issue costs of $27,216, were issued. The Company also issued 33,950 finders warrants exercisable at $0.12 per common share for a period of two years from issuance which have been valued at $4,020 using the Black-Scholes option pricing model.

8. Share capital (continued)

v) Share purchase warrants

A summary of the status of the Company's share purchase warrants as of May 31, 2018 and May 31, 2017 and changes during the period then ended is presented below:

	May 31, 2018		May 31, 2017	
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**9,488,282**	**0.24**	8,000,000	0.05
Private placement warrants	**13,483,750**	**0.15**	9,488,282	0.24
Exercised		**-**	(8,000,000)	0.05
Outstanding, end of year	**22,972,032**	**0.19**	9,488,282	0.24

A summary of the share purchase warrants outstanding as at May 31, 2018 which have a weighted average remaining life of 1.11 years is set out below with each warrant entitling the holder to acquire one common share per warrant:

	Number	**Exercise price ($)**	**Expiry Date**
Private placement warrants	**9,454,332**	**0.24**	July 22, 2019
Finders warrants	**33,950**	**0.12**	July 22, 2018
Private placement warrants	**13,483,750**	**0.15**	July 4, 2019
Outstanding, end of period	**22,972,032**	**0.19**	

vi) Stock option plan

The Company adopted an amended incentive stock option plan in 2008 (the “2008 Plan”). The essential elements of the 2008 Plan provide that the aggregate number of common shares issuable pursuant to options granted under the 2008 Plan may not exceed 10% of the number of issued shares of the Company at the time of granting of the options. Options granted under the 2008 Plan will have a maximum term of ten years. The exercise price of the options granted under the 2008 Plan will not be less than the discounted market price of the common shares or such other price as may be agreed to by the Company and accepted by the TSX Venture Exchange. Options granted under the 2008 Plan vest as determined by the Board of Directors on the date of grant.

8. Share capital (continued)

vi) Stock option plan (continued)

A summary of the status of the Company's stock option plan as of May 31, 2018, and May 31, 2017 and changes during the years then ended is presented below:

	May 31, 2018		May 31, 2017	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**6,170,000**	**0.17**	5,983,334	0.24
Granted	**-**	**-**	2,400,000	0.15
Expired/Cancelled	**(320,000)**	**0.21**	(2,213,334)	0.36
Outstanding, end of period	**5,850,000**	**0.17**	6,170,000	0.17

The stock options have a weighted average remaining life of 2.11 years.

A summary of stock options outstanding at May 31, 2018 is set out below:

Number Outstanding	**Number Exercisable**	**Exercise price**	**Expiry date**
250,000	250,000	0.190	June 13, 2018
100,000	100,000	0.480	June 26, 2018
100,000	100,000	0.150	September 25, 2018
200,000	200,000	0.300	March 14, 2019
1,900,000	1,900,000	0.200	June 5, 2019
500,000	500,000	0.085	January 6, 2020
400,000	400,000	0.115	May 4, 2021
1,250,000	1,250,000	0.150	September 30, 2021
1,150,000	766,667	0.150	April 4, 2022
5,850,000	5,466,667	0.170	

8. Share capital (continued)

vi) Stock option plan (continued)

The Company calculated and recorded stock-based compensation expense for the year ended May 31, 2018 of $133,219 (2017 - $176,956) using the Black-Scholes option pricing model. The Company has unvested stock-based compensation of approximately $6,568 (2017 - $138,825) to be recorded in fiscal 2019. Significant assumptions used are as follows:

	May 31, 2017
Risk-free interest rate	0.62% - 1.08%
Average expected option life	5 years
Share price volatility	142% - 171%
Expected dividend payments	Nil
Forfeiture rate	9.47%
Fair value of options granted	$0.15

For the year ended May 31, 2018, the weighted average share price on the dates the options were granted was $nil (2017 - $0.15)

9. Contributed surplus

A summary of the contributed surplus as at May 31, 2018 and 2017 and the changes during the years then ended are presented below:

	May 31, 2018	May 31, 2017
Balance, beginning of year	**$ 3,733,764**	$ 3,623,334
Fair value assigned to stock options vested	**133,219**	176,956
Fair value ascribed to broker warrants	**-**	4,020
Fair value ascribed to warrants	**13,484**	9,454
Transfer of value ascribed to warrants exercised	**-**	(80,000)
Balance, end of period	**$ 3,880,467**	$ 3,733,764

10. Segmented information

The Company's assets and net loss by geographic location are as follows:

	May 31, 2018	May 31, 2017
Assets		
Canada		
Current assets	**$ 282,544**	$ 672,373
Equipment	**3,369**	5,895
	285,913	678,268
United States		
Current assets	**44,489**	27,147
Investment	**64,740**	40,500
Exploration and evaluation assets	**24,916,502**	24,094,597
	25,025,731	24,162,244
	$ 25,311,644	$ 24,840,512

Net loss (income) for the years ended May 31,	**2018**	2017
Canada	**$ 747,348**	$ 796,460
United States	**66,256**	469,890
	$ 813,604	$ 1,266,350

11. Related party balances and transactions

As of May 31, 2018, included in accounts payable and accrued liabilities is $75,062 (2017 - $86,718) due to related parties. The amounts payable to related parties are due to directors and senior officers of the Company or to private companies controlled by them for various services rendered and expenditures incurred on behalf of the Company.

For the years ended May 31, 2018 and 2017, the following includes all amounts paid to key management personnel and directors and officers, in these consolidated financial statements:

	May 31, 2018	May 31, 2017
Consulting fees and benefits	**$ 350,260**	$ 366,259
Stock-based compensation	**103,984**	142,040
Capitalized exploration and evaluation expenditures	**33,440**	-
	$ 487,684	$ 508,299

These transactions were made in the normal course of operations for consideration established and accepted by the Company and related parties.

12. Capital 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, exploration and development of its projects. 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 properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess the exploration and development potential of its existing projects and new projects and seek to explore and develop its existing projects and acquire an interest in additional projects 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.

There were no changes in the Company's approach to capital management and the Company was not subjected to externally imposed covenants during the years ended May 31, 2018 and 2017.

13. Income taxes

A reconciliation of income tax provision computed at statutory rates to the reported income tax provision is provided as follows:

Years ended May 31,	**2018**	2017
Income tax rate	**27.0%**	**27.0%**
Income tax benefit computed at Canadian statutory rates	**$ 210,000**	**$ 249,000**
Permanent differences		
Stock-based compensation	**(36,000)**	**(48,000)**
Other	**(1,000)**	**(2,000)**
Non-recognition of temporary differences	**24,000**	**(8,000)**
Change in tax benefits not recognized	**(197,000)**	**(191,000)**
	$ -	$ -

Significant components of the Company's deferred income tax assets, after applying the effective corporate income tax rate of 27%, (2017 - 27%) are as follows:

As at May 31,	**2018**	2017
Exploration and evaluation assets	**$ 2,403,000**	**$ 2,386,000**
Non-capital losses	**2,197,000**	**2,011,000**
Share issue costs	**11,000**	**14,000**
Investment	**56,000**	**59,000**
	4,667,000	**4,470,000**
Tax benefits not recognized	**(4,667,000)**	**(4,470,000)**
Deferred income tax assets	**$ -**	$ -

The tax benefits not recognized reflects the Company's estimate that it is not probable that the deferred tax assets will be realized.

13. Income taxes (continued)

The Company has approximate non-capital losses available that may be carried forward to apply against future year's income for Canadian income tax purposes. The losses expire as follows:

2026	$ 320,000
2027	481,000
2028	441,000
2029	258,000
2030	731,000
2031	746,000
2032	203,000
2033	732,000
2034	933,000
2035	815,000
2036	596,000
2037	802,000
2038	621,000
Total	$ 7,679,000

14. Financial instruments and risk management

The Company is involved in the acquisition and exploration of mineral property interests in Montana, Nevada and California. At the date of these consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its properties. The ability of the Company to recover the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, and commercial processing, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the properties.

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

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and GST receivable. Cash consists of funds on deposit with financial institutions that have high international credit ratings, from which management believes the risk of loss to be minimal.

GST receivable consist of sales tax receivable from government authorities in Canada. The credit risk exposure is minimal and; accordingly, the Company has a $nil (2017 - $nil) allowance for doubtful accounts.
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14. Financial instruments and risk management (continued)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of May 31, 2018, the Company had cash of $284,975 (2017 - $655,850) to settle current liabilities of $181,448 (2017 - $200,250). The majority of the Company's financial liabilities have contractual maturities of less than ninety days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in interest rates, foreign exchange rates, commodity prices and mineral properties.

(a) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases other than the exploration and development expenses are transacted in Canadian dollars. The Company funds certain operational, exploration and development expenses in US dollars from its Canadian and US dollar bank accounts held in Canada. Management monitors the foreign exchange risk derived from currency conversions and does not hedge its foreign exchange risk.

(b) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to gold to determine the appropriate course of action for the Company.

(c) Fair values

The methods and assumptions used to develop fair value measurements for those financial instruments carried at fair value in the consolidated statement of financial position have been prioritized into three levels of a fair value hierarchy. Level 1 includes quoted prices (unadjusted) in active markets for identical assets or liabilities, Level 2 includes inputs that are observable other than quoted prices included in Level 1 and Level 3 includes inputs that are not based on observable market data.

The Company’s cash and investment are measured using a Level 1 assessment. The fair values of financial instruments consisting of GST receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

14. Financial instruments and risk management (continued)

Market risk (continued)

(d) Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

i) The Company is exposed to foreign currency risk on Canadian-US dollar exchange rate fluctuations related to cash that is denominated in US dollars. As at May 31, 2018, cash would have changed by approximately $3,300 had the US dollar varied by 5% as a result of foreign exchange variances on translation of cash and transactions that are denominated in US dollars.

ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of gold. The price of gold has fluctuated widely in recent years hence there is no assurance that, even if commercial quantities of gold may be produced in the future, a profitable market will exist for them. A decline in the market price of gold may also require the Company to reduce its mining rights and deferred exploration expenditures, which could have a material and adverse effect on the Company's value. As at May 31, 2018, the Company is not a gold producer. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options.

15. Commitments and contingencies

(a) The Company is currently operating in the United States. Operations in this jurisdiction may be subject to laws which are significantly different than domestic laws. Due to the nature of the operations and the location being in a foreign jurisdiction, the Company may not be adequately insured with respect to potential accidents on its properties.

(b) The Company has signed an office lease until April 30, 2019 that calls for monthly payments of $1,500, which includes operating costs.

(c) In November 2010, the Company entered into a Performance Share Agreement with the CEO of the Company whereby 500,000 common shares of the Company shall vest and be issued when the closing price of the common shares of the Company on the Stock Exchange on which the common shares then trade is above $1.40 for a period of twenty consecutive business days and a further 500,000 common shares shall vest and be issued when the common shares trade above $2.10 for a period of 20 consecutive business days. The agreement is subject to regulatory approval. If regulatory approval is not obtained, any amount of shares not approved or issued shall be paid in cash based on the number of shares not issued multiplied by the market price of the common shares when the vesting occurs.

(d) The Company is obligated to spend US $300,000 on minimum work commitments for its Cahuilla project on an annual basis over the next three years. The Company is also committed to make anniversary payments ranging from US $100,000 to US $110,000 totaling US $210,000 over that same time period as well as payments totaling US $250,000 and the issuance of 280,000 stock options upon completion of successive exploration phases.

15. Commitments and contingencies (continued)

(e) On April 6, 2018, the Company signed a two year consulting agreement with the CEO that calls for monthly compensation of $20,833 plus GST. The agreements also provide for termination benefits for termination without cause totaling 12 months compensation and change of control totaling 12, 24, or 36 months compensation dependent upon the market capitalization of the Company at the time of change of control.

16. Subsequent events

Subsequent to year end the Company issued 12,357,725 Units at a price of $0.055 per Unit for gross proceeds of $679,675. Each unit consists of one common share and one common share purchase warrant exercisable at $0.075 for a period of one year from the date of issue.

Subsequent to year-end, the Company received TSX Venture Exchange approval for the acquisition of NV Mine Development, Inc. (“NV Mines”) of Nevada through the issuance of 3,565,000 common shares in exchange for all of the issued and outstanding shares of NV Mines. This transaction is subject to the completion of all of the terms and conditions of the Agreement, including satisfaction of the purchase price, which has not occurred as of the date these consolidated financial statements were approved.