Teras Resources Inc.

Interim Consolidated Financial Statements

For the three and nine months ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

Teras Resources Inc.

Consolidated Financial Statements

February 29, 2020 and February 28, 2019
(Expressed in Canadian Dollars)

Management Report

To the Shareholders of Teras Resources Inc.

The unaudited consolidated interim 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 consolidated 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.

Auditor involvement

The auditor of Teras Resources Inc. has not performed a review of the unaudited consolidated interim financial statements for the nine months ended February 29, 2020.

Teras Resources Inc.

(Signed) "Joseph Carrabba"
President Chief Executive Officer

(Signed) "Kuldip Baid"
Chief Financial Officer

Calgary, Canada
April 24, 2020

Teras Resources Inc.

Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

		February 29, 2020		May 31, 2019
Assets				
Current				
Cash	**$**	**191,840**	$	204,341
GST receivable		**13,888**		22,195
Prepaid expenses and deposits		**12,499**		19,393
		218,227		245,929
Reclamation deposit		**20,088**		20,291
Investment (note 4)		**26,784**		54,123
Equipment (note 6)		**-**		843
Exploration and evaluation assets (note 7)		**25,804,354**		25,182,355
	$	**26,069,453**	$	25,503,541
Liabilities				
Current				
Accounts payable and accrued liabilities (notes 8 and 13)	**$**	**293,010**	$	285,301
Note payable (note 9)		**500,000**		-
		793,010		285,301
Shareholders' Equity				
Share capital (note 10)		**44,330,317**		44,116,417
Share subscriptions received		**226,619**		-
Contributed surplus (note 11)		**4,054,274**		4,014,308
Accumulated other comprehensive income (note 11)		**166,863**		206,089
Deficit		**(23,501,630)**		(23,118,574)
		25,276,443		25,218,240
	$	**26,069,453**	$	25,503,541

Nature of operations and going concern (note 1)
Commitments and contingencies (note 16)
Subsequent event (note 17)

Approved by the Board of Directors:

(*Signed*) "Peter Leger"________, Director

(*Signed*) "Joseph Carrabba"____, Director

Teras Resources Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

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	Three months ended February 29,		Nine months ended February 29,	
	2020	2019	**2020**	2019
Revenues				
Oil and gas royalty and lease income	**$ -**	-	**$ -**	101
Expenses				
General and administrative (note 11)	**127,611**	127,189	**342,247**	407,920
Interest (note 9)	**42,332**	-	**127,000**	-
Pre-exploration expense	**-**	373	**-**	63,840
Amortization	**-**	631	**843**	1,895
Stock-based compensation (note 8 vii)	**18,946**	67,765	**39,966**	134,359
	188,889	195,958	**510,056**	608,014
Net loss before other item	**(188,889)**	(195,958)	**(510,056)**	(607,913)
Fair value discount on note payable (note 9)	**-**	-	**127,000**	-
Net loss for the period	**(188,889)**	(195,958)	**(383,056)**	(607,913)
Other comprehensive income (loss)				
Unrealized gain (loss) on investment (note 4)	**(26,309)**	(13,427)	**(27,339)**	(51,576)
Unrealized gain (loss) on translation	**17,466**	(67,534)	**(11,887)**	(36,379)
	(8,843)	(80,961)	**(39,226)**	(87,955)
Net (loss) and comprehensive (loss) for the period	**$ (197,732)**	$ (276,919)	**$ (422,282)**	$ (695,868)
Basic and diluted (loss) per share	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ (0.00)
Weighted average number of shares outstanding	**196,207,953**	186,842,953	**195,228,557**	181,629,009

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 (note 11)	Deficit	Total
Balance, May 31, 2018	174,485,228	43,165,270	70,000	3,880,467	149,536	(22,135,077)	25,130,196
Net and comprehensive loss	-	-	-	-	(36,379)	(607,913)	(644,292)
Issued for private placement, net	12,357,725	663,918	-	12,358	-	-	676,276
Share subscriptions received	-	-	(70,000)	-	-	-	(70,000)
Stock-based compensation	-	-	-	134,359	-	-	134,359
Balance, February 28, 2019	186,842,953	$43,829,188	$ -	$,4,027,184	$ 113,157	$ (22,742,990)	$ 25,226,539
Net and comprehensive loss	-	-	-	-	92,932	(375,584)	(282,652)
Issued for private placement, net	5,800,000	287,229	-	-	-	-	287,229
Stock-based compensation	-	-	-	(12,876)	-	-	(12,876)
Balance, May 31, 2019	192,642,953	$44,116,417	$ -	$ 4,014,308	$ 206,089	$ (23,118,574)	$ 25,218,240
Net and comprehensive loss	-	-	-	-	(39,226)	(383,056)	(422,282)
Issued for acquisition	3,565,000	213,900	-	-	-	-	213,900
Share subscriptions received	-	-	226,619	-	-	-	226,619
Stock-based compensation	-	-	-	39,966	-	-	39,966
Balance, February 29, 2020	196,207,953	$44,330,317	$ 226,619	$ 4,054,274	$ 166,863	$ (23,501,630)	$ 25,276,443

Teras Resources Inc.

Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the nine months ended February 29,	**2020**	2019
Operating activities		
Net loss	**$ (383,056)**	$ (607,913)
Items not affecting cash		
Amortization	**843**	1,895
Fair value discount on note payable (note 9)	**(127,000)**	-
Interest accretion of note payable (note 9)	**127,000**	-
Stock-based compensation	**39,966**	134,359
	(342,247)	(471,659)
Changes in working capital items:		
GST receivable	**8,307**	8,003
Prepaid expenses and deposits	**6,894**	6,461
Accounts payable and accrued liabilities	**7,709**	74,465
	(319,337)	(382,730)
Financing activities		
Issuance of share capital, net of issuance costs	**-**	676,276
Proceeds of note payable	**500,000**	-
Share subscriptions received	**226,619**	(70,000)
	726,619	606,276
Investing activity		
Exploration and evaluation expenditures	**(419,783)**	(407,417)
Decrease in cash	**(12,501)**	(183,871)
Cash, beginning of period	**204,341**	284,975
Cash, end of period	**$ 191,840**	$ 101,104

Supplemental cash flow information		
Non-cash transactions:		
Shares issued for acquisition of mineral property (note 5)	**$ 213,900**	$ -

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 February 29, 2020 the Company had cash of $191,840 and a working capital deficiency of $574,783.

In the first quarter of fiscal 2020, the Company issued 3,565,000 common shares for the acquisition of NV Mine Development, Inc. at a price of $0.06 per common share for a valuation of $213,900.

In the fourth quarter of fiscal 2019, the Company issued 5,800,000 units at a price of $0.05 per unit consisting of one common share and one common share purchase warrant exercisable into one common share at a price of $0.05 per share for a period of one year from issuance for net proceeds of $287,229.

In the first quarter of fiscal 2019, the Company issued 12,357,725 units at a price of $0.055 per unit consisting of one common share and one common share purchase warrant exercisable into one common share at a price of $0.075 per share for a period of one year from issuance for net proceeds of $676,276.

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 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 and statement of compliance

These condensed interim consolidated financial statements for nine months ended February 29, 2020 and February 28, 2019, have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual audited financial statements for the year ended May 31, 2019, which have been prepared in accordance with International Financial Reporting Standards. A summary of the Company's significant accounting policies is presented in Note 3.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on April 24, 2020.

Basis of consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the Company and its wholly-owned subsidiaries, Profile (US) Inc., NV Mine Development, 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.

3. Significant accounting policies and new accounting standards

The significant accounting policies used in the preparation of these unaudited condensed interim consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended May 31, 2019. There have been no changes to the Company's accounting policies since May 31, 2019 except as outlined below:

<u>Financial Liabilities</u>

During the period ended February 29, 2020, the Company issued a note payable as detailed in note 9. The initial measurement of the note payable was at fair value less directly attributable transactions costs and is subsequently being measured at amortized cost using the effective interest method. Interest expense and fair value on initial measurement has been recognized in net earnings.

<u>Business Combinations</u>

Business combinations are accounted for using the acquisition method where the acquisitions of companies and assets meet the definition of a business under IFRS. The acquired identifiable net assets are measured at their fair value at the date of acquisition or the fair value of the consideration given up, whichever is more readily reliable. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

(Expressed in Canadian Dollars)

3. Significant accounting policies and new accounting standards

The following accounting standard was adopted June 1, 2019 and had no material impact on the Company's consolidated financial statements.

<u>IFRS 16 Leases</u>

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.

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 investment is measured at fair value using level one input as the shares have a quoted market price in an active market.

		February 29, 2020		May 31, 2019
Balance, beginning of year	**$**	**54,123**	$	64,740
Unrealized gain (loss) on investment		**(27,339)**		(10,617)
Balance, end of period	**$**	**26,784**	$	54,123

5. Acquisition

On August 15, 2019 the Company completed the acquisition of NV Mine Development, Inc. through the issuance of 3,565,000 common shares of the Company in exchange for all the issued and outstanding shares. The transaction was valued at the value of the consideration provided being the 3,565,000 common shares at the fair value of $0.06 per share for a total amount of $213,900.

The purchase price was allocated to the exploration and evaluation assets acquired.

(Expressed in Canadian Dollars)

6. Equipment

						February 29, 2020
		Cost		**Accumulated amortization**		**Net book Value**
Other equipment	**$**	**14,035**	**$**	**14,035**	**$**	**-**

						May 31, 2019
		Cost		Accumulated amortization		Net book value
Other equipment	$	14,035	$	13,192	$	843

7. 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, 2018	$ 52,276	$ 130,797	$ 31,301	$ 24,702,128	$24,916,502
Deferred exploration costs:					
Contract services	-	-	-	423,145	423,145
Administration costs	-	-	222	-	222
Foreign exchange on translation of subsidiaries	-	325	310	57,082	57,717
Total expenditures for the year	-	325	532	480,227	481,084
Accumulated amortization and impairment:					
Impairments	(52,276)	(131,122)	(31,833)	-	(215,231)
Balance, May 31, 2019	**-**	**-**	**-**	**25,182,355**	**25,182,355**
Deferred exploration costs:					
Contract services	-	-	-	405,034	405,034
Acquisition	-	-	213,900	-	213,900
Foreign exchange on translation of subsidiaries	-	-	-	3,065	3,065
Total expenditures for the year	-	-	213,900	408,099	621,999
Balance, February 29, 2020	**$ -**	**$ -**	**$213,900**	**$ 25,590,454**	**$25,804,354**

(Expressed in Canadian Dollars)

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a $73,500 (May 31, 2019 - $74,926) provision for estimated reclamation costs on the Company's Golden Jubilee Property and an additional $nil (May 31, 2019 - $Nil) for estimated costs expected to be incurred related to the reclamation of the Company's Watseca Mills property. Due to the uncertainty with respect to the timing of the reclamation, the costs have not been discounted or accreted. As the Company is in the initial exploration phase of its mineral properties, there are no other legal obligations relating to reclamation at February 29, 2020. The total amount included in accounts payable and accrued liabilities relating to these obligations as at February 29, 2020 is $73,500 (May 31, 2019 - $74,926).

The estimated reclamation costs have been charged to the exploration and evaluation assets for Golden Jubilee and Watseca Mills (note 7).

9. Note payable

On July 31, 2019 the Company signed a Loan Agreement for $500,000. The loan is non-interest bearing, repayable on or before January 31, 2020, and is secured by the assets of the Company. As part of the Loan Agreement, the Company provided a 4% interest in the Company's Cahuilla property which the Company may repurchase the 4% interest on mutually acceptable terms. The Company and the lender have come to a tentative arrangement whereby the Company will provide the lender with an additional 1% interest in Cahuilla and an additional 0.25% for every month loan remains outstanding subsequent to April 1, 2020.

The Note was discounted using a rate of 30% per annum based on management's best estimate of the Company's borrowing cost and has been recorded as follows:

Note payable

Face value of Note payable	$	500,000
Fair value discount on initial recognition		(127,000)
Interest accretion		127,000
	$	500,000

(Expressed in Canadian Dollars)

10. Share capital

i) Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

ii) Issued:

	February 29, 2020		May 31, 2019	
	Number	**Amount**	Number	Amount
Balance, beginning of year	**192,642,953**	**$ 44,116,417**	174,485,228	$43,165,270
Issued for private placement	**-**	**-**	18,157,725	969,675
Issued for acquisition	**3,565,000**	**213,900**	-	-
Value assigned to warrants	**-**	**-**	-	(12,358)
Share issue costs	**-**	**-**	-	(6,170)
Balance, end of period	**196,207,953**	**$ 44,330,317**	192,642,953	$44,116,417

iii) Share capital transactions in 2020

In the first quarter of fiscal 2020, the Company issued 3,565,000 common shares for the acquisition of NV Mine Development, Inc. at a price of $0.06 per common share for a valuation of $213,900.

iv) Share purchase warrants

A summary of the status of the Company's share purchase warrants as of February 29, 2020 and May 31, 2019 and changes during the periods then ended is presented below:

	February 29, 2020		May 31, 2019	
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**41,095,807**	**0.13**	22,972,032	0.19
Private placement warrants	**-**	**-**	18,157,725	0.067
Expired/cancelled	**(9,454,332)**	**(0.24)**	(33,950)	(0.12)
Outstanding, end of period	**31,641,475**	**0.10**	41,095,807	0.13

(Expressed in Canadian Dollars)

10. Share capital (continued)

A summary of the share purchase warrants outstanding as at February 29, 2020 which have a weighted average remaining life of 1.30 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	**13,483,750**	**0.15**	July 4, 2020
Private placement warrants	**12,357,725**	**0.075**	August 2, 2022
Private placement warrants	**5,800,000**	**0.05**	April 17, 2021
Outstanding, end of period	**31,641,475**	**0.10**	

v) 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.

A summary of the status of the Company's stock option plan as of February 29, 2020, and May 31, 2019 and changes during the periods then ended is presented below:

v) Stock option plan (continued)

	February 29, 2020		May 31, 2019	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**8,200,000**	**0.13**	5,850,000	0.17
Granted	**2,000,000**	**0.06**	3,000,000	0.09
Expired/Cancelled	**(2,400,000)**	**(0.18)**	(650,000)	0.26
Outstanding, end of period	**7,800,000**	**0.10**	8,200,000	0.13

The stock options have a weighted average remaining life of 3.20 years.

(Expressed in Canadian Dollars)

10. Share capital (continued)

A summary of stock options outstanding at February 29, 2020 is set out below:

Number Outstanding	Number Exercisable	Exercise price	Expiry date
400,000	400,000	0.115	May 4, 2021
1,250,000	1,250,000	0.15	September 30, 2021
1,150,000	1,150,000	0.15	April 4, 2022
3,000,000	2,000,000	0.09	September 9, 2023
2,000,000	-	-	January 23, 2025
7,800,000	4,800,000	0.12	

The Company calculated and recorded stock-based compensation expense for the three and nine months ended February 29, 2020 of $18,946 (2019 - $67,765) and $39,966 (2019 – $134,359) using the Black-Scholes option pricing model. The Company has unvested stock-based compensation of approximately $98,415 (May 31, 2019 - $30,757) to be recorded in future periods. Significant assumptions used were as follows:

	February 29, 2020	May 31, 2019
Risk-free interest rate	1.43%	2.21%
Average expected option life	5 years	5 years
Share price volatility	179%	148%
Expected dividend payments	Nil	Nil
Forfeiture rate	6.41%	8.14%
Fair value of options granted	$0.06	$0.06

For the period ended February 29, 2020 and May 31, 2019, the weighted average share price on the dates the options were granted was $0.055 and $0.06, respectively.

11. Contributed surplus and Accumulated other comprehensive income

A summary of the contributed surplus as at February 29, 2020 and May 31, 2019 and the changes during the periods then ended are presented below:

	February 29, 2020	May 31, 2019
Balance, beginning of year	**$ 4,014,308**	$ 3,880,467
Fair value assigned to stock options vested	**39,966**	121,483
Fair value ascribed to warrants	**-**	12,358
Balance, end of period	**$ 4,054,274**	$ 4,014,308

(Expressed in Canadian Dollars)

11. Contributed surplus and Accumulated other comprehensive income (continued)

Accumulated other comprehensive income is comprised of the following components as at February 29, 2020 and May 31, 2019:

	February 29, 2020	May 31, 2019
Foreign currency translation gain on subsidiaries	$ 618,813	$ 630,700
Unrealized loss on investment	(451,950)	(424,611)
	$ 166,863	$ 206,089

12. Segmented information

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

	February 29, 2020	May 31, 2019
Assets		
Canada		
Current assets	$ 200,340	$ 227,023
Equipment	-	843
	200,340	227,866
United States		
Current assets	17,887	18,906
Investment	26,784	54,123
Exploration and evaluation assets	25,804,354	25,182,355
Reclamation bond	20,088	20,291
	25,869,113	25,275,675
	$ 26,069,453	$ 25,503,541

Net loss for the periods ended,	**Three months ended February 29, 2020**	Three months ended February 29, 2019	**Nine months ended February 29, 2020**	Nine months ended February 29, 2019
Canada	$ 171,358	$ 182,160	$ 324,875	$ 484,837
United States	17,531	13,798	58,181	123,076
Net loss	$ 188,889	$ 195,958	$ 383,056	$ 607,913

(Expressed in Canadian Dollars)

13. Related party balances and transactions

As of February 29, 2020, included in accounts payable and accrued liabilities is $172,508 (May 31, 2019 - $152,493) 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. These transactions were made in the normal course of operations for consideration established and accepted by the Company and related parties. Of the consulting fees incurred for the nine months ended February 29, 2020, $142,000 was paid in full during the period.

For the three and nine months ended February 29, 2020 and 2019, the following includes all amounts paid to key management personnel and directors and officers, in these consolidated financial statements:

	Three months ended February 29,		Nine months ended February 29,	
	2020	2019	**2020**	2019
Consulting fees and benefits	**$ 79,015**	$ 79,015	**$ 195,312**	$ 237,045
Stock-based compensation	**13,717**	31,623	**23,526**	65,119
	$ 92,732	$ 110,638	**$ 218,838**	$ 302,164

14. 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 nine months ended February 29, 2020 and the year ended May 31, 2019.

15. 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

15. Financial instruments and risk management (continued)

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 consists of sales tax receivable from government authorities in Canada. The credit risk exposure is minimal and; accordingly, the Company has a $nil (May 31, 2019 - $nil) allowance for doubtful accounts.

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 February 29, 2020, the Company had cash of 191,840 (May 31, 2019 - $204,341) to settle current liabilities of $793,010 (May 31, 2019 - $285,301). The majority of the Company's financial liabilities have contractual maturities of less than ninety days and are subject to normal trade terms except for the Note Payable (note 9). The repayment terms of the Note payable are currently being negotiated.

Market risk

Market risks that are applicable to the Company primarily arise from changes in foreign exchange rates and commodity prices.

(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 and investments. 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. Price risk with respect to investments is defined as the potentially adverse impact on earnings and economic value due to fluctuations in the market value of the Company's investment.

15. Financial instruments and risk management (continued)

(c) 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 and accounts payable and accrued liabilities denominated in US dollars. As at February 29, 2020, a 5% variance in the Canada-US dollar exchange rate would result in a $2,600 (May 31, 2019 - $2,000) foreign exchange gain (loss), respectively.

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 February 29, 2020, 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. Price risk associated with investments can fluctuate significantly over time based on the investee's operations and other market factors. A 5% variance in the market value would result in a $1,400 (May 31, 2019 - $2,800) gain (loss) on the investment, respectively.

16. 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 expiring July 31, 2020 that requires monthly payments of $1,500, inclusive of operating costs.

(c) In November 2010, the Company entered into a Performance Share Agreement with the former 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. The Company has met its work commitment obligations until the end of fiscal 2019. The Company is also committed to make anniversary lease payments each year on its Cahuilla project totaling approximately US $341,000 as well as the issuance of 280,000 stock options and cash payments totaling US $250,000 upon completion of successive exploration phases. The lease agreements can be terminated by the Company by providing one year's notice to the lessors.

16. Commitments and contingencies (continued)

(e) On October 1, 2019, the Company signed a two year consulting agreement with the former 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.

17. Subsequent event

On March 05, 2020 Teras completed the closing of the private placement of Units and issued 10,232,380 Units at a price of $0.05 per Unit for gross proceeds of $511,619. Each Unit consisted of one common share (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Common Share at a price of $0.075 per share for a period of two years from the issuance of such Warrant. In addition, Teras issued 399,000 Broker warrants at a price of $0.075 for a period of one year and paid a finder's fee of $19,950.