Teras Resources Inc.

Interim Consolidated Financial Statements

For the three and six months ended November 30, 2017 and 2016

(Expressed in Canadian Dollars)

Teras Resources Inc.

Consolidated Financial Statements

November 30, 2017 and 2016
(Expressed in Canadian Dollars)

Management Report

To the Shareholders of Teras Resources Inc.

The unaudited condensed interim 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.

Auditor involvement

The auditor of Teras Resources Inc. has not performed a review of the unaudited condensed interim consolidated financial statements for the six months ended November 30, 2017.

Teras Resources Inc.

(Signed) "Peter Leger"
President Chief Executive Officer

(Signed) "Kuldip Baid"
Chief Financial Officer

Calgary, Canada
January 26, 2018

Teras Resources Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	November 30, 2017	May 31, 2017
Assets		
Current		
Cash	$ 586,821	$ 655,850
GST receivable	11,948	25,727
Prepaid expenses and deposits	14,151	17,943
	612,920	699,520
Investment (note 4)	25,158	40,500
Equipment (note 5)	4,632	5,895
Exploration and evaluation assets (note 6)	24,806,970	24,094,597
	$ 25,449,680	$ 24,840,512
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 7 and 11)	$ 113,367	$ 200,250
Shareholders' Equity		
Share capital (note 8)	43,165,270	42,114,372
Contributed surplus (note 9)	3,837,442	3,733,764
Accumulated other comprehensive income (loss)	97,736	113,599
Deficit	(21,764,135)	(21,321,473)
	25,336,313	24,640,262
	$ 25,449,680	$ 24,840,512

Nature of operations and going concern (note 1)
Commitments and contingencies (note 14)

Approved by the Board of Directors on January 26, 2018

(*Signed*) "Peter Leger" , Director

(*Signed*) "John Batiuk" , Director

Teras Resources Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Three months ended November 30,		Six months ended November 30,	
	2017	2016	**2017**	2016
Revenues				
Oil and gas royalty and lease income	**$ 251**	210	**$ 325**	239
Expenses				
General and administrative (note 11)	**150,282**	141,462	**336,188**	266,103
Amortization	**631**	631	**1,263**	1,263
Stock-based compensation (note 8 vii)	**38,859**	42,893	**90,194**	47,139
	189,772	184,986	**427,645**	314,415
Net loss before other item	**(189,521)**	(184,776)	**(427,320)**	(314,176)
Other item				
Unrealized loss on investment (note 4)	**-**	-	**15,342**	-
Net loss for the period	**(189,521)**	(184,776)	**(442,662)**	(314,176)
Other comprehensive income (loss)				
Unrealized loss on investment (note 4)	-	(7,012)	-	(98,209)
Unrealized gain (loss) on translation	**17,573**	10,786	**(15,863)**	11,549
	17,573	3,774	**(15,863)**	(86,660)
Net (loss) and comprehensive (loss) for the period	**$ (171,948)**	$ (181,002)	**$ (458,525)**	$ (400,836)
Basic and diluted (loss) per share	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ (0.00)
Weighted average number of shares outstanding	**174,485,228**	153,001,478	**172,274,777**	146,940,345

Teras Resources Inc.

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Number of shares	Share capital	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	-	-	-	(86,660)	(314,176)	(400,836)
Issue for private placement, net	9,454,332	1,097,850	9,454	-	-	1,107,304
Fair value ascribed to broker warrants	-	(4,020)	4,020	-	-	-
Stock-based compensation	-	-	47,139	-	-	47,139
Balance, November 30, 2016	153,001,478	$ 41,634,372	$ 3,683,947	$ (316,012)	$ (20,369,299)	$ 24,633,008
Net and comprehensive loss	-	-	-	429,611	(952,174)	(522,563)
Issue on exercise of warrants	8,000,000	400,000	-	-	-	400,000
Transfer of value ascribed to warrants	-	80,000	(80,000)	-	-	-
Stock-based compensation	-	-	129,817	-	-	129,817
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	-	-	-	(15,863)	(442,662)	(458,525)
Issue for private placement, net	13,483,750	1,050,898	13,484	-	-	1,064,382
Stock-based compensation	-	-	90,194	-	-	90,194
Balance, November 30, 2017	**174,485,228**	**$ 43,165,270**	**$ 3,837,442**	**$ 97,736**	**$ (21,764,135)**	**$ 25,336,313**

Teras Resources Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the six months ended November 30,		2017		2016
Operating activities				
Net loss	$	**(442,662)**	$	(314,176)
Items not affecting cash				
Amortization		**1,263**		1,263
Stock-based compensation		**90,194**		47,139
Unrealized loss on investment		**15,342**		-
		(335,863)		(265,774)
Changes in non-cash operating working capital items:				
Accounts receivable and GST receivable		**13,779**		14,580
Prepaid expenses and deposits		**3,792**		3,169
Accounts payable and accrued liabilities		**(86,883)**		(94,803)
		(405,175)		(342,828)
Financing activity				
Issuance of share capital, net of issuance costs		**1,064,382**		1,107,304
Investing activities				
Exploration and evaluation expenditures		**(728,236)**		(442,725)
Purchase of equipment		**-**		(8,421)
		(728,236)		(451,146)
(Decrease) Increase in cash		**(69,029)**		313,330
Cash, beginning of period		**655,850**		343,392
Cash, end of period	$	**586,821**	$	656,722

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 condensed interim 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 November 30, 2017 the Company had cash of $586,821 and a working capital of $499,553.

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 condensed interim consolidated financial statements for the six months ended November 30, 2017 and 2016, 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").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on January 26, 2018.

3. Significant accounting policies

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, 2017. There have been no changes to the Company's accounting policies since May 31, 2017 other than outlined below.

New and revised standards and interpretations

The following accounting standards and amendments are effective for reporting periods beginning on or after January 1, 2017 and were adopted on June 1, 2017 with no material changes to the financial statements.

<u>Amendments to IAS 7 Statement of Cash Flows</u>

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

<u>Amendments to IAS 12 Income Taxes</u>

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

3. Significant accounting policies (continued)

Future accounting pronouncements

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

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 amortised cost or fair value. To be classified and measured at amortised 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 recognised 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.

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.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

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

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

Future accounting pronouncements (continued)

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.

These amendments are 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.

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 Brilliant Sands Incorporated. (formerly "Consolidated Goldfields Corporation"), 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 do have a quoted market price in an active market.

	November 30, 2017	May 31, 2017
Balance, beginning of year	**$ 40,500**	$ 156,713
Unrealized loss on investment	**(15,342)**	(116,213)
Balance, end of period	**$ 25,158**	$ 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 is impaired. As a result, the accumulated unrealized loss on investment of $322,021 was reclassified to profit and loss for the year ending May 31, 2017. Management also assessed the investment for impairment as at November 30, 2017 and determined that the impairment is permanent.

(Expressed in Canadian Dollars)

5. Equipment

						November 30, 2017
		Cost		**Accumulated amortization**		**Net book Value**
Other equipment	**$**	**14,035**	**$**	**9,403**	**$**	**4,632**

						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	$23,512,797
Deferred exploration costs:					
Contract services	-	-	-	555,222	555,222
Revisions to ARO estimate	-	19,791	-	-	19,791
Administration costs	-	-	6,787	-	6,787
Total expenditures for the year	-	19,791	6,787	555,222	581,800
Balance, May 31, 2017	51,888	115,923	18,410	23,908,376	24,094,597
Deferred exploration costs:					
Contract services	-	-	-	695,058	695,058
Administration costs	-	4,289	13,026	-	17,315
Total expenditures for the year	-	4,289	13,026	695,058	712,373
Balance, November 30, 2017	**$ 51,888**	**$ 120,212**	**$ 31,436**	**$ 24,603,434**	**$24,806,970**

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

6. Exploration and evaluation assets (continued)

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.

The Purchaser is currently in default of its obligations under the Agreement in that none of the ten payments of US $250,000 each due after closing have not 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 US $1,200 at November 30, 2017, 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 $46,000 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.

Cahuilla

The Company entered into an Earn-In Agreement with Brilliant Sands Incorporated (formerly "Consolidated Goldfields Corporation"), a Montana corporation ("Brilliant") 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 Brilliant 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 Brilliant. Brilliant 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.

6. Exploration and evaluation assets (continued)

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

On September 29, 2011, the Company signed an Exploration and Earn-In Agreement with Brilliant 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 Brilliant 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 Brilliant 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 $62,416 (US$46,000) provision for estimated reclamation costs on the Company’s Golden Jubilee Property and an additional $1,628 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 November 30, 2017. The total amount included in accounts payable and accrued liabilities relating to these obligations as at November 30, 2017 is $64,044 (May 31, 2017 - $64,100).

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

(Expressed in Canadian Dollars)

8. Share capital

i) Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

ii) Issued:

		November 30, 2017		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.

iv) Share capital transactions in 2017

In the first 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.

(Expressed in Canadian Dollars)

8. Share capital (continued)

v) Share purchase warrants

A summary of the status of the Company's share purchase warrants as of November 30, 2017 and May 31, 2017 and changes during the period then ended is presented below:

	November 30, 2017		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 period	**22,972,032**	**0.19**	9,488,282	0.24

A summary of the share purchase warrants outstanding as at November 30, 2017 which have a weighted average remaining life of 0.61 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, 2018
Private placement warrants	**33,950**	**0.12**	July 22, 2018
Private placement warrants	**13,483,750**	**0.15**	July 4, 2018
Outstanding, end of period	**22,972,032**	**0.19**	

(Expressed in Canadian Dollars)

8. Share capital (continued)

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.

A summary of the status of the Company's stock option plan as of November 30, 2017, and May 31, 2017 and changes during the years then ended is presented below:

	November 30, 2017		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	**(220,000)**	**0.23**	(2,213,334)	0.36
Outstanding, end of period	**5,950,000**	**0.17**	6,170,000	0.17

The stock options have a weighted average remaining life of 2.72 years.

A summary of stock options outstanding at November 30, 2017 is set out below:

Number Outstanding	**Number Exercisable**	**Exercise price**	**Expiry date**
100,000	100,000	0.180	February 28, 2018
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	833,336	0.150	September 30, 2021
1,150,000	291,671	0.150	April 4, 2022
5,950,000	4,675,007	0.177	

(Expressed in Canadian Dollars)

8. Share capital (continued)

vii) Fair value based method of stock option accounting

The Company calculated and recorded stock-based compensation expense for the three and six months ended November 30, 2017 of $38,859 (2017 - $42,893) and $90,194 (2017 – $47,139) respectively using the Black-Scholes option pricing model. The Company has an unvested stock-based compensation of approximately $48,631 (May 31, 2017 - $138,825) to be recorded. Significant assumptions used are as follows:

	November 30, 2017	**May 31, 2017**
Risk-free interest rate	0.62% - 1.08%	0.62% - 1.08%
Average expected option life	5 years	5 years
Share price volatility	142% - 171%	142% - 171%
Expected dividend payments	Nil	Nil
Forfeiture rate	9.47%	9,47
Fair value of options granted	$0.13	$0.13

For the three months ended November 30, 2017, the weighted average share price on the dates the options were granted was $Nil (May 31, 2017 - $0.13)

9. Contributed surplus

A summary of the contributed surplus as at November 30, 2017 and May 31, 2017 and the changes during the periods then ended are presented below:

	November 30, 2017	May 31, 2017
Balance, beginning of year	**$ 3,733,764**	$ 3,623,334
Fair value assigned to stock options vested	**90,194**	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	**$ 3,837,442**	$ 3,733,764

(Expressed in Canadian Dollars)

10. Segmented information

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

	November 30, 2017	May 31, 2017
Assets		
Canada		
Current assets	**$ 476,927**	$ 672,373
Equipment	**4,632**	5,895
	481,559	678,268
United States		
Current assets	**135,993**	27,147
Investment	**25,158**	40,500
Exploration and evaluation assets	**24,806,970**	24,094,597
	24,968,121	24,162,244
	$ 25,449,680	$ 24,840,512

	Three months ended November 30, 2017	Three months ended November 30, 2016	Six months ended November 30, 2017	Six months ended November 30, 2016
Canada	**$ 164,508**	$ 178,730	**$ 400,770**	$ 300,986
United States	**25,013**	6,046	**41,892**	13,190
Net loss	**$ 189,521**	$ 184,776	**$ 442,662**	$ 314,176

(Expressed in Canadian Dollars)

11. Related party balances and transactions

As of November 30, 2017, included in accounts payable and accrued liabilities is $4,800 (May 31, 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 three and six months ended November 30, 2017 and 2016, the following includes all amounts paid to key management personnel and directors and officers, in these consolidated financial statements:

	Three months ended November 30,		Six months ended November 30,	
	2017	2016	**2017**	2016
Consulting fees and benefits	**$ 66,720**	$ 85,484	**$ 136,640**	$ 149,819
Stock-based compensation	**29,449**	32,002	**70,927**	45,753
	$ 96,169	$ 117,486	**$ 207,567**	$ 195,572

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 periods ended November 30, 2017 and 2016.

13. 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 investment-grade certificates, which have been invested with the Company's banking institution, from which management believes the risk of loss to be minimal.

GST receivable consist of sales tax receivable from government authorities in Canada. Accounts receivable are in good standing as of November 30, 2017. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is minimal.

The Company is also subject to credit risk with respect to the Agreement for sale on the Watseca property (note 6). Although, the remaining payments under the Agreement have not been recorded in the financial statements, failure to collect the payments will result in the Company having to find a new purchaser for the property.

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 November 30, 2017, the Company had cash of $586,821 (May 31, 2017 - $655,850) to settle current liabilities of $113,367 (May 31, 2017 - $200,250). All 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) Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by the Company's Canadian chartered bank. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its bank.

13. Financial instruments and risk management (continued)

(b) 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.

(c) Price risk

When and if the Company begins production, it will be 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.

(d) 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 one includes quoted prices (unadjusted) in active markets for identical assets or liabilities, level two includes inputs that are observable other than quoted prices included in level one and level three includes inputs that are not based on observable market data.

The Company’s cash is a level one fair value measurement. The Company’s investment is a level one fair value measurement. The fair values of financial instruments consisting of cash and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

(e) Sensitivity analysis

The Company has, for accounting purposes, designated its cash as FVTPL, which are measured at fair value. Accounts receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair market value. Long-term investments are classified as available-for-sale and are measured at fair value based on the trading price of the investment. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value.

As of November 30, 2017, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

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 November 30, 2017, cash would have changed by approximately $8,000 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.

13. Financial instruments and risk management (continued)

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. 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 of November 30, 2017, 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.

14. 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 five years. The Company is also committed to make anniversary payments ranging from US $70,000 to US $110,000 totaling US $450,000 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.