

**Teras Resources Inc.**  
**Consolidated Financial Statements**  
**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**Consolidated Financial Statements**

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**May 31, 2020 and 2019**  
**(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. (the "Company") 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.

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) "Joseph Carrabba"***  
President Chief Executive Officer

***(Signed) "Kuldip Baid"***  
Chief Financial Officer

**Calgary, Canada**  
**September 28, 2020**

## Independent Auditor's Report

To the Shareholders of Teras Resources Inc.

### Opinion

We have audited the consolidated financial statements of Teras Resources Inc. ("the Group"), which comprise the consolidated statements of financial position as at May 31, 2020 and May 31, 2019 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at May 31, 2020 and May 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that casts significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

## **Independent Auditor's Report (continued)**

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

### **Independent Auditor's Report (continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Todd Freer.

**Calgary, Canada  
September 28, 2020**

***"Crowe MacKay LLP"*  
Chartered Professional Accountants**

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**Teras Resources Inc.****Consolidated Statements of Financial Position****(Expressed in Canadian Dollars)**

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	<b>May 31, 2020</b>	<b>May 31, 2019</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 334,244	\$ 204,341
GST receivable	20,228	22,195
Prepaid expenses and deposits	19,596	19,393
	<b>374,068</b>	<b>245,929</b>
Reclamation deposit	20,651	20,291
Investment (note 4)	27,535	54,123
Equipment (note 6)	-	843
Exploration and evaluation assets (note 7)	25,562,098	25,182,355
	<b>\$ 25,984,352</b>	<b>\$ 25,503,541</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 13)	\$ 301,495	\$ 210,375
Provision for reclamation obligations (note 9)	76,238	74,926
Note payable (note 8)	500,000	-
	<b>877,733</b>	<b>285,301</b>
<b>Shareholders' Equity</b>		
Share capital (note 10)	44,801,733	44,116,417
Contributed surplus (note 11)	4,113,893	4,014,308
Accumulated other comprehensive income (note 11)	231,528	206,089
Deficit	(24,040,535)	(23,118,574)
	<b>25,106,619</b>	<b>25,218,240</b>
	<b>\$ 25,984,352</b>	<b>\$ 25,503,541</b>

**Nature of operations and going concern (note 1)****Commitments and contingencies (note 17)****Subsequent events (note 18)****Approved by the Board of Directors:***(Signed)* "Joseph Carrabba" \_\_\_\_\_, Director*(Signed)* "Peter Leger" \_\_\_\_\_, Director

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**Teras Resources Inc.****Consolidated Statements of Loss and Comprehensive Loss****(Expressed in Canadian Dollars)**

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<b>For the years ended May 31,</b>	<b>2020</b>	<b>2019</b>
<b>Revenues</b>		
Oil and gas royalty income	\$ -	\$ 101
<b>Expenses</b>		
General and administrative (note 13)	500,886	573,623
Interest (notes 7 and 8)	127,000	-
Pre-exploration expense	-	70,735
Amortization	843	2,526
Stock-based compensation (note 10(vi) and 13)	79,332	121,483
Impairments (note 7)	213,900	215,231
	<b>921,961</b>	<b>983,598</b>
<b>Net loss</b>	<b>(921,961)</b>	<b>(983,497)</b>
<b>Other comprehensive income</b>		
Unrealized loss on investment (note 4)	(26,588)	(10,617)
Unrealized gain on translation	52,027	67,170
	<b>25,439</b>	<b>56,553</b>
<b>Comprehensive loss</b>	<b>\$ (896,522)</b>	<b>\$ (926,944)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of shares outstanding</b>	<b>197,914,370</b>	<b>185,443,011</b>

**Teras Resources Inc.**

**Consolidated Statements of Changes in Equity**

**(Expressed in Canadian Dollars)**

	Number of shares (note 10)	Share capital (note 10)	Subscriptions received	Contributed surplus (note 11)	Accumulated other comprehensive income (note 11)	Deficit	Total
<b>Balance May 31, 2018</b>	174,485,228	\$43,165,270	\$ 70,000	\$ 3,880,467	\$ 149,536	\$ (22,135,077)	\$ 25,130,196
Comprehensive loss	-	-	-	-	56,553	(983,497)	(926,944)
Private placement, net	18,157,725	951,147	(70,000)	12,358	-	-	893,505
Stock-based compensation	-	-	-	121,483	-	-	121,483
<b>Balance, May 31, 2019</b>	<b>192,642,953</b>	<b>44,116,417</b>	-	<b>4,014,308</b>	<b>206,089</b>	<b>(23,118,574)</b>	<b>25,218,240</b>
Comprehensive loss	-	-	-	-	25,439	(921,961)	(896,522)
Private placement, net	10,232,380	471,416	-	20,253	-	-	491,669
Asset acquisition (note 5)	3,565,000	213,900	-	-	-	-	213,900
Stock-based compensation	-	-	-	79,332	-	-	79,332
<b>Balance, May 31, 2020</b>	<b>206,440,333</b>	<b>\$44,801,733</b>	<b>\$ -</b>	<b>\$ 4,113,893</b>	<b>\$ 231,528</b>	<b>\$ (24,040,535)</b>	<b>\$ 25,106,619</b>

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**Teras Resources Inc.****Consolidated Statements of Cash Flows****(Expressed in Canadian Dollars)**

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<b>For the years ended May 31,</b>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Net loss	\$ (921,961)	\$ (983,497)
Items not affecting cash		
Amortization	843	2,526
Pre-exploration expenditures	-	13,300
Stock-based compensation	79,332	121,483
Interest (notes 7 and 8)	127,000	-
Impairments (note 7)	213,900	215,231
	(500,886)	(630,957)
Changes in working capital items:		
GST receivable	1,967	865
Prepaid expenses and deposits	(203)	(395)
Accounts payable and accrued liabilities	115,426	113,306
Reclamation deposit	(360)	-
<b>Cash outflows from operating activities</b>	<b>(384,056)</b>	<b>(517,181)</b>
<b>Financing activity</b>		
Issuance of share capital, net of issuance costs	491,669	880,205
Proceeds from note (note 8)	500,000	-
<b>Cash inflows from financing activities</b>	<b>991,669</b>	<b>880,205</b>
<b>Investing activities</b>		
Exploration and evaluation expenditures	(477,710)	(423,367)
Reclamation deposit	-	(20,291)
<b>Cash outflows from investing activities</b>	<b>(477,710)</b>	<b>(443,658)</b>
<b>Increase (decrease) in cash</b>	<b>129,903</b>	<b>(80,634)</b>
<b>Cash, beginning of year</b>	<b>204,341</b>	<b>284,975</b>
<b>Cash, end of year</b>	<b>\$ 334,244</b>	<b>\$ 204,341</b>

**Supplemental cash flow information**

## Non-cash transactions:

Shares issued for pre-exploration expenses	\$ -	\$ 13,300
Shares issued on acquisition of mineral property (note 5 and 10)	\$ 213,900	\$ -
Share subscriptions transferred to share capital on issuance of shares	\$ -	\$ 70,000
Interest on note credited to E&E assets (note 8)	\$ 127,000	\$ -
Value assigned to private placement broker warrants	\$ 10,020	\$ -
Value assigned to private placement unit warrants	\$ 10,233	\$ 12,358

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**1. Nature of operations and going concern**

Teras Resources Inc. (the “Company” or “Teras”) is incorporated in Alberta, Canada. The address of the Company’s head office is 206, 6025 - 12<sup>th</sup> Street SE, Calgary, Alberta, T2H 1K1. The address of the Company’s registered office is 1000, 250 - 2<sup>nd</sup> 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, 2020 the Company had cash of \$334,244 (2019 - \$204,341) and a working capital deficiency of \$503,665 (2019 – \$39,372).

In the fourth quarter of fiscal 2020, the Company 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 exercisable into one Common Share at a price of \$0.075 per share for a period of one year and incurred finder’s fees of \$19,950.

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 fair value of \$0.06 per share aggregating to \$213,900 (note 5).

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.

**Impact of COVID-19**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, the movement of people and goods, and financial markets globally, leading to an economic downturn.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019  
(Expressed in Canadian Dollars)**

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**1. Nature of operations and going concern (continued)**

The Company continues to operate through this pandemic while complying with the strict guidelines prescribed by government health authorities and will assess its operational needs on a continual basis as new information regarding the pandemic is received. The duration of the COVID-19 outbreak and the resulting travel restrictions, social distancing recommendations, government response actions, business disruptions and business closures is not yet determinable. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the COVID-19 pandemic's impact on global industrial and financial markets which may reduce metal prices, share prices and financial liquidity, thereby limiting access to additional capital.

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 create a material uncertainty that casts 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 consolidated financial statements for the years ended May 31, 2020 and 2019, 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"). A summary of the Company's significant accounting policies is presented in Note 3.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 28, 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 below.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019  
(Expressed in Canadian Dollars)**

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**2. Basis of presentation and statement of compliance (continued)**

**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**

**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. As at May 31, 2020 and 2019, the Company did not have any cash equivalents.

**Exploration and evaluation expenditures**

*Pre-exploration costs*

Pre-exploration costs are those costs incurred prior to obtaining the legal right to explore and are expensed as an pre- exploration expense in the period in which they are 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 until such time that production ceases or the properties are sold or abandoned. If the properties are considered to be impaired in value, an appropriate charge is recorded in the period such impairment has been determined.

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.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**3. Significant accounting policies (continued)**

**Exploration and evaluation expenditures (continued)**

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-downs 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.

**Impairment of non-financial assets**

The carrying amounts of non-financial assets are reviewed for impairment at least annually or 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.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019  
(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Impairment of non-financial assets (continued)**

Non-financial 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.

**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 straight-line 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 and comprehensive loss.

**Revenue recognition**

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

The Company has only one source of revenue hence disaggregated revenue information is limited to geographical disclosure as outlined in note 12.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**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.

**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, 2020, see note 9.

**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.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**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.

**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**

Financial instruments are comprised of cash, investment, accounts payable, accrued liabilities and note payable. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

a. Financial assets

*Classification and Measurement*

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- **Amortized Cost:** Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

a. Financial assets (continued)

- Fair value through other comprehensive income (“FVOCI”): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. An irrevocable election may also be made to present in other comprehensive income changes in the fair value of investments in equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination; or
- Fair Value through Profit and Loss (“FVTPL”): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The Company has classified its cash as a financial asset at amortized cost, and has classified its investment as a financial asset at FVOCI.

*Impairment of Financial Assets*

The Company recognizes loss allowances for expected credit losses (“ECLs”) on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

b. Financial liabilities

Financial liabilities include accounts payable, accrued liabilities and note payable. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

*Classification and Measurement of Financial Liabilities*

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable. Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019  
(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

b. Financial liabilities (continued)

Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

The Company has classified its accounts payable and accrued liabilities, and note payable as financial liabilities at amortized cost.

**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:

- The determination of whether it is likely that future economic benefits from exploration and evaluation assets exist when activity has not reached a stage where technical feasibility and commercial viability have been proven. Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are likely to provide future economic benefits to the Company. In making these assessments, management uses several criteria including geologic information, scoping and feasibility studies, accessible facilities, and existing permits among other factors at each reporting period date.

**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:

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Key sources of estimation uncertainty (continued)**

- 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 include changes in the market, commodity prices, the economic and legal environments in which the Company operates, all of which are not within the Company's control and have an effect on the commercial and economic viability of the Company's assets.

- 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.

- Reclamation obligations

Reclamation 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 reclamation 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 reclamation 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.

- 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.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**3. Significant accounting policies (continued)**

**Key sources of estimation uncertainty (continued)**

- 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.

**Leases**

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a Right-of Use ("ROU") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the statements of loss and comprehensive loss if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the statements of loss and comprehensive loss on a straight-line basis over the lease term. A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will re-measure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net loss that reflects the proportionate decrease in scope.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Leases (continued)**

ROU assets are assessed for impairment on initial recognition and subsequently on an annual basis, at a minimum. ROU assets subject to leases that have become onerous in nature are adjusted by the amount of any provision for onerous leases.

Total lease payments expensed in these consolidated financial statements amounted to \$27,489 (2019 - \$38,395).

**New and revised standards and interpretations**

*IFRS 16 Leases*

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective June 1, 2019. These changes were made in accordance with the transitional provisions outlined in the respective standards and interpretations.

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right-of-use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. The Company has elected to adopt IFRS 16 effective June 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening deficit and applies the standard prospectively.

The Company has elected the practical expedient of not recording right-of-use assets and lease liabilities for short-term and low-value assets and records these payments as an expense as they are incurred. The adoption of this standard had no material impact on the Company's consolidated financial statements.

*IFRS 3 Business Combinations*

On October 22, 2018, the IASB issued amendments to the guidance in IFRS 3 - Business Combinations ("IFRS 3"), revising the definition of a business and providing for the addition of an optional "concentration test" to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input - Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process - Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**3. Significant accounting policies (continued)**

**New and revised standards and interpretations (continued)**

*IFRS 3 Business Combinations (continued)*

- Output - The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional 'concentration test' permits a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the sets of activities and assets is determined not to be a business and no further assessment is needed.

The amendments to IFRS 3 apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020, with early adoption permitted. The Company has chosen to early adopt the amendments to IFRS 3 effective June 1, 2019 and applied the optional concentration test on the acquisition of NV Mine Development Inc. during the year ended May 31, 2020 (note 5).

**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 an approximate 10% ownership interest at the time of acquisition. 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.

	<b>May 31, 2020</b>	May 31, 2019
<b>Balance, beginning of year</b>	<b>\$ 54,123</b>	\$ 64,740
Unrealized loss on investment	<b>(26,588)</b>	(10,617)
<b>Balance, end of year</b>	<b>\$ 27,535</b>	\$ 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 of NV Mine Development, Inc. The Company elected to apply the optional "concentration test" permitted under IFRS 3 and determined that substantially all of the fair value of the assets acquired was concentrated in the Clipper exploration and evaluation asset (note 7). As a result, the transaction was determined not to be a business combination and has therefore been accounted for as an asset acquisition.

The transaction was valued based on the consideration given, which consisted of 3,565,000 common shares at a fair value of \$0.06 per share for total consideration of \$213,900 (note 10). The purchase price was allocated to the exploration and evaluation assets acquired (note 7).

Teras Resources Inc.

Notes to the Consolidated Financial Statements

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6. Equipment

	May 31, 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 translation	-	325	310	57,082	57,717
Total expenditures	-	325	532	480,227	481,084
Impairment	(52,276)	(131,122)	(31,833)	-	(215,231)
Balance, May 31, 2019	-	-	-	25,182,355	25,182,355
Deferred exploration costs:					
Contract services	-	-	-	477,710	477,710
Acquisition consideration (notes 5 and 10)	-	-	213,900	-	213,900
Foreign exchange translation	-	-	-	29,033	29,033
Total expenditures	-	-	213,900	506,743	720,643
Impairment	-	-	(213,900)	-	(213,900)
Divestiture (note 8)	-	-	-	(127,000)	(127,000)
Balance, May 31, 2020	\$ -	\$ -	\$ -	\$ 25,562,098	\$25,562,098

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**7. Exploration and evaluation assets (continued)**

**Watseca Mill**

The Watseca Mill property is located in Rochester Basin, Montana and consists of a mill site and 13 patented mining claims.

During the year ended May 31, 2019, management reviewed the carrying value of the capitalized exploration and evaluation costs of the Watseca Mill property for indications of impairment and concluded that, given no exploration activity was undertaken on the property during the current or preceding year and no exploration activity was budgeted for the property, the carrying value is impaired. This resulted in an impairment expense of \$52,276 in the consolidated statement of loss and comprehensive loss.

During the year ended May 31, 2020, there were no events or conditions that would indicate the impairment previously recorded on the property should be reversed.

**Golden Jubilee**

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

During the year ended May 31, 2019, management reviewed the carrying value of the capitalized exploration and evaluation costs of the Golden Jubilee property for indications of impairment and concluded that, given no exploration activity was undertaken on the property during the current or preceding year and no exploration activity was budgeted for the property, the carrying value is impaired. This resulted in an impairment expense of \$131,122 in the consolidated statement of loss and comprehensive loss.

During the year ended May 31, 2020, there were no events or conditions that would indicate the impairment previously recorded on the property should be reversed.

Subsequent to year-end, the Company entered into a letter of intent on the Golden Jubilee property (note 18(b)).

**Cahuilla**

On February 10, 2010 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 paid NexGen US \$1,800,000 and issued a total of 10,300,000 common shares to NexGen.

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.

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. The Company exercised its option in June 2014 by issuing 10,000,000 common shares to NexGen and spending \$1,000,000 in work commitments on the project. In addition to controlling 100% of the Cahuilla project, the Company received four other gold projects.

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

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**7. Exploration and evaluation assets (continued)**

The Cahuilla project is subject to minimum annual work commitments as well as annual land lease payments to various third party leaseholders in order to maintain title to the project. The agreements with these leaseholders have varying expiration dates ranging from fiscal 2021 to indefinitely. See Note 17(d) for additional details on the Company's commitments with respect to this project.

During the year ended May 31, 2020, the Company divested itself of a 5.5% non-working interest in the Cahuilla project in accordance with the terms of the loan agreement entered into on July 31, 2019 (note 8). The fair value of the imputed debt discount aggregating \$127,000 (2019 - \$nil) was credited against the accumulated exploration and evaluation expenditures on the Cahuilla project during the year ended May 31, 2020.

**Other properties**

As part of the Cahuilla acquisition, the Company received title to four other gold projects. During the year ended May 31, 2019, management reviewed the carrying value of the capitalized exploration and evaluation costs of these other properties for indications of impairment and concluded that, given no exploration activity was undertaken on the properties during the current or preceding year and no exploration activity was budgeted for the properties, the carrying value is impaired. This resulted in an impairment expense of \$31,833 in the consolidated statement of loss and comprehensive loss. During the year ended May 31, 2020, there were no events or conditions that would indicate the impairment previously recorded on the property should be reversed.

During the year ended May 31, 2020, as part of the acquisition of NV Mine Development, Inc. (note 5), the Company acquired 170 contiguous unpatented mining claims and 16 internal contiguous patented mining claims in two blocks, known as the Clipper project.

The Clipper project is subject to annual claim maintenance fees and annual land lease payments to third party leaseholders in order to maintain the right to explore. During the year ended May 31, 2020, the Company declined the payment of the annual maintenance and land lease payments thereby losing the rights to the claims. As a result, the Company impaired all capitalized costs related to the project and recorded an impairment charge of \$213,900 in the consolidated statements of loss and comprehensive loss.

**8. Note payable**

On July 31, 2019 the Company entered into a \$500,000 note payable loan agreement with a related party. The note was non-interest bearing, repayable on or before January 31, 2020, and secured by the assets of the Company. The terms of the lending arrangement required the Company to surrender a 4% non-working interest in the Cahuilla property to the lender as consideration. The Company may reacquire the interest on mutually acceptable terms to be negotiated at a later date.

The note was not repaid on January 31, 2020 which resulted in the Company and the lender entering into an amended agreement on April 28, 2020. The note was amended such that the Company provided the lender with an additional 1% non-working interest in the Cahuilla property resulting in a total 5% divested non-working interest up to and including March 31, 2020 and an additional 0.25% non-working interest per month for each month the loan remains unpaid. The note amendment was treated as an extinguishment and re-issuance as there were deemed to be substantial modifications to the terms. There was no gain or loss recognized on extinguishment. As of May 31, 2020, the Company had divested a total of 5.5% of its interest in the Cahuilla property to the lender.

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**8. Note payable (continued)**

The Note was discounted using a rate of 30% per annum based on management's best estimate of the Company's incremental cost of borrowing.

Imputed interest expense of \$127,000 has been recognized in the statement of loss and comprehensive loss with a corresponding amount being credited to exploration and evaluation assets (note 7).

The parties are related by virtue of the fact that the lender is a shareholder of the Company.

**9. Provision for reclamation obligations**

The Company has recorded a \$76,238 (May 31, 2019 - \$74,926) provision for estimated reclamation obligations on the Company's Golden Jubilee property. Due to the uncertainty with respect to the timing of the reclamation and abandonment activity, the obligation has been classified as a current liability and not subject to present value discounting or accretion charges resulting from the passage of time. Based on management's assessment of the stage, nature and extent of exploration activities to date, there are no other legal obligations relating to reclamation and abandonment activities as at May 31, 2020 and 2019.

**10. Share capital**

**i) Authorized:**

Unlimited number of common shares  
 Unlimited number of preferred shares

**ii) Issued:**

	May 31, 2020		May 31, 2019	
	Number	Amount	Number	Amount
<b>Balance, beginning of year</b>	<b>192,642,953</b>	<b>\$ 44,116,417</b>	174,485,228	\$43,165,270
Issued for private placement	10,232,380	511,619	18,157,725	969,675
Issued for acquisition	3,565,000	213,900	-	-
Value assigned to warrants	-	(20,253)	-	(12,358)
Share issue costs	-	(19,950)	-	(6,170)
<b>Balance, end of year</b>	<b>206,440,333</b>	<b>\$ 44,801,733</b>	192,642,953	\$44,116,417

**iii) Share capital transactions in 2020**

In the fourth quarter, the Company 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. The attached warrants were valued at \$10,233 using the residual value method. In addition, the Company issued 399,000 broker warrants at a price of \$0.075 exercisable for a period of one year and paid a finder's fee of \$19,950. The broker warrants were valued at \$10,020 using the Black-Scholes option pricing model with the following assumptions: volatility of 179%; risk-free interest rate of 0.81%; term of one year; and expected dividends of \$nil.

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**10. Share capital (continued)**

**iii) Share transactions in 2020 (continued)**

In the first quarter, 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 (note 5).

**iv) Share transactions in 2019**

In the fourth quarter, the Company issued 5,800,000 units 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 gross proceeds of \$290,000.

In the first quarter, 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 gross proceeds of \$679,675. The attached warrants were valued at \$12,358 using the residual value method.

**v) Share purchase warrants**

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

	May 31, 2020		May 31, 2019	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
<b>Outstanding, beginning of year</b>	<b>41,095,807</b>	<b>0.13</b>	22,972,032	0.19
Private placement warrants	10,631,380	0.075	18,157,725	0.067
Expired/cancelled	(9,454,332)	(0.24)	(33,950)	(0.12)
<b>Outstanding, end of year</b>	<b>42,272,855</b>	<b>0.10</b>	41,095,807	0.13

A summary of the share purchase warrants outstanding as at May 31, 2020 which have a weighted average remaining life of 1.86 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, 2022
Private placement warrants	12,357,725	0.075	August 1, 2022
Private placement warrants	5,800,000	0.05	April 17, 2021
Private placement warrants	10,232,380	0.075	March 5, 2022
Broker warrants	399,000	0.075	March 5, 2021
<b>Outstanding, end of period</b>	<b>42,272,855</b>	<b>0.10</b>	

**Notes to the Consolidated Financial Statements**

**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**10. Share capital (continued)**

**vi) Stock option plan**

The Company has an incentive stock option plan available for granting stock options to officers, directors and consultants. The aggregate number of common shares issuable pursuant to options granted under the plan may not exceed 10% of the total number of issued and outstanding common shares of the Company at the time of granting the options. Options granted under the plan have a maximum term of ten years. The exercise price of the options granted 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 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 May 31, 2020, and May 31, 2019 and changes during the years then ended is presented below:

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

The stock options have a weighted average remaining life of 3.05 years.

A summary of stock options outstanding at May 31, 2020 is set out below:

<b>Number Outstanding</b>	<b>Number Exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
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	3,000,000	0.09	September 9, 2023
2,000,000	333,333	0.055	January 23, 2025
<b>7,400,000</b>	<b>5,733,333</b>	<b>0.10</b>	

The Company calculated and recorded stock-based compensation expense for the year ended May 31, 2020 of \$79,332 (2019 - \$121,483) using the Black-Scholes option pricing model. The Company has unvested stock-based compensation of approximately \$59,049 (2019 - \$30,757) which is expected to be recognized in future years upon vesting of the related options.

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**Teras Resources Inc.****Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**10. Share capital (continued)****vi) Stock option plan (continued)**

Significant assumptions used in the Black Scholes option pricing model during the years then ended are as follows:

	<b>May 31, 2020</b>	<b>May 31, 2019</b>
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	\$0.08

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**11. Contributed surplus and accumulated other comprehensive income**

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

	<b>May 31, 2020</b>	<b>May 31, 2019</b>
<b>Balance, beginning of year</b>	<b>\$ 4,014,308</b>	<b>\$ 3,880,467</b>
Fair value assigned to stock options vested	<b>79,332</b>	121,483
Fair value ascribed to warrants	<b>20,253</b>	12,358
<b>Balance, end of year</b>	<b>\$ 4,113,893</b>	<b>\$ 4,014,308</b>

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

	<b>May 31, 2020</b>	<b>May 31, 2019</b>
Foreign currency translation gain on subsidiaries	<b>\$ 682,727</b>	\$ 630,700
Unrealized loss on investment	<b>(451,199)</b>	(424,611)
	<b>\$ 231,528</b>	\$ 206,089

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The unrealized gain (loss) on investments is recognized in other comprehensive income (loss).

Foreign currency translation balances relate to the translation of foreign subsidiaries to the presentation currency of the consolidated financial statements. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, shall be reclassified from accumulated other comprehensive income (loss) to profit or loss when the gain or loss on disposal is recognized.

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**Teras Resources Inc.****Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**12. Segmented information**

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

	<b>May 31, 2020</b>	May 31, 2019
<b>Assets</b>		
<b>Canada</b>		
Current assets	<b>\$ 349,405</b>	\$ 227,023
Equipment	-	843
	<b>349,405</b>	227,866
<b>United States</b>		
Current assets	<b>24,663</b>	18,906
Investment	<b>27,535</b>	54,123
Exploration and evaluation assets	<b>25,562,098</b>	25,182,355
Reclamation bond	<b>20,651</b>	20,291
	<b>25,634,947</b>	25,275,675
	<b>\$ 25,984,352</b>	\$ 25,503,341
<b>Net loss for the years ended May 31,</b>		
	<b>2020</b>	2019
Canada	<b>\$ 512,716</b>	\$ 617,270
United States	<b>409,245</b>	366,227
	<b>\$ 921,961</b>	\$ 983,497

**13. Related party balances and transactions**

The Company entered into transactions with senior officers, directors and shareholders or private companies controlled by them. During the year ended May 31, 2020, the Company incurred consulting fees and benefits of \$277,574 (2019 - \$314,660), rent expense of \$10,054 (2019 - \$nil) and exploration and evaluation expenditures of \$4,574 (2019 - \$nil). As at May 31, 2020, accounts payable and accrued liabilities includes \$243,606 (2019 - \$152,943) due to related parties. In addition, refer to Note 8 for details on the related party note payable.

Key management compensation consists of:

	<b>May 31, 2020</b>	May 31, 2019
Consulting fees and benefits	<b>\$ 282,148</b>	\$ 314,660
Stock-based compensation	<b>56,857</b>	60,073
	<b>\$ 339,005</b>	\$ 374,733

These transactions were conducted in the normal course of operations for consideration established and accepted by both parties.

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**Teras Resources Inc.****Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**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 Company's principal assets are in the exploration stage and; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development activities and fund general administrative costs, the Company will utilize its existing working capital and enter into additional debt and equity financings as required to achieve its objectives. The Company will continue to assess the exploration and development potential of new and existing projects and allocate its capital resources accordingly.

Management reviews its capital management approach on an ongoing basis.

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, 2020 and 2019.

**15. Income taxes**

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

<b>Years ended May 31,</b>	<b>2020</b>	<b>2019</b>
Income tax rate	<b>25.67%</b>	<b>27.0%</b>
Income tax benefit computed at statutory rates	<b>\$ 230,000</b>	<b>\$ 250,000</b>
Permanent differences		
Stock-based compensation	<b>(20,000)</b>	<b>(33,000)</b>
Other	<b>(3,000)</b>	<b>(3,000)</b>
Non-recognition of temporary differences	<b>(23,000)</b>	<b>2,000</b>
Change in substantively enacted tax rate	<b>(729,000)</b>	<b>-</b>
Change in tax benefits not recognized	<b>545,000</b>	<b>(216,000)</b>
	<b>\$ -</b>	<b>\$ -</b>

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**Teras Resources Inc.****Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**15. Income taxes (continued)**

Significant components of the Company's deferred income tax assets, after applying the effective corporate income tax rate of 23% (2019 - 27%), are as follows:

<b>As at May 31,</b>	<b>2020</b>	<b>2019</b>
Exploration and evaluation assets	\$ 2,171,000	\$ 2,460,000
Non-capital losses	2,146,000	2,397,000
Share issue costs	7,000	7,000
Investment	52,000	57,000
	<b>4,376,000</b>	<b>4,921,000</b>
Tax benefits not recognized	<b>(4,376,000)</b>	<b>(4,921,000)</b>
<b>Deferred income tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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

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	953,000
2035	811,000
2036	1,087,000
2037	650,000
2038	621,000
2039	437,000
2040	386,000
<b>Total</b>	<b>\$ 8,857,000</b>

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**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**16. Financial instruments and risk management**

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. Cash consists of funds on deposit with financial institutions that have high international credit ratings and no history of significant credit losses. GST receivable relates to sales input tax credits due from government bodies; hence, credit risk is minimal

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As of May 31, 2020, the Company had cash of \$334,244 (May 31, 2019 - \$204,341) to settle current liabilities of \$877,733 (May 31, 2019 - \$285,301). The majority of the Company's financial liabilities have contractual maturities of less than thirty days and are subject to normal trade terms.

**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.

(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 May 31, 2020, a 5% variance in the Canada-US dollar exchange rate would result in a \$1,000 (May 31, 2019 - \$2,000) foreign exchange gain (loss), respectively.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**16. Financial instruments and risk management (continued)**

(c) Sensitivity analysis (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 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, 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.

**17. 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 an office lease expiring October 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 \$500,000 on minimum work commitments on its Cahuilla project in the next year. The Company has met its work commitment obligations until the end of fiscal 2020. The Company is also required to make anniversary lease payments for the upcoming year on its Cahuilla project totaling approximately US \$361,000 as well as a bonus payment of \$70,000. The Company also has a commitment to issue 280,000 stock options and cash payments totaling US \$250,000 upon completion of successive exploration phases. The lease agreements can be terminated at the Company's discretion by providing one year's notice to the lessors.
- (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. 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.

**Notes to the Consolidated Financial Statements**

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**For the years ended May 31, 2020 and 2019**  
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**18. Subsequent events**

- (a) On August 17, 2020 Teras completed the closing of a private placement of Units and issued 21,248,700 Units at a price of \$0.05 per Unit for gross proceeds of \$1,062,435. 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 191,000 Broker warrants at a price of \$0.075 exercisable for a period of one year and incurred finder's fees of \$4,550.
- (b) On June 30, 2020 Teras signed a Letter of Intent with an Australian mining company to sell its interest in the Golden Jubilee property for US \$550,000. In return for a non-refundable payment of US \$100,000, Teras granted the mining company an exclusive period until October 31, 2020 to perform its due diligence.
- (c) On June 12, 2020, the Company granted 2,000,000 options to officers and consultants in accordance with the Company's stock option plan. The options have an exercise price of \$0.08 per share and expire five years from the date of issuance.