Teras Resources Inc.

Consolidated Financial Statements

For the years ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

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May 31, 2022 and 2021
(Expressed in Canadian Dollars)

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 27, 2022

Crowe MacKay LLP
Elveden House 1700,
717 - 7 Avenue SW
Calgary, AB T2P 0Z3
Main +1(403) 294-9292
Fax +1(403) 294-9262
www.crowemackay.ca

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, 2022 and May 31, 2021 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, 2022 and May 31, 2021, 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 audits 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 27, 2022

Crowe Mackay LLP
Chartered Professional Accountants

Teras Resources Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	May 31, 2022	May 31, 2021
Assets		
Current		
Cash	**$ 618,077**	$ 695,421
GST receivable	**16,069**	20,750
Prepaid expenses and deposits	**17,780**	60,385
	651,926	776,556
Reclamation deposit	**18,988**	18,106
Investment (note 4)	**50,635**	36,211
Exploration and evaluation assets (note 5)	**-**	25,846,397
	$ 721,549	$ 26,677,270
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 10 and 14)	**$ 798,120**	$ 500,198
Note payable (note 6)	**-**	500,000
	798,120	1,000,198
Shareholders' Equity		
Share capital (note 8)	**46,946,615**	45,948,003
Contributed surplus (note 9)	**4,610,744**	4,484,005
Accumulated other comprehensive income (note 9)	**44,692**	(99,695)
Deficit	**(51,678,622)**	(24,655,241)
	(76,571)	25,677,072
	$ 721,549	$ 26,677,270

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

Approved by the Board of Directors:

(*Signed*) "Joseph Carrabba", Director

(*Signed*) "Peter Leger", Director

Teras Resources Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended May 31,	2022	2021
Expenses		
General and administrative (note 10)	**$ 714,086**	$ 907,908
Interest (notes 5 and 6)	**12,500**	150,000
Stock-based compensation (notes 8(vi) and 10)	**87,426**	343,876
Impairment (reversal) (note 5)	**26,209,369**	(642,764)
	27,023,381	759,020
Other items		
Gain on disposal of assets (note 5)	**-**	144,314
Net loss	**(27,023,381)**	(614,706)
Other comprehensive (loss) income		
Unrealized gain on investment (note 4)	**14,424**	8,676
Unrealized gain (loss) on translation	**129,963**	(339,899)
	144,387	(331,223)
Net and comprehensive loss	**$ (26,878,994)**	$ (945,929)
Basic and diluted loss per share	**$ (0.11)**	$ (0.00)
Weighted average number of shares outstanding	**249,328,248**	224,223,484

Teras Resources Inc.

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Number of shares (note 8)	Share capital (note 8)	Contributed surplus (note 9)	Accumulated other comprehensive income (note 9)	Deficit	Total
Balance May 31, 2019	**206,440,333**	**$ 44,801,733**	**$ 4,113,893**	**$ 231,528**	**$ (24,040,535)**	**$ 25,106,610**
Net and comprehensive loss	**-**	**-**	**-**	**(331,223)**	**(614,706)**	**(945,929)**
Private placement, net	**21,248,700**	**1,027,179**	**27,145**	**-**	**-**	**1,054,324**
Exercise of warrants	**1,909,091**	**118,182**	**-**	**-**	**-**	**118,182**
Fair value transfer on exercise of warrants	**-**	**909**	**(909)**	**-**	**-**	**-**
Stock-based compensation	**-**	**-**	**343,876**	**-**	**-**	**343,876**
Balance, May 31, 2021	**229,598,124**	**45,948,003**	**4,484,005**	**(99,695)**	**(24,655,241)**	**25,677,072**
Net and comprehensive loss	**-**	**-**	**-**	**144,387**	**(27,023,381)**	**(26,878,994)**
Private placement, net	**21,497,000**	**998,612**	**39,313**	**-**	**-**	**1,037,925**
Stock-based compensation	**-**	**-**	**87,426**	**-**	**-**	**87,426**
Balance, May 31, 2022	**251,095,124**	**$ 46,946,615**	**$ 4,610,744**	**$ 44,692**	**$ (51,678,622)**	**$ (76,571)**

Teras Resources Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended May 31,	**2022**	2021
Operating activities		
Net loss	**$ (27,023,381)**	$ (614,706)
Decommissioning liabilities settled	**-**	(24,632)
Items not affecting cash		
Amortization	**-**	-
Stock-based compensation	**87,426**	343,876
Interest (notes 5 and 6)	**12,500**	150,000
Impairment (reversal) (note 5)	**26,209,369**	(642,764)
Gain on sale of assets	**-**	(144,314)
Unrealized foreign exchange	**3,300**	(79,870)
	(710,786)	(1,012,410)
Changes in working capital items:		
GST receivable	**4,681**	(522)
Prepaid expenses and deposits	**42,605**	(40,789)
Accounts payable and accrued liabilities	**297,922**	198,703
Reclamation deposit	**(882)**	2,545
Cash outflows from operating activities	**(366,460)**	(852,473)
Financing activities		
Proceeds from private placement, net of issuance costs (note 8)	**1,037,925**	1,054,324
Proceeds from exercise of warrants (note 8)	**-**	118,182
Repayment of note payable (note 6)	**(500,000)**	-
Cash inflows from financing activities	**537,925**	1,172,506
Investing activities		
Exploration and evaluation expenditures (note 5)	**(248,809)**	(703,726)
Proceeds from sale of exploration and evaluation asset (note 5)	**-**	744,870
Cash (outflows) inflows from investing activities	**(248,809)**	41,144
(Decrease) increase in cash	**(77,344)**	361,177
Cash, beginning of year	**695,421**	334,244
Cash, end of year	**$ 618,077**	$ 695,421

Supplemental cash flow information

Non-cash transactions:		
Value transferred to share capital on exercise of warrants (note 8)	**$ -**	$ 909
Interest on note credited to E&E assets (notes 5 and 6)	**$ 12,500**	$ 150,000
Value assigned to private placement broker warrants (note 8)	**$ 17,816**	$ 5,896
Value assigned to private placement unit warrants (note 8)	**$ 21,497**	$ 21,249

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 - 12th Street SE, Calgary, Alberta, T2H 1K1. The address of the Company's registered office is 1000, 250 - 2nd Street SW, Calgary, Alberta, T2P 0C1. The Company is involved in the acquisition and exploration of mineral property interests in Montana, Nevada and Cahuilla in California.

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. The Company's ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its strategic business plan. To date, the Company has no ongoing recurring source of revenue. At May 31, 2022 the Company had cash of $618,077 (2021 - $695,421) and a working capital deficiency of $146,194 (2021 – $223,642). Management plans to meet its capital requirements from available funds, equity financings, sale or farm-out of assets, and cash from the exercise of options and warrants in the future. During the year-ended May 31, 2022, the Company completed a private placement of 21,497,000 Units for gross proceeds of $1,074,850. 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, maintaining title and the right to explore on existing and new claims, its ability to raise sufficient capital through equity or debt financings, and the corresponding generation of future cash flows from its resource assets.

On August 5, 2021, the term on one of the significant Exploration Agreements and Options to Lease associated with the Cahuilla project expired. It is management's intention to renew the lease and is actively pursuing a five year extension of the Agreement under similar terms and conditions as previous agreements; however, as of the date of approval of these consolidated financial statements, the Company has not been successful in obtaining an extension. As a result, the Company lost the right to explore on a significant portion of the project area. The Company has maintained title on various leases situated on private lands that form part of the Cahuilla area of interest but the aforementioned events and circumstances create economic uncertainties on the recoverability of this cash-generating unit. Due to these factors, management has recorded an impairment charge of $26,209,369 (2021 – nil) , which represents the accumulated carrying cost.

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.

1. Nature of operations and going concern (continued)

Impact of COVID-19

There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the pandemic's impact on global industrial and financial markets which may reduce commodity prices, share prices and financial liquidity, thereby limiting access to additional capital. As a result of the pandemic, estimates and judgments made by management in the preparation of these consolidated financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty.

2. Basis of presentation and statement of compliance

These consolidated financial statements for the years ended May 31, 2022 and 2021, 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 27, 2022.

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.

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.

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

Foreign currency translation (continued)

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 and comprehensive 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, 2022 and 2021, 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.

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.

3. Significant accounting policies (continued)

Exploration and evaluation expenditures (continued)

Exploration and evaluation expenditures (continued)

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.

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

3. Significant accounting policies (continued)

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.

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.

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 no decommissioning obligations exist as at May 31, 2022 and 2021 (note 7).

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.

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.

Financial instruments

Financial instruments are comprised of cash, investment, accounts payable and 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;

- 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

a. Financial assets (continued)

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 and 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.

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.

3. Significant accounting policies (continued)

Financial instruments (continued)

b. Financial liabilities (continued)

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:

- 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.

3. Significant accounting policies (continued)

Key sources of estimation uncertainty (continued)

- Contingencies

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

- 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.

- 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.

3. Significant accounting policies (continued)

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.

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 $17,529 (2021 - $17,510) (note 15(b)).

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

New and revised standards and interpretations

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

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting periods beginning on or after January 1, 2022. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

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 inputs as the shares have a quoted market price in an active market.

	May 31, 2022	May 31,2021
Balance, beginning of year	**$ 36,211**	$ 27,535
Unrealized gain on investment	**14,424**	8,676
Balance, end of year	**$ 50,635**	$ 36,211

(Expressed in Canadian Dollars)

5. 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, 2020	$ -	$ -	$ -	$ 25,562,098	$25,562,098
Deferred exploration costs:					
Contract services	-	-	-	703,727	703,727
Foreign exchange translation	-	-	-	(269,428)	(269,428)
Total expenditures	-	-	-	434,299	434,299
Impairment reversal	-	605,148	37,616	-	642,764
Divestiture (note 6)	-	(605,148)	(37,616)	(150,000)	(792,764)
Balance, May 31, 2021	**-**	**-**	**-**	**25,846,397**	**25,846,397**
Deferred exploration costs:					
Contract services	**-**	**-**	**-**	**248,809**	**248,809**
Foreign exchange translation	**-**	**-**	**-**	**126,663**	**126,663**
Total expenditures	**-**	**-**	**-**	**375,472**	**375,472**
Impairment	**-**	**-**	**-**	**(26,209,369)**	**(26,209,369)**
Divestiture (note 6)	**-**	**-**	**-**	**(12,500)**	**(12,500)**
Balance, May 31, 2022	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Watseca Mill

The Watseca Mill property is located in Rochester Basin, Montana and consists of a mill site and 13 patented mining claims. Teras has a 100% interest in the property.

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 was impaired. This resulted in all capitalized costs related to the property being impaired to nil.

5. Exploration and evaluation assets (continued)

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 was impaired. This resulted in all capitalized costs related to the property being impaired to nil.

During fiscal 2021, Teras entered into a Purchase and Sale Agreement with an Australian mining company to sell its interest in the Golden Jubilee property for US$550,000. The Company has received the full proceeds and completed the sale of the property in fiscal 2021.

During the year ended May 31, 2021, the impairments previously recorded on the property in the amount of $605,148 were reversed and decommissioning liabilities of $42,208 (note 7) were extinguished. The difference between the proceeds received of $707,254 (US$550,000), impairment reversal of $605,148 and decommissioning liabilities extinguished of $42,208 was recorded as a gain on disposal of assets in the amount of $144,314 in the consolidated statements of loss and comprehensive loss for the year ended May 31, 2022.

Cahuilla

The Cahuilla property is located in Imperial County, California, and consists of 1,680 acres on private and First Nation land. Teras has a 100% interest in the property.

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 2022 to indefinitely. See Note 15(d) for additional details on the Company's commitments with respect to this project.

During the year ended May 31, 2021, 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 6). During the year ended May 31, 2022, the Company divested itself of a further 0.25% non-working interest in the Cahuilla project giving the lender a total non-working interest in the project at May 31, 2022 of 8.75% (2021 – 8.5%). The fair value of the imputed debt discount aggregating $12,500 (2021 - $150,000) was credited against the accumulated exploration and evaluation expenditures on the Cahuilla project.

On August 5, 2021, the term on one of the significant Exploration Agreements and Options to Lease associated with the Cahuilla project expired. It is management's intention to renew the lease and is actively pursuing a five year extension of the Agreement under similar terms and conditions as previous agreements; however, as of the date of approval of these consolidated financial statements, the Company has not been successful in obtaining an extension. As a result, the Company lost the right to explore on a significant portion of the project area. The Company has maintained title on various leases situated on private lands that form part of the Cahuilla area of interest but the aforementioned events and circumstances create economic uncertainties on the recoverability of this cash-generating unit. Due to these factors, management has recorded an impairment charge of $26,209,369 (2021 – nil) , which represents the accumulated carrying cost.

5. Exploration and evaluation assets (continued)

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 given that no exploration activity was undertaken on the properties during the current or preceding year and no exploration activity was budgeted for the properties, and concluded that the carrying value was impaired. This resulted in all capitalized costs related to the properties being written down to $nil.

During the year ended May 31, 2022, there were no events or conditions that would indicate the impairment previously recorded on the properties should be reversed.

During the year ended May 31, 2020, 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 for the year ended May 31, 2020.

During the year ended May 31, 2021, the Company received $37,616 (2020 - $nil) in relation to an assignment agreement that it had entered into on the Clipper project in fiscal 2020. Since the Clipper project was impaired in full in the prior year, the proceeds received were recorded as an impairment reversal in the consolidated statements of loss and comprehensive loss for the year ended May 31, 2021.

6. 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.

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 $12,500 (2021 - $150,000) has been recognized in the statement of loss and comprehensive loss with a corresponding amount being credited to exploration and evaluation assets (note 5). The note was repaid in full in July 2021 with an effective date of June 30, 2021. As of May 31, 2022, the Company had divested a total of 8.75% (2021 – 8.5%) of its interest in the Cahuilla property to the lender.

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

(Expressed in Canadian Dollars)

7. Provision for reclamation obligations

The Company had recorded a $66,840 (US$54,175) provision for estimated reclamation obligations on its Golden Jubilee property. Due to the uncertainty with respect to the timing of the reclamation and abandonment activity, the obligation had been classified as a current liability and not subject to present value discounting or accretion charges resulting from the passage of time. During fiscal 2021, the Company settled liabilities in the amount of $24,632 and divested their interest in the Golden Jubilee property pursuant to a Purchase and Sale agreement (note 5) whereby the purchaser assumed all environmental liabilities on the property resulting in the extinguishment of the Company's remaining reclamation obligation in the amount of $42,208.

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, 2022 and 2021.

8. Share capital

i) Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

ii) Issued:

	May 31, 2022		May 31, 2021	
	Number	**Amount**	Number	Amount
Balance, beginning of year	**229,598,124**	**$ 45,948,003**	206,440,333	$44,801,733
Issued for private placement	**21,497,000**	**1,074,850**	21,248,700	1,062,435
Warrants exercised	**-**	**-**	1,909,091	118,182
Transfer on exercise (note 10)	**-**	**-**	-	909
Value assigned to warrants	**-**	**(39,313)**	-	(27,145)
Share issue costs	**-**	**(36,925)**	-	(8,111)
Balance, end of year	**251,095,124**	**$ 46,946,615**	229,598,124	$45,948,003

iii) Share capital transactions in 2022

The Company completed the closing of a private placement of Units and issued 21,497,000 Units at a price of $0.05 per Unit for gross proceeds of $1,074,850. 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 $0.05 per share for a period of five years from the issuance of such Warrant. In addition, Teras issued 581,000 Broker warrants exercisable into one Common Share at a price of $0.05 per share for a period of two years and incurred finder's fees of $30,800. The attached warrants were valued at $21,497 using the residual value method. The broker warrants were valued at $17,816 using the Black-Scholes option pricing model with the following assumptions: volatility of 131%; risk-free interest rate of 1.37%; term of two years; and expected dividends of $nil.

(Expressed in Canadian Dollars)

8. Share capital (continued)

iv) Share capital transactions in 2021

The Company issued 1,909,091 common shares pursuant to the exercise of 1,000,000 warrants with an exercise price of $0.05 per warrant and 909,091 warrants with an exercise price of $0.075 per warrant for proceeds of $118,182.

The Company 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 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 $2,800. The attached warrants were valued at $21,249 using the residual value method. The broker warrants were valued at $5,896 using the Black-Scholes option pricing model with the following assumptions: volatility of 168%; risk-free interest rate of 0.26%; term of one year; and expected dividends of $nil.

v) Share purchase warrants

A summary of the status of the Company's share purchase warrants as of May 31, 2022 and May 31, 2021 and changes during the year then ended is presented below:

	May 31, 2022		May 31, 2021	
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**56,604,464**	**0.09**	42,272,855	0.100
Private placement warrants	**21,497,000**	**0.05**	21,248,700	0.075
Broker warrants	**581,000**	**0.05**	191,000	0.075
Exercised	**-**	**-**	(1,909,091)	(0.06)
Expired	**(10,423,380)**	**(0.075)**	(5,199,000)	(0.05)
Outstanding, end of year	**68,259,084**	**0.08**	56,604,464	0.09

A summary of the share purchase warrants outstanding as at May 31, 2022 which have a weighted average remaining life of 1.41 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	**21,497,000**	**0.05**	June 30, 2026
Private placement warrants	**20,339,609**	**0.075**	August 14, 2022
Private placement warrants	**13,483,750**	**0.150**	July 4, 2022
Private placement warrants	**12,357,725**	**0.075**	August 1, 2022
Broker warrants	**581,000**	**0.05**	June 30, 2023
Outstanding, end of year	**68,259,084**	**0.08**	

(Expressed in Canadian Dollars)

8. 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, 2022, and May 31, 2021 and changes during the years then ended is presented below:

	May 31, 2022		May 31, 2021	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**13,450,000**	**0.10**	7,400,000	0.10
Granted	**500,000**	**0.05**	6,050,000	0.09
Expired	**(3,100,000)**	**(0.14)**	-	-
Outstanding, end of period	**10,850,000**	**0.07**	13,450,000	0.10

The stock options have a weighted average remaining life of 2.83 years.

A summary of stock options outstanding at May 31, 2022 is set out below:

Number Outstanding	**Number Exercisable**	**Exercise price**	**Expiry date**
2,300,000	2,300,000	0.09	September 9, 2023
2,000,000	2,000,000	0.055	January 23, 2025
2,000,000	2,000,000	0.08	June 1, 2025
4,050,000	4,050,000	0.09	November 12, 2025
500,000	83,333	0.05	May 27, 2027
10,850,000	10,433,333	0.07	

The Company calculated and recorded stock-based compensation expense for the year ended May 31, 2021 of $87,426 (2021 - $348,876) using the Black-Scholes option pricing model. The Company has unvested stock-based compensation of approximately $8,268 (2021 - $87,276) which is expected to be recognized in future years upon vesting of the related options.

(Expressed in Canadian Dollars)

8. Share capital (continued)

vi) Stock option plan

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

	May 31, 2022	May 31, 2021
Risk-free interest rate	2.61%	0.39% - 0.48%
Average expected option life	5 years	5 years
Share price volatility	161%	150% - 161%
Expected dividend payments	Nil	Nil
Forfeiture rate	5.88%	7.20% - 8.10%
Fair value of options granted	$0.02	$0.06 - $0.07

9. Contributed surplus and accumulated other comprehensive income (loss)

A summary of the contributed surplus as at May 31, 2022 and 2021 and the changes during the years then ended are presented below:

	May 31, 2022	May 31, 2021
Balance, beginning of year	**$ 4,484,005**	$ 4,113,893
Fair value assigned to stock options vested	**87,426**	343,876
Fair value ascribed to warrants	**39,313**	27,145
Fair value transfer on exercise of warrants	**-**	(909)
Balance, end of year	**$ 4,610,744**	$ 4,484,005

Accumulated other comprehensive income (loss) is comprised of the following components as at May 31, 2022 and 2021:

	May 31, 2022	May 31, 2021
Foreign currency translation gain on subsidiaries	**$ 472,791**	$ 342,828
Unrealized loss on investment	**(428,099)**	(442,523)
	$ 44,692	$ (99,695)

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.

(Expressed in Canadian Dollars)

10. Related party balances and transactions

The Company entered into transactions with senior officers, directors and shareholders or private companies controlled by them. These transactions were conducted in the normal course of operations for consideration established and accepted by both parties. During the year ended May 31, 2022, the Company incurred consulting fees and benefits of $470,922 (2021 - $451,174) and exploration and evaluation expenditures of $8,196 (2021 - $75,775). As at May 31, 2022, accounts payable and accrued liabilities includes $687,167 (2021 - $442,088) due to related parties. In addition, refer to Note 6 for details on the related party note payable.

Key management compensation consists of:

	May 31,2022	May 31,2021
Consulting fees and benefits	**$ 479,118**	$ 526,949
Stock-based compensation	**68,140**	244,913
	$ 547,258	$ 771,862

11. Segmented information

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

	May 31, 2022	May 31, 2021
Assets		
Canada		
Current assets	**$ 625,693**	$ 728,122
	625,693	728,122
United States		
Current assets	**26,233**	48,434
Investment	**50,635**	36,211
Exploration and evaluation assets	**-**	25,846,397
Reclamation bond	**18,988**	18,106
	95,856	25,949,148
	$ 721,549	$ 26,677,270

Net income (loss) for the years ended May 31,	**2022**	2021
Canada	**$ (744,950)**	$ (1,323,985)
United States	**(26,278,431)**	709,279
	$ (27,023,381)	$ (614,706)

(Expressed in Canadian Dollars)

12. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of its projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The 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, 2022 and 2021.

13. Income taxes

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

Years ended May 31,	**2022**	2021
Income tax rate	**23.00%**	23.17%
Income tax benefit computed at statutory rates	**$ 6,182,000**	$ 219,000
Permanent differences		
Stock-based compensation	**(20,000)**	(80,000)
Other	**(2,000)**	(2,000)
Non-recognition of temporary differences	**11,000**	-
Change in tax benefits not recognized	**(6,171,000)**	(137,000)
	$ -	$ -

(Expressed in Canadian Dollars)

13. Income taxes (continued)

Significant components of the Company's deferred income tax assets, after applying the effective corporate income tax rate of 23% (2020 - 23%), are as follows:

As at May 31,	**2022**	2021
Exploration and evaluation assets	**$ 8,048,000**	$ 2,017,000
Non-capital losses	**2,564,000**	2,427,000
Share issue costs	**10,000**	5,000
Investment	**49,000**	51,000
Capital loss	**20,000**	20,000
	10,691,000	4,520,000
Tax benefits not recognized	**(10,691,000)**	(4,520,000)
Deferred income tax assets	**$ -**	$ -

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

The Company has non-capital losses available that may be carried forward to apply against future year's income for Canadian and United States income tax purposes in the amounts of $10,707,000 and $439,000, respectively. These losses expire from 2026 – 2042.

14. 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, 2022, the Company had cash of $618,077 (May 31, 2021 - $695,421) to settle current liabilities of $798,120 (May 31, 2021 - $1,000,198). The majority of the Company's financial liabilities have contractual maturities of thirty days or less and are subject to normal trade terms.

14. Financial instruments and risk management (continued)

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 investments.

(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, 2022, a 5% variance in the Canada-US dollar exchange rate would result in a $11,000 (May 31, 2021 - $16,000) foreign exchange gain/ loss, respectively.

ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of gold. The price of gold has fluctuated widely in recent years hence there is no assurance that, even if commercial quantities of gold may be produced in the future, a profitable market will exist for them. A decline in the market price of gold may also require the Company to reduce its mining rights and deferred exploration expenditures, which could have a material and adverse effect on the Company's value. As at May 31, 2022, 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 and warrants. 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 $2,500 (May 31, 2021 - $1,800) gain/ loss on the Company's investment.

15. Commitments and contingencies

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

(b) The Company has a month to month lease 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.

The Company has met its work commitment obligations until the end of fiscal 2022. The Company is also required to make anniversary lease payments for the upcoming year on its Cahuilla project totaling approximately US $177,250. The lease agreements can be terminated at the Company's discretion by providing one year's notice to the lessors.

(d) On January 1, 2021, the Company signed a consulting agreement with the CEO that calls for monthly compensation of $20,000. The agreement also provides 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.

(f) On June 1, 2021 the Company signed a consulting agreement with a Director of the Company that calls compensation of $10,000. The agreement also provides for termination benefits for termination without for cause totaling 12 months compensation, and change of control totaling 12, 24, or 36 months compensation dependent upon the market capitalization of the Company at the time of change of control.

16. Subsequent events

(a) On July 22, 2022 (the effective date), the Company entered into an Exploration and Mining Lease Agreement with a third party property owner. The agreement is for mineral property interests located in Rochester, Madison County, Montana, near the Company's Watseca Mill. The agreement calls for a 2% net smelter return production royalty to the property owner and advance minimum royalty payments, with the first payment of USD $20,000 due upon signing and annual anniversary payments ranging from USD $15,000 to USD $35,000 starting on the one year anniversary from the effective date.

(b) In July and August 2022, an aggregate of 46,181,084 share purchase warrants expired.