

# TERRENO RESOURCES CORP.

## Financial Statements

(Expressed in Canadian Dollars)

For the three months ended June 30, 2022 and 2021



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#### **NOTICE TO READER**

The accompanying unaudited condensed interim financial statements of Terreno Resources Corp. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

**TERRENO RESOURCES CORP.**  
**Statements of Financial Position**  
**As at June 30, 2022 and March 31, 2022**  
**(Expressed in Canadian Dollars)**

|                                                   | <b>Notes</b> | <b>June 30, 2022</b><br><b>(Unaudited)</b> | <b>March 31, 2022</b><br><b>(Audited)</b> |
|---------------------------------------------------|--------------|--------------------------------------------|-------------------------------------------|
| <b>Assets</b>                                     |              |                                            |                                           |
| <b>Current</b>                                    |              |                                            |                                           |
| Cash                                              |              | \$ 175,257                                 | \$ 193,473                                |
| Prepaid and receivables                           | 5            | 32,809                                     | 54,760                                    |
|                                                   |              | <b>208,066</b>                             | <b>248,233</b>                            |
| <b>Total Assets</b>                               |              | <b>\$ 208,066</b>                          | <b>\$ 248,233</b>                         |
| <b>Liabilities and Shareholders' equity</b>       |              |                                            |                                           |
| <b>Current liabilities</b>                        |              |                                            |                                           |
| Accounts payable and accrued liabilities          | 6            | \$ 218,551                                 | \$ 193,915                                |
|                                                   |              | <b>218,551</b>                             | <b>193,915</b>                            |
| <b>Shareholders' equity</b>                       |              |                                            |                                           |
| Share capital                                     | 7            | 12,370,084                                 | 12,370,084                                |
| Warrant reserve                                   | 8            | 119,900                                    | 119,900                                   |
| Share option reserve                              | 7            | 79,200                                     | 89,200                                    |
| Deficit                                           |              | (12,579,669)                               | (12,524,866)                              |
|                                                   |              | <b>(10,485)</b>                            | <b>54,318</b>                             |
| <b>Total Liabilities and Shareholders' equity</b> |              | <b>\$ 208,066</b>                          | <b>\$ 248,233</b>                         |

Refer to Note 2 for the Significant Going Concern Uncertainty

The accompanying notes are an integral part of these condensed interim financial statements.

Approved on behalf of the Board

\_\_\_\_\_  
George A. Brown  
Director

\_\_\_\_\_  
Joseph Del Campo  
Director

**TERRENO RESOURCES CORP.**  
**Condensed Statements of Comprehensive Loss**  
**For the three months ended June 30, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

|                                                             |              | <b>Three months ended</b> |                 |
|-------------------------------------------------------------|--------------|---------------------------|-----------------|
|                                                             |              | <b>June 30,</b>           |                 |
|                                                             | <b>Notes</b> | <b>2022</b>               | <b>2021</b>     |
| <b>Operating expenses</b>                                   |              |                           |                 |
| General and administrative expenses                         | 9            | \$ 52,889                 | 42,351          |
| Exploration and evaluation expenditures                     | 10           | 12,279                    | 41,234          |
| <b>Loss from operations</b>                                 |              | <b>(65,168)</b>           | <b>(83,585)</b> |
| Foreign exchange gain                                       |              | 365                       | -               |
| <b>Net loss for the period</b>                              |              | <b>\$ (64,803)</b>        | <b>(83,585)</b> |
| <b>Total comprehensive loss for the period</b>              |              | <b>\$ (64,803)</b>        | <b>(83,585)</b> |
| <b>Loss per share</b>                                       |              |                           |                 |
| Basic and diluted                                           |              | (0.00)                    | (0.00)          |
| <b>Weighted average number of common shares outstanding</b> |              |                           |                 |
| Basic and diluted                                           |              | 58,971,506                | 51,561,506      |

The accompanying notes are an integral part of these condensed interim financial statements.

**TERRENO RESOURCES CORP.**  
**Statements of Shareholders' Equity (Deficiency)**  
**For the three months ended June 30, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

|                                         | Share capital        | Warrant reserve     | Share option reserve | Deficit                | Total Shareholders' equity (deficiency) |
|-----------------------------------------|----------------------|---------------------|----------------------|------------------------|-----------------------------------------|
| <b>Balance as at March 31, 2022</b>     | <b>\$ 12,370,084</b> | <b>\$ 119,900</b>   | <b>\$ 89,200</b>     | <b>\$ (12,524,866)</b> | <b>\$ 54,318</b>                        |
| Net loss for the period                 | -                    | -                   | -                    | (64,803)               | (64,803)                                |
| Total comprehensive loss for the period | -                    | -                   | -                    | (64,803)               | (64,803)                                |
| Value of options expired                | -                    | -                   | (10,000)             | 10,000                 | -                                       |
|                                         | -                    | -                   | (10,000)             | 10,000                 | -                                       |
| <b>Balance as at June 30, 2022</b>      | <b>\$ 12,370,084</b> | <b>\$ 119,900</b>   | <b>\$ 79,200</b>     | <b>\$ (12,579,669)</b> | <b>\$ (10,485)</b>                      |
| <b>Balance as at March 31, 2021</b>     | <b>\$ 9,444,057</b>  | <b>\$ 2,675,427</b> | <b>\$ 2,995,843</b>  | <b>\$ (15,059,537)</b> | <b>\$ 55,790</b>                        |
| Net loss for the period                 | -                    | -                   | -                    | (83,585)               | (83,585)                                |
| Total comprehensive loss for the period | -                    | -                   | -                    | (83,585)               | (83,585)                                |
| <b>Balance as at June 30, 2021</b>      | <b>\$ 9,444,057</b>  | <b>\$ 2,675,427</b> | <b>\$ 2,995,843</b>  | <b>\$ (15,143,122)</b> | <b>\$ (27,795)</b>                      |

The accompanying notes are an integral part of these condensed interim financial statements.

**TERRENO RESOURCES CORP.**  
**Statements of Cash Flows**  
**For the three months ended June 30, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

|                                                     |              | <b>Three months ended</b> |                      |
|-----------------------------------------------------|--------------|---------------------------|----------------------|
|                                                     |              | <b>June 30,</b>           |                      |
|                                                     | <b>Notes</b> | <b>2022</b>               | <b>2021</b>          |
| <b>Cash flows from operations</b>                   |              |                           |                      |
| Net loss for the period                             |              | \$ (64,803)               | \$ (83,585)          |
| Items not affecting cash:                           |              |                           |                      |
|                                                     |              | (64,803)                  | (83,585)             |
| <b>Changes in non-cash working capital balances</b> | 13           | 46,587                    | 19,491               |
| <b>Net cash used in operating activities</b>        |              | <b>(18,216)</b>           | <b>(64,094)</b>      |
| <br><b>Decrease in cash</b>                         |              | <br><b>(18,216)</b>       | <br><b>(64,094)</b>  |
| <b>Cash, beginning of period</b>                    |              | <b>193,473</b>            | <b>153,370</b>       |
| <br><b>Cash, end of period</b>                      |              | <br><b>\$ 175,257</b>     | <br><b>\$ 89,276</b> |

The accompanying notes are an integral part of these condensed interim financial statements.

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**TERRENO RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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**1. Description of Business and Nature of Operations:**

Terreno Resources Corp. (the “Company” or “Terreno”) is a listed issuer on the TSX Venture Exchange trading on the NEX board. The Company is incorporated under the laws of the Province of British Columbia. The Company’s registered office is located at Suite 1102, 44 Victoria Street, Toronto, Ontario M5C 1Y2.

The Company’s principal business activities include the acquisition, exploration and development of mineral properties. Terreno’s current exploration focus is on the Las Cucharas Project, which is located in Mexico (see Note 10).

The unaudited condensed interim financial statements (“interim financial statements”) as at and for the three months ended June 30, 2022 and 2021 were approved by the Board of Directors on August 26, 2022.

**2. Significant going concern uncertainty:**

These interim financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company has a history of operating losses and as at June 30, 2022 has an accumulated deficit of \$12,579,669 (March 31, 2022 - \$12,524,866).

These risks include, but are not limited to, dependence on key individuals, and the ability to secure adequate financing to meet the minimum capital required to successfully continue as a going concern.

In the event that future financings are not successfully completed, the Company may not have sufficient cash and cash flow to meet its operating requirements. The ability of the Company to continue as a going concern is dependent on securing additional financings through issuing additional equity or debt instruments. While the Company believes in the viability of its strategy and, in its ability to raise additional funds for the Company to continue as a going concern, there can be no assurances to that effect. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments, if required, could be material to the financial statements.

**COVID-19**

The Company’s operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries.

**2. Significant going concern uncertainty (continued):**

In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations. The Company would be adversely affected by the loss of services of key personnel and restrictions on cross border trade.

**3. Basis of preparation:**

(a) Statement of Compliance:

These interim financial statements, including comparative balances, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee (IFRIC) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These interim financial statements do not include all the information required for full annual financial statements and they should be read in conjunction with the annual consolidated financial statements for the year ended March 31, 2022 and the notes to the financial statements.

(b) Basis of Presentation:

These interim financial statements have been prepared using the historical cost basis, except for certain financial instruments which have been measured at fair value. All monetary references expressed in these notes are references to Canadian dollar amounts ("\$\$") except as otherwise noted.

(c) Critical accounting judgments, estimates and assumptions:

The preparation of these interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the interim financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. Below is a list of the critical accounting judgements, estimates and assumptions (excluding going concern which is disclosed in Note 2):

i. Determination of functional currency:

The functional currency of the Company is measured using the currency of the primary economic environment in which that entity operates, which is the Canadian dollar.

**3. Basis of preparation (continued):**

ii. Deferred tax assets:

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's future planned activities as supported by budgets that have been approved by the Board of Directors. Management also considers the tax rules of the various jurisdictions in which the Company operates. Should there not be a forecast of taxable income that indicates the probable utilization of a deferred tax asset or any portion thereof, the Company does not recognize the deferred tax asset.

iii. Share-based payments:

The Company uses the Black-Scholes option pricing model to calculate both stock-based compensation expense and warrant values. The Black-Scholes model requires seven key inputs to determine the value for options and warrants, being the risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life, forfeiture rate and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

**4. Summary of significant accounting policies:**

The significant accounting policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

**New standards adopted**

**IFRS 3, Business Combinations ("IFRS 3")**

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of the amendments had no impact on the Company's financial statements.

**IAS 1, Presentation of Financial Statements ("IAS 1")**

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications. The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's financial statements.

**4. Summary of significant accounting policies (continued):**

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on or after January 1, 2022.

**Future Accounting Pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after April 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded.

IAS 1 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 12 – In May 2021, the IASB issued ‘Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction’ that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on or after January 1, 2023.

**TERRENO RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

**5. Prepaids and receivables:**

The Company's prepaid expenses and other receivables consisted of the following:

|                          | <b>June 30,<br/>2022</b> | <b>March 31,<br/>2022</b> |
|--------------------------|--------------------------|---------------------------|
|                          | <b>\$</b>                | <b>\$</b>                 |
| Prepaid expenses         | <b>20,000</b>            | 42,500                    |
| HST Receivable           | <b>12,509</b>            | 11,960                    |
| Miscellaneous Receivable | <b>300</b>               | 300                       |
| <b>Total</b>             | <b>32,809</b>            | 54,760                    |

**6. Related party transactions with key management personnel:**

All transactions with key management personnel have occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of key executives is determined by the board having regard to the performance of individuals and market trends.

During the three months ended June 30, 2022, and 2021 the Company entered into the following transactions with key management personnel:

| <b>Type of service</b> | <b>Nature of relationship</b> | <b>2022</b>   | <b>2021</b> |
|------------------------|-------------------------------|---------------|-------------|
|                        |                               | <b>\$</b>     | <b>\$</b>   |
| Consulting fees        | Officers                      | <b>27,420</b> | 31,620      |

For the three months ended June 30, 2022, \$21,000 (2021 - \$21,000) of the cost relating to the consulting fees are included in general and administration expenses and \$6,420 (2021 - \$10,620) is included in exploration and evaluation expenditures.

At June 30, 2022, accounts payable and accrued liabilities included \$59,490 (March 31, 2022 - \$33,745) due to key management personnel for unpaid remuneration.

**7. Share capital:**

**Authorized:**

The Company is authorized to issue an unlimited number of voting common shares without par value.

**TERRENO RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**  
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**7. Share capital (continued):**

**Issued:**

|                                                    | <b>Shares</b>     | <b>Amount</b>     |
|----------------------------------------------------|-------------------|-------------------|
|                                                    | <b>#</b>          | <b>\$</b>         |
| Balance at March 31, 2021                          | 51,561,506        | 9,444,057         |
| Private placement                                  | 6,510,000         | 205,600           |
| Settlement of trade debt for shares                | 900,000           | 45,000            |
| Value of warrants                                  | -                 | 2,675,427         |
| <b>Balance at March 31, 2022 and June 30, 2022</b> | <b>58,971,506</b> | <b>12,370,084</b> |

- (i) On September 20, 2021, the Company completed the first tranche of a non-brokered private placement for 4,910,000 units at a price of \$0.05 per unit. A second tranche was completed on November 5, 2021 for 1,600,000 units at a price of \$0.05 per unit. Each unit consisted of a common share and one whole share purchase warrant. The share purchase warrants are exercisable at \$0.06 and expire one year from the respective issue dates of September 20, 2021 and November 5, 2021.

In September 2021 and November 2021, the Company issued a total of 900,000 common shares of the Company at a deemed share price of \$0.05 per share to a senior officer and director of the Company to settle \$45,000 in debt owing to this officer and director. On the debt for shares settlement dates, the market value of the shares issued were \$0.05 per share. Therefore, there was no gain or loss on the settlement of this debt.

**Stock Option plan:**

The Company grants incentive stock options to eligible directors, officers, and consultants as permitted pursuant to the Company's Stock Option Plan approved by the shareholders. The aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date. Each of the stock options granted vest immediately on the date of grant and have a term of five years. If the option holder ceases to be qualified to receive options from the Company those options expire in 90 days.

**a) Stock options:**

A summary of the status of the Company's stock options outstanding as at June 30, 2022 and March 31, 2022, and changes during the periods then ended is presented below:

|                                    | <b>Number of options</b> | <b>Weighted average exercise price</b> |
|------------------------------------|--------------------------|----------------------------------------|
|                                    |                          | <b>\$</b>                              |
| Balance at March 31, 2021 and 2022 | 2,450,000                | 0.05                                   |
| Expired                            | (250,000)                | 0.05                                   |
| <b>Balance at June 30, 2022</b>    | <b>2,200,000</b>         | <b>0.05</b>                            |

During the three months ended June 30, 2022 and 2021, no stock options were granted.

**TERRENO RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**  
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**7. Share capital (continued):**

As at June 30, 2022, the Company has 2,200,000 stock options vested and outstanding. The options have a weighted average remaining life of 1.50 years.

**Details of outstanding options:**

| <b>Outstanding options</b> | <b>Exercise price</b> | <b>Number of vested options</b> | <b>Expiry date</b> |
|----------------------------|-----------------------|---------------------------------|--------------------|
| 2,200,000                  | \$0.05                | 2,200,000                       | December 31, 2023  |
| <b>2,200,000</b>           |                       | <b>2,200,000</b>                |                    |

These stock options are expensed over the options' vesting periods in the statements of comprehensive loss and credited to share option reserve.

**8. Warrant reserve:**

A summary of the status of the Company's warrants as at June 30, 2022 and 2021, and the changes during the periods then ended is presented below:

|                                                    | <b>Number of warrants</b> | <b>Weighted average exercise price</b> |
|----------------------------------------------------|---------------------------|----------------------------------------|
|                                                    |                           | \$                                     |
| Balance at March 31, 2021                          | 9,126,000                 | 0.07                                   |
| Issued                                             | 6,510,000                 | 0.06                                   |
| Expired                                            | (9,126,000)               | (0.07)                                 |
| <b>Balance at March 31, 2022 and June 30, 2022</b> | <b>6,510,000</b>          | <b>0.06</b>                            |

**Valuation assumptions for warrants issued:**

|                                       | <b>Date Warrants issued</b> |                           |
|---------------------------------------|-----------------------------|---------------------------|
| <b>Black-Scholes assumptions used</b> | <b>November 5, 2021</b>     | <b>September 20, 2021</b> |
| Expected volatility                   | 260%                        | 260%                      |
| Expected dividend yield               | 0%                          | 0%                        |
| Risk-free interest rate               | 1.00%                       | 0.45%                     |
| Expected life of warrants             | 1 year                      | 1 year                    |
| Share price on date of issue          | \$0.035                     | \$0.045                   |
| Value of warrants                     | \$40,700                    | \$119,000                 |

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**TERRENO RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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**8. Warrant reserve (continued):**

**Details of outstanding warrants:**

| <b>Outstanding warrants</b> | <b>Exercise price</b> | <b>Expiry date</b> |
|-----------------------------|-----------------------|--------------------|
| 4,910,000                   | \$0.06                | September 20, 2022 |
| 1,600,000                   | \$0.06                | November 5, 2022   |
| <b>6,510,000</b>            |                       |                    |

As at June 30, 2022, 6,510,000 warrants (March 31, 2022 - 6,510,000 warrants) with a weighted average remaining contractual life of 0.26 years (March 31, 2022 – 0.51 years) were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each whole warrant held.

**9. General and Administrative expenses:**

|                                          | <b>Three months ended June 30,</b> |             |
|------------------------------------------|------------------------------------|-------------|
|                                          | <b>2022</b>                        | <b>2021</b> |
|                                          | <b>\$</b>                          | <b>\$</b>   |
| Consulting fees                          | <b>21,000</b>                      | 21,000      |
| Office and general                       | <b>25,136</b>                      | 15,249      |
| Professional fees                        | <b>5,000</b>                       | 4,000       |
| Shareholder relations and communications | <b>1,753</b>                       | 2,102       |
|                                          | <b>52,889</b>                      | 42,351      |

**10. Exploration and evaluation expenditures:**

In January 2018, Terreno signed a definitive Mineral Property Option Agreement with an Ontario private company under which Terreno may earn a sixty percent (60%) interest in the Las Cucharas Gold & Silver Project in Mexico.

The Las Cucharas Project consists of seventeen (17) concessions covering slightly over four thousand four hundred forty-five (4,445) hectares. Terreno may earn a sixty percent interest by incurring exploration expenditures and by issuing Terreno common shares as follows:

- Two million common shares within 10 days of TSX Venture Exchange acceptance of the property acquisition (issued).
- Two and a half million common shares on each of the first and second anniversary of the option agreement (issued).
- Three million common shares on the third anniversary of the option agreement (issued). See note 7.

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**10. Exploration and evaluation expenditures (continued):**

- Five million shares on the fourth anniversary of the option agreement within five (5) days of the transfer of a sixty percent (60%) interest in the concession titles. Written notice has been provided to both the private Ontario company and Maverix Metals Inc. that the \$700,000 of cumulative exploration expenditures have been completed and requesting the transfer of the concessions from the Mexican subsidiary of Maverix Metals Inc. to the Mexican subsidiary of the Ontario private company. Maverix Metals Inc., through its Mexican subsidiary, are the owners of the concessions who have optioned them to the private Ontario company. (See note 14)

- Cumulative exploration expenditures of \$700,000 by October 31, 2021, including \$200,000 by October 31, 2019 and \$450,000 by October 31, 2020 have all been completed.

- The property option, once earned and exercised, will make the Las Cucharas Project subject to a three percent (3%) net smelter return (NSR) royalty payable to Maverix Metals Inc. (TSX: MMX).

As at June 30, 2022, Terreno has incurred exploration and evaluation expenditures of \$1,410,591. This includes 10,000,000 common shares issued under the option agreement for a consideration of \$420,000.

In March 2021, the Company signed a Mineral Property Option Amendment Agreement with the Ontario private company under which the Company has the option to earn the remaining 40% interest in the Las Cucharas Project in exchange for 20,000,000 additional common shares subject to regulatory approval. The Company may earn an additional 10% interest for each of four payments of 5,000,000 shares. These shares are to be issued in four equal tranches of 5,000,000 common shares on the first, second, third and fourth anniversaries of the transfer of titles under the original property option.

**11. Capital management:**

The Company includes the following in its capital:

|                      | <b>June 30,<br/>2022</b> | <b>March 31,<br/>2022</b> |
|----------------------|--------------------------|---------------------------|
|                      | <b>\$</b>                | <b>\$</b>                 |
| Share capital        | <b>12,370,084</b>        | 12,370,084                |
| Warrants             | <b>119,900</b>           | 119,900                   |
| Share option reserve | <b>79,200</b>            | 89,200                    |
| Deficit              | <b>(12,579,669)</b>      | (12,524,866)              |
|                      | <b>(10,485)</b>          | 54,318                    |

The Company's objectives when managing capital are:

- (a) To maximize any income it may receive from available cash without significantly increasing the principal at risk by making investments in high credit quality issuers; and
- (b) To maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

### **11. Capital management (continued):**

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

- realizing proceeds from the disposition of its investments;
- raising capital through equity financings;

The Company is not subject to any capital requirements imposed by a regulator. To date, the Company has not declared any cash dividends to its shareholders. The Company's management is responsible for the management of capital and reviews its capital management approach on an ongoing basis through the preparation of annual expenditure budgets, which are updated regularly to take into account factors such as successful financings to fund activities, changes in property holdings and related obligations and exploration activities and believes that this approach, given the relative size of the Company, is reasonable.

### **12. Financial instruments:**

These assets represent a small portion of the Company's overall business. However, the use of financial instruments can expose the Company to several risks. A discussion of the Company's use of financial instruments and their associated risks is provided below:

- (a) Liquidity risk: Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they come due. As at June 30, 2022, the Company has outstanding liabilities of \$218,551 (March 31, 2022 - \$193,915) and working capital deficit of (\$10,485) (March 31, 2022 – \$54,318). The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of downturn in stock market conditions generally or related to matters specific to the Company.

The Company generates cash flow primarily from its financing activities. The Company has cash of \$175,257. The Company will need to obtain additional financing. There is no assurance that financing will be available from any source, that it will be available on terms acceptable to the Company, or that any future offering of securities will be successful. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of the Company's outstanding common stock. The Company could suffer adverse consequences if it is unable to obtain additional capital which would cast substantial doubt on its ability to continue its operations and growth. See note 2.

- (b) Currency risk: Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency fluctuations as some amounts of its liabilities are denominated in U.S. dollars. The Company has not entered into any foreign currency contracts to hedge this exposure. The risk is not significant for the current financial reporting period.

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**TERRENO RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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**12. Financial instruments (continued):**

- (c) Credit risk: Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company's credit risk is minimal as it has its cash deposited with highly rated Canadian financial institutions.

**13. Changes in non-working capital:**

|                                          | For the three months ended |               |
|------------------------------------------|----------------------------|---------------|
|                                          | June 30, 2022              | June 30, 2021 |
|                                          | \$                         | \$            |
| Prepaid and receivables                  | 21,951                     | 15,162        |
| Accounts payable and accrued liabilities | 24,636                     | 4,329         |
| Total                                    | 46,587                     | 19,491        |

**14. Subsequent events:**

In August 2022, the Company issued 5,000,000 shares valued at \$125,000 due on the fourth anniversary of the Las Cucharas property option agreement within five (5) days of the transfer of the concessions.