

Earl Resources Limited

Condensed Interim Financial Statements
(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2022 and March 31, 2021
(Unaudited – prepared by Management)

Earl Resources Limited

Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	As at March 31, 2022	As at December 31, 2021
ASSETS		
Current Assets		
Cash	\$ 351,154	\$ 164,825
Restricted cash (Note 4)	9,217,272	-
Deferred financing costs (Note 4)	77,054	-
Prepaid expenses and deposits	57,855	933
TOTAL ASSETS	\$ 9,703,335	\$ 165,758
LIABILITIES and EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities	\$ 416,310	\$ 286,948
Due to related parties (Note 6)	114,998	48,533
Subscription receipts (Note 4)	9,217,272	-
TOTAL LIABILITIES	9,748,580	335,481
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 4)	2,976,787	2,526,787
Share-based payments reserve (Note 5)	1,583,500	1,583,500
Accumulated deficit	(4,605,532)	(4,280,010)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	(45,245)	(169,723)
TOTAL LIABILITIES and EQUITY (DEFICIENCY)	\$ 9,703,335	\$ 165,758

Nature of operations and going concern (Note 1)
Subsequent event (Note 10)

Approved on behalf of the Board:

"Mischa Zajtmann" Director

"Chris Colborne" Director

See accompanying notes to the condensed interim financial statements.

Earl Resources Limited

Condensed Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	For the Three Months Ended March 31,	
	2022	2021
EXPENSES		
Accounting and audit	\$ 25,223	\$ -
Consulting fees	71,600	-
Filing fees	5,582	2,082
Legal	125,231	1,230
Management fees (Note 6)	66,678	-
Office administration and expenses	3,999	8,106
Transfer agent fees	6,937	770
Travel and business development	16,847	-
Website and corporate image	3,425	-
	(325,522)	(12,188)
Net Loss and Comprehensive Loss for the Period	\$ (325,522)	\$ (12,188)
Basic And Diluted Loss Per Share	\$ (0.01)	\$ (0.00)
Weighted Average Number Of Shares Outstanding, Basic and Diluted	39,179,289	38,490,400

See accompanying notes to the condensed interim financial statements.

Earl Resources Limited

Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	For the Three Months Ended	
	March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (325,522)	\$ (12,188)
Changes in non-cash working capital items:		
Increase in prepaid expenses and deposits	(56,922)	(3,196)
Increase in accounts payable and accrued liabilities	52,308	352
Increase in amounts due to related parties	66,465	-
Cash used in operating activities	(263,671)	(15,032)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement financing, net of issuance costs	450,000	-
Cash from financing activities	450,000	-
Increase (decrease) in cash during the period	186,329	(15,032)
Cash, beginning of the period	164,825	517,664
Cash, end of the period	\$ 351,154	\$ 502,632
Supplementary cash flow information		
Deferred financing costs included in accounts payable	\$ 77,054	\$ -

See accompanying notes to the condensed interim financial statements.

Earl Resources Limited

Condensed Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Shares	Share Capital	Share-based Payments Reserve	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
Balance, December 31, 2020	38,490,400	\$ 2,526,787	\$ 61,500	\$ (2,210,958)	\$ 377,329
Net loss and comprehensive loss for the period	-	-	-	(12,188)	(12,188)
Balance, March 31, 2021	38,490,400	2,526,787	61,500	(2,223,146)	365,141
Balance, December 31, 2021	38,490,400	2,526,787	1,583,500	(4,280,010)	(169,723)
Private placement financing	1,000,000	450,000	-	-	450,000
Net loss and comprehensive loss for the period	-	-	-	(325,522)	(325,522)
Balance, March 31, 2022	39,490,400	\$ 2,976,787	\$ 1,583,500	\$ (4,605,532)	\$ (45,245)

See accompanying notes to the condensed interim financial statements.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Earl Resources Limited (the “Company”) was incorporated under the British Columbia “Companies Act” as a Specialty Limited Company on November 21, 1963. In July 1998, the Company continued to the Cayman Islands. In February 2018, the Company continued back to British Columbia. The Company is currently inactive with limited operations and is in the process of seeking business opportunities. The head office and principal address of the Company is located at Suite 390, 1050 Homer Street, Vancouver, British Columbia, V6B 2W9.

Management is in the process of seeking business opportunities for the Company, including the Proposed Transactions in connection with the Proposed Change of Business as described below in Note 9. The Company’s ability to continue as a going concern is dependent upon its ability to continue raising equity financing, to identify, evaluate and negotiate a participation in, or an investment of an interest in a fundamental acquisition. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. These financial statements do not reflect the adjustments to the carrying amounts of assets and liabilities, or the impact on the statements of loss and comprehensive loss and financial position classifications that would be necessary were the going concern assumption not appropriate.

At March 31, 2022, the Company has an accumulated deficit of \$4,605,532 (December 31, 2021 - \$4,280,010) and has incurred recurring losses. There can be no assurance that a viable business opportunity that can be adequately financed will be identified and available to the Company. Additional equity and/or debt financing is subject to the global financial markets and prevailing economic conditions, which have recently been volatile and distressed. These factors will likely make it more challenging to obtain financing for the Company going forward. Although the Company closed a subscription receipt financing for over \$9 million in March 2022, if the proposed transactions as detailed in Note 9 do not close by July 28, 2022, the proceeds of the financing will be returned to the subscribers of the subscription receipt financing. These matters and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as going concern.

Since March 2020, there has been a global outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the regional economies in which the Company operates and could continue to result in negative impacts on the stock market, including trading prices of the Company’s shares, and the ability to raise capital and could impact the Company’s operations.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

2. Basis of Presentation

a) Statement of Compliance

The unaudited condensed interim financial statements 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.

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, using accounting policies consistent with IFRS as issued by the IASB. These condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the annual financial statements for the year ended December 31, 2021. These condensed interim financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2021.

These unaudited condensed interim financial statements have been approved by the Board of Directors on May 30, 2022.

b) Basis of Preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention and using the accrual basis of accounting, except for cash flow information.

c) Significant Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and 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. However, actual outcomes can differ from these estimates.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

2. Significant Accounting Policies (cont'd...)

c) Significant Accounting Judgments, Estimates and Assumptions (cont'd...)

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements is described below:

Share-based payments

The Company uses the Black-Scholes option pricing model to calculate the fair values of stock options at the date of grant. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Changes in these assumptions can materially affect fair value estimates.

Significant areas of critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the statements of financial position are:

Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the three months ended March 31, 2022. Management prepares the financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded there is significant doubt as to the ability of the Company to meet its obligations as they fall due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

d) Foreign Currencies

The Company's functional and presentation currency is the Canadian dollar as this is the principal currency of the economic environment in which operates. Transactions in foreign currencies (currencies other than Canadian dollars) are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

2. Significant Accounting Policies (cont'd...)

e) Cash

Cash consists of deposits in banks.

f) Financial Instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets measured at amortized cost are composed of cash and restricted cash.

The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Company commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Company's accounting policies for impairment of financial assets.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

2. Significant Accounting Policies (cont'd...)

f) Financial Instruments (cont'd...)

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. Financial liabilities consist of accounts payable and accrued liabilities, amounts due to related parties and subscription receipts. At initial recognition, the Company measures financial liabilities at their fair value less transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

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Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

2. Significant Accounting Policies (cont'd...)

f) Financial Instruments (cont'd...)

Financial liabilities (cont'd...)

Interest (cont'd...)

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

g) Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

h) Share-based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The board of directors grants such options for periods of up to ten (10) years, with vesting periods determined at its sole discretion and at prices equal to the Discounted Market Price, as calculated pursuant to the policies of the TSX Venture Exchange (the "Exchange"), or such other minimum price as may be required by the Exchange.

The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

Where the terms of a stock option are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

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Notes to Condensed Interim Financial Statements
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2. Significant Accounting Policies (cont'd...)

i) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

j) Earnings (Loss) Per Share

The Company presents basic and diluted earnings/loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

k) Comprehensive Income (Loss)

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). The historical make up of net income (loss) has not changed. Other comprehensive income (loss) includes gains or losses, which generally accepted accounting principles requires be recognizing in a period but excluding from net income for that period.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

2. Significant Accounting Policies (cont'd...)

I) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. New IFRS Standards and Interpretations Issued

IFRS 3 Business Combinations (Amendment)

In May 2020, the International Accounting Standards Board (IASB) issued amendments to update IFRS 3 Business Combinations without significantly changing its requirements. The Accounting Standards Board (AcSB) completed its endorsement process and incorporated the amendments into Part I of the CPA Canada Handbook – Accounting in September 2020.

The amendments are summarized below:

- To update all old references in IFRS 3 to the old Conceptual Framework to the revised Conceptual Framework for Financial Reporting.
- To add an exception to the IFRS 3 recognition requirements. For liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies if incurred separately, an acquirer would apply IAS 37 or IFRIC 21 to identify the obligations assumed in a business combination, instead of the Conceptual Framework.
- To make requirements for contingent assets more explicit by adding a statement in IFRS 3 that an acquirer should not recognize contingent assets acquired in a business combination.

An entity is required to apply these amendments to business combinations occurring in reporting periods beginning on or after January 1, 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued in March 2018. The Company adopted IFRS 3 Business Combinations (Amendment) in its financial statements for the fiscal year beginning on January 1, 2022. This amendment has had no impact on its financial statements to date. However, the Company is still assessing its impact on the proposed transactions as discussed in Note 9.

Earl Resources Limited

Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

4. Share Capital

(a) Authorized: Unlimited number of common shares without par value.

(b) Issued Share Capital

At March 31, 2022, the issued share capital of the Company was 39,490,400 common shares (December 31, 2021 – 38,490,400 common shares).

Bridge Financing

On January 28, 2022, the Company completed a non-brokered private placement of 1,000,000 Earl Resources common shares at a price of \$0.45 per Earl Share for aggregate gross proceeds of \$450,000 (the “Bridge Financing”). In accordance with TSXV Policy 5.2, the proceeds of the Bridge Financing will be used specifically for purposes of funding the costs associated with completing the change of business as described in Note 9 below, including costs related to audit fees, legal fees, preparation of necessary documentation for the Proposed Transactions and due diligence costs.

Concurrent Financing

On January 28, 2022 and February 1, 2022, in connection with the Proposed Change of Business, as described in Note 9 below, Earl Resources completed the first tranches of a non-brokered private placement of 20,482,827 Subscription Receipts at a price of \$0.45 per subscription receipt (“Subscription Receipt”) for aggregate gross proceeds of \$9,217,272 (the “Concurrent Financing”).

Each Subscription Receipt will be automatically exchanged immediately prior to the completion of the Proposed Change of Business (without any further action by the holder of such Subscription Receipt and for no further payment) for one Earl Resources common share upon satisfaction of the escrow release conditions, provided that such conditions are satisfied before the escrow release deadline on July 28, 2022. Until the escrow release conditions are met, the proceeds received have been recorded as restricted cash as of March 31, 2022. \$77,054 in legal costs related to the Concurrent Financing has been classified as deferred financing costs at March 31, 2022. Upon exchange of the subscription receipts to common shares, the deferred financing costs will be reclassified to share issue costs.

The proceeds from the Concurrent Financing will be used to fund the Proposed Change of Business, develop the business, and for working capital and general corporate purposes. Final approval of the Concurrent Financing remains subject to approval of the TSXV.

There was no financing activity during the year ended December 31, 2021.

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Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

5. Share-Based Payments

The Company has a stock option plan approved by the shareholders on November 10, 2010 that allows it to grant incentive stock options, subject to regulatory terms and approval, to its officers, directors, employees, and service providers. The stock option plan (the "2010 Rolling Option Plan") is based on the maximum number of eligible shares equaling a rolling percentage of up to 10% of the Company's outstanding common shares, calculated from time to time.

Pursuant to the 2010 Rolling Option Plan, if outstanding stock options are exercised, or expired, and/or the number of issued and outstanding common shares of the Company increases, then the options available to grant under the plan increase proportionately. The exercise price of each option is set by the Board of Directors at the time of grant but cannot be less than the Discounted Market Price, as calculated pursuant to the policies of the Exchange, or such other minimum price as may be required by the Exchange.

Stock options can have a maximum term of ten (10) years and typically terminate 90 days following the termination of the optionee's employment or engagement, except in the case of retirement or death. Vesting of options is at the discretion of the Board of Directors and determined at the time the options are granted.

Stock option transactions and the number of stock options outstanding during the three months ended March 31, 2022 and the year ended December 31, 2021 are summarized as follows:

	Number	Weighted Average Exercise Price
Balance, at December 31, 2020	-	\$ -
Granted	3,849,040	0.445
Balance, at December 31, 2021 and March 31, 2022	3,849,040	\$ 0.445

No stock options were granted during the three months ended March 31, 2022. The fair value of stock options recognized during the year ended December 31, 2021, as an expense was \$1,522,000. At March 31, 2022, all stock options are fully vested and exercisable.

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5. Share-Based Payments (cont'd...)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of the stock options granted during the year ended December 31, 2021:

	For the Year Ended December 31, 2021
Risk-free interest rate	1.29%
Expected life of options	5 years
Annualized volatility	141.00%
Dividend rate	N/A

At March 31, 2022, the Company had the following incentive stock options outstanding with weighted average contractual life of 4.66 years, entitling the holders thereof to acquire the following common shares in the Company:

Number	Exercise Price	Expiry Date
3,849,040	\$0.445	November 26, 2026

6. Related Party Transactions

Certain directors and/or senior officers transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

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6. Related Party Transactions (cont'd...)

The Company incurred the following transactions with directors and companies controlled by directors of the Company:

	For the three months ended March 31,	
	2022	2021
Professional fees	\$ 27,900	\$ -

Key management personnel compensation

	For the three months ended March 31,	
	2022	2021
Management fees	\$ 66,678	\$ -
Administration fees	-	8,021
	\$ 66,678	\$ 8,021

The following amounts are due to related parties:

	March 31, 2022	December 31, 2021
Directors or officers of the Company	\$ 114,998	\$ 48,533

7. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of any identified business opportunities and to maintain a flexible capital structure for the benefit of its stakeholders.

The Company includes equity, comprised of issued share capital, reserves and deficit, in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, enter into joint venture arrangements, acquire or dispose of assets or adjust the amount of cash.

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7. Capital Risk Management (cont'd...)

The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable growth. The Company is not subject to externally imposed capital requirements. There has been no change with respect to the overall capital risk management strategy during the three months ended March 31, 2022 and the year ended December 31, 2021.

8. Financial Instruments and Risk Factors

a) Fair Value

The fair value of cash, restricted cash, accounts payable and accrued liabilities, due to related parties and subscription receipts approximate their carrying amounts due to the short-term nature of these instruments.

The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7 – Financial Instruments – Disclosures:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets. The Company's cash and cash equivalent are measured as level 1 inputs.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs which are supported by little or no market activity.

b) Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and restricted cash which are held in large Canadian financial institutions. The Company believes this credit risk is insignificant.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Excluding the restricted cash related to the share subscriptions received in advance per Note 4. at March 31, 2022, the Company had a cash balance of \$351,154 (December 31, 2021 - \$164,825) to settle current liabilities of \$531,308 (December 31, 2021 - \$335,481) of which \$114,998 (December 31, 2021 - \$48,533) was due to related parties. In general, the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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8. Financial Instruments and Risk Factors

d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company believes it has no significant interest rate risk.

9. Proposed Transactions

The Definitive Agreements

The Company has entered into certain Definitive Agreements (as defined herein) in respect of Earl Resources' proposed "Change of Business" (the "Proposed COB") as such term is defined in TSX Venture Exchange ("TSXV") Policy 5.2 ("Policy 5.2").

Sierra Leone Transaction

On February 25, 2022, Earl Resources entered into a deed of assignment with Rewilding Maforki Ltd. ("RML") and Aristeus Projects Limited ("APL") (the "Sierra Leone COB Agreement") and a prepayment agreement with RML and APL (the "Sierra Leone Prepayment Agreement"), whereby Earl Resources will acquire by assignment 51% of carbon credits to be generated by RML from its planned project being developed on approximately 25,000 hectares of land with the Maforki Chiefdom in Sierra Leone located at the Malal, Rokon, Gbonkohyeni and Maforay communities (together referred to as the "Maforki Project"), for aggregate consideration consisting of 7,500,000 common shares of Earl Resources ("Earl Shares") issuable at a deemed value of \$0.45 per Earl Share (which implies a consideration in the amount of \$3,375,000). Pursuant to the Sierra Leone COB Agreement and for further consideration of the assignment of the future carbon credits, Earl Resources has also entered into the Sierra Leone Prepayment Agreement pursuant to which it will advance aggregate funds of up to USD \$750,000 to RML in order to assist RML in the initial setup works and costs associated with the Maforki Project together with funding EcoSecurities baseline and PDD reports required in assessing project viability. Earl Resources, in its discretion, may also make one or more further advances for aggregate funds of up to USD \$350,000 to RML to further the Maforki Project. RML is in the process of completing the land title formalities over 25,000 ha of land in Sierra Leone designated for re-wilding.

The Sierra Leone Transaction constitutes an Arm's Length Transaction pursuant to the policies of the TSXV and no new control person will be created upon completion of the Sierra Leone Transaction.

Earl Resources Limited

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For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

9. Proposed Transactions (cont'd...)

Guyana Transaction

On February 25, 2022, Earl Resources entered into a share purchase agreement with Pomeroon Trading (Holdings) Ltd. (“PTHL”) and certain minority shareholders of PTHL (the “Guyana COB Agreement”) that together hold the majority of the issued shares of PTHL (the “PTHL Shares”) and concurrently issued an offer to purchase to all of the other shareholders of PTHL (the “Guyana Short Offers to Purchase”), to purchase, in the aggregate, up to 887,703 PTHL Shares, in exchange for the issuance of that number of Earl Shares equal to an aggregate price of USD\$3,550,812, at a price per Earl Share of CAD\$0.45.

In addition, Earl Resources agreed to concurrently subscribe for an additional 187,000 PTHL Shares for cash, at an implied price per PTHL Share of USD\$4.00 (providing for an aggregate subscription price of USD\$748,000), which, with the aforementioned purchase of PTHL Shares, is expected to result in Earl Resources holding (upon closing) a circa. 60% ownership interest in PTHL. The Guyana COB Agreement also provides that Earl Resources shall commit for a period of 12 months following closing of the transactions pursuant to the Guyana COB Agreement, that subject to PTHL initiating one or more qualifying carbon credit project(s) (to the satisfaction of Earl Resources), Earl Resources will make an offer to all remaining shareholders of PTHL to acquire all of their PTHL Shares at a price to be agreed, accepting that the consideration to be paid pursuant to any such acquisition shall be settled through the issuance of additional Earl Shares (at a price calculated as the 30 day volume weighted average price of the Earl Shares and subject to approval of the TSXV) unless otherwise mutually agreed between Earl Resources and a remaining PTHL shareholder.

The Guyana Transaction is considered a Related Party Transaction on the basis that Mr. Ford Nicholson, a director of the Company owns 16,667 PTHL Shares representing 1.7% of the PTHL Shares. However, due to the minimal holdings of PTHL Shares by Mr. Ford Nicholson (among other things), the Guyana Transaction is exempt from the formal valuation and minority approval requirements of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*. No new Control Person will be created upon completion of the Guyana Transaction.

Yucatan Transaction

In November 2021, the Company entered into an assignment agreement with Compania Mexicana de Captacion de Carbono (“CMCC”) (the “Yucatan COB Agreement”) to acquire all of CMCC’s rights and interests under a consulting services agreement dated May 11, 2021 between CMCC and the Government of the State of Yucatan, Mexico (the “Yucatan Contract”), as well as that it entered into an agreement with CMCC dated November 25, 2021 wherein CCMC assigned a certain commission to Earl Resources (the “Commission Agreement”).

Earl Resources Limited

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For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in Canadian Dollars)

9. Proposed Transactions (cont'd...)

The Yucatan Transaction constitutes an Arm's Length Transaction pursuant to the policies of the TSXV and no new control person will be created upon completion of the Yucatan Transaction.

In March 2022, \$25,000 was paid as a non-refundable deposit for the Yucatan Transaction and an additional \$25,000 will be paid upon closing of the Yucatan Transaction.

Proposed COB

It is intended that the Proposed COB will constitute Earl Resources' "reactivation" under the policies of the TSXV and that upon completion of the Proposed COB ("Closing") and satisfaction of all conditions of the TSXV, Earl Resources will have its listing transferred from the NEX board of the TSXV ("NEX") to the TSXV.

It is anticipated that Earl Resources will carry on the business of developing validated and verified carbon credits from afforestation and reforestation of degraded land areas for sale into international voluntary carbon markets (the "Business") and will meet the Tier 2 Initial Listing Requirements for an Industrial Issuer, such that Earl Resources will be graduated from the NEX to the TSXV. In connection with the Closing, it is anticipated that Earl Resources will change its name to "Klimat X Development Inc.", or such other name as the directors of Earl Resources may chose (subject to applicable regulatory approvals and approval of the TSXV), in order to more accurately reflect its operations and the Business.

Completion of the Proposed COB is subject to a number of conditions, including the conditions to closing set forth in the Sierra Leone COB Agreement, the Sierra Leone Prepayment Agreement, the Yucatan COB Agreement, the Commission Agreement, the Guyana COB Agreement and the Guyana Short Offers to Purchase (collectively, the "Definitive Agreements") and acceptance by the TSXV. There can be no assurance the Proposed COB will be completed as proposed or at all.

Shares for Debt Settlement

In connection with the Proposed COB, Earl Resources intends to settle certain outstanding accounts that are payable or will be payable prior to closing of the Proposed COB in the expected aggregate amount of CAD\$363,415 (the "Debt") owing to certain consultants of the Company ("Consultants") through the issuance of 807,588 common shares of Earl Resources (the "Settlement Shares"), at a deemed price of CAD\$0.45 per Settlement Share (the "Shares for Debt Transaction").

Earl Resources Limited

Notes to Condensed Interim Financial Statements

For the three months ended March 31, 2022 and 2021

(Unaudited, expressed in Canadian Dollars)

9. Proposed Transactions (cont'd...)

The Debt is being accrued pursuant to certain consultant services agreements (the “Consulting Agreements”) entered into: (i) between the Company and 1LS Consulting, for aggregate consulting services payable to 1LS Consulting of CAD\$50,000; (ii) between the Company and Park Energy Law UK Ltd., for aggregate consulting services payable to Park Energy Law UK Ltd. of USD\$50,000; (iii) between the Company and Guy Bertin, for aggregate consulting services payable to Guy Bertin of CAD\$25,000; and (iv) between the Company and Clarus Securities Inc., for aggregate consulting services payable to Clarus Securities Inc. of CAD\$225,000.

Final approval of the Shares for Debt Transaction remains subject to approval of the TSXV.

10. Subsequent Event

In May 2022, the Company completed the third and final tranche of the Concurrent Financing of Subscription Receipts at a price of \$0.45 per subscription receipt for gross proceeds of \$100,000.

Each Subscription Receipt will be automatically exchanged immediately prior to the completion of the Proposed Change of Business (without any further action by the holder of such Subscription Receipt and for no further payment) for one Earl Resources common share upon satisfaction of the escrow release conditions, provided that such conditions are satisfied before the escrow release deadline on July 28, 2022. The proceeds from the Concurrent Financing will be used to fund the Proposed Change of Business, develop the business, and for working capital and general corporate purposes. Final approval of the Concurrent Financing remains subject to approval of the TSXV.