Earl Resources Limited

Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2021 and 2020

Independent Auditor's Report

To the Shareholders of Earl Resources Limited:

Opinion

We have audited the financial statements of Earl Resources Limited (the "Company"), which comprise the statements of financial position as at December 31, 2021 and December 31, 2020, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the 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 in the financial statements, which indicates that as at December 31, 2021, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company'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 financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis 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. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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

The engagement partner on the audit resulting in this independent auditor's report is Jian-Kun Xu.

Vancouver, British Columbia

MNP LLP

March 25, 2022

Chartered Professional Accountants

MNP LLP

Earl Resources Limited

Statements of Financial Position
(Expressed in Canadian Dollars)

		As at December 31, 2021		2020
ASSETS				
Current Assets				
Cash	$	164,825	$	517,664
Prepaid expenses and deposits		933		-
TOTAL ASSETS	$	165,758	$	517,664
LIABILITIES and EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	286,948	$	225
Due to related parties (Note 6)		48,533		140,110
TOTAL LIABILITIES		335,481		140,335
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share capital (Note 4)		2,526,787		2,526,787
Share-based payments reserve (Note 5)		1,583,500		61,500
Accumulated deficit		(4,280,010)		(2,210,958)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		(169,723)		377,329
TOTAL LIABILITIES and EQUITY	$	165,758	$	517,664

Nature of operations and going concern (Note 1)
Subsequent events (Note 11)

Approved on behalf of the Board:

"Mischa Zajtmann" Director

"Chris Colborne" Director

See accompanying notes to the financial statements.

Earl Resources Limited

Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

	For the Year Ended December 31,	
	2021	**2020**
EXPENSES		
Accounting and audit	$ 16,629	$ 11,797
Consulting fees	221,003	-
Filing fees	11,366	7,435
Foreign exchange loss	-	253
Legal	142,535	-
Management fees (Note 6)	55,664	18,375
Office administration and expenses (Note 6)	34,375	32,338
Stock-based compensation	1,522,000	-
Transfer agent fees	4,288	3,612
Travel and business development	52,430	1,651
Website and corporate image	8,762	-
	(2,069,052)	(75,461)
Other items		
Interest income	-	135
Net Loss and Comprehensive Loss for the Year	$ (2,069,052)	$ (75,326)
Basic And Diluted Loss Per Share	$ (0.05)	$ (0.00)
Weighted Average Number Of Shares Outstanding, Basic and Diluted	38,490,400	33,963,843

See accompanying notes to the financial statements.

Earl Resources Limited

Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the Year Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (2,069,052)	$ (75,326)
Adjustments for items not involving cash:		
Stock-based compensation	1,522,000	-
Changes in non-cash working capital items:		
(Increase) decrease in prepaid expenses and deposits	(933)	1,250
Increase in accounts payable and accrued liabilities	195,146	31
Cash used in operating activities	(352,839)	(74,045)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement financing, net of issuance costs	-	497,119
Cash from financing activities	-	497,119
Increase (decrease) in cash during the year	(352,839)	423,074
Cash, beginning of the year	517,664	94,590
Cash, end of the year	$ 164,825	$ 517,664
Supplementary cash flow information		
Interest received	$ -	$ 563

See accompanying notes to the financial statements.

Earl Resources Limited

Statements of Changes in Equity
(Expressed in Canadian Dollars, except Number of Shares)

	Number of Shares	Share Capital	Share-based Payments Reserve	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
Balance, December 31, 2019	32,308,610	$ 2,029,668	$ 61,500	$ (2,135,632)	$ (44,464)
Private placement financing, net of issuance costs	6,181,790	497,119	-	-	497,119
Net loss and comprehensive loss for the year	-	-	-	(75,326)	(75,326)
Balance, December 31, 2020	38,490,400	2,526,787	61,500	(2,210,958)	377,329
Stock-based compensation	-	-	1,522,000	-	1,522,000
Net loss and comprehensive loss for the year	-	-	-	(2,069,052)	(2,069,052)
Balance, December 31, 2021	38,490,400	$ 2,526,787	$ 1,583,500	$ (4,280,010)	$ (169,723)

See accompanying notes to the financial statements.

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 615 – 800 West Pender Street, Vancouver, BC, Canada, V6C 2V6.

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 10. 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 December 31, 2021, the Company has an accumulated deficit of $4,280,010 (December 31, 2020 - $2,210,958) 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. 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.

2. Basis of Presentation

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The financial statements of the Company for the year ended December 31, 2021 were authorized for issue in accordance with a resolution of the directors on March 25, 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.

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.

2. Significant Accounting Policies (cont'd…)

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

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 year ended December 31, 2021. 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.

e) Cash

Cash consists of deposits in banks.

2. Significant Accounting Policies (cont'd…)

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.

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.

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 and due to related parties. 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.

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 is 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.

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.

2. Significant Accounting Policies (cont'd…)

l) 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. Future IFRS Standards and Interpretations Issued But Not Yet Effective

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 intends to adopt IFRS 3 Business Combinations (Amendment) in its financial statements for the fiscal year beginning on January 1, 2022 and will assess the impact of this amendment on its financial statements.

4. Share Capital

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

(b) Issued Share Capital

At December 31, 2021, the issued share capital of the Company was 38,490,400 common shares (December 31, 2020 – 38,490,400 common shares).

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

During the year ended December 31, 2020, the Company closed a non-brokered private placement of 5,881,800 common shares in its capital (the “Common Shares”) issued at a price of $0.085 per common share for gross proceeds of $499,953 (the “Offering”). In addition, the Company issued an aggregate of 299,990 common shares with a fair value of $25,499 as a finder’s fee payable to an eligible finder, Kepis & Pobe Financial Group Inc.

See Subsequent Events in Note 11 with respect to the Bridge Financing in January 2022 and the Concurrent Financing in January and February 2022.

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.

(Expressed in Canadian Dollars)

5. Share-Based Payments (cont'd…)

Stock option transactions and the number of stock options outstanding during the years ended December 31, 2021 and December 31, 2020 are summarized as follows:

	Number		Weighted Average Exercise Price
Balance, at December 31, 2019 and December 31, 2020	-	$	-
Granted	3,849,040		0.445
Balance, at December 31, 2021	3,849,040	$	0.445

The fair value of stock options recognized during the year ended December 31, 2021, as an expense was $1,522,000 (Year ended December 31, 2020 - $Nil). At December 31, 2021, all stock options are fully vested and exercisable.

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 December 31, 2021, the Company had the following incentive stock options outstanding with weighted average contractual life of 4.9 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.

(Expressed in Canadian Dollars)

6. Related Party Transactions (cont'd…)

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

	For the year ended December 31, 2021	For the year ended December 31, 2020
Professional fees	$ 117,146	$ -

Key management personnel compensation

	For the year ended December 31, 2021	For the year ended December 31, 2020
Management fees	$ 55,664	$ 18,375
Administration fees	31,500	24,150
Rent	-	7,350
Management stock-based compensation	741,039	-
	$ 828,203	$ 49,875

The following amounts are due to related parties:

	December 31, 2021	December 31, 2020
Directors or officers of the Company	$ 48,533	$ 140,110

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.

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 year ended December 31, 2021 and the year ended December 31, 2020.

8. Financial Instruments and Risk Factors

a) Fair Value

The fair value of cash, accounts payable and accrued liabilities and due to related parties 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 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. At December 31, 2021, the Company had a cash balance of $164,825 (December 31, 2020 - $517,664) to settle current liabilities of $335,481 (December 31, 2020 - $140,335) of which $48,533 (December 31, 2020 - $140,110) 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.

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.

(Expressed in Canadian Dollars)

9. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statement of operations and comprehensive loss for the year ended December 31, 2021 and 2020.

	December 31, 2021	**December 31, 2020**
	$	**$**
Net loss before tax	(2,069,052)	(75,326)
Statutory tax rate	27.00%	27.00%
Expected income tax (recovery)	(558,644)	(20,338)
Non-deductible items	412,973	223
Change in deferred tax asset not recognized	145,671	20,115
Total tax expense (recovery)	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. The unrecognized deductible temporary differences at December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
	$	**$**
Share issuance costs	17,644	23,893
Cumulative eligible capital	11,662	11,662
Non-capital loss carry forwards	809,590	263,820
Total unrecognized deductible temporary differences	838,896	299,375

As at December 31, 2021, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately $809,590 (2020: $263,820) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring from 2039 to 2041.

10. 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.

10. 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 and insider 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").

10. 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 payable in the 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").

10. Proposed Transactions (cont'd…)

The Debt was 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.

No new control person of the Company will be created pursuant to the Shares for Debt Transaction and the Shares for Debt Transaction is an arm's length transaction within the policies of the TSXV. All Settlement Shares will be subject to a four-month and one-day hold period from the date of issuance, being the date of closing of the Proposed COB.

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

11. Subsequent Events

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 Proposed Transactions, including costs related to audit fees, legal fees, preparation of necessary documentation for the Proposed Transactions and due diligence costs. Final approval of the Bridge Financing remains subject to approval of the TSXV.

Concurrent Financing
On January 28, 2022 and February 1, 2022, in connection with the Proposed COB, 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 COB (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 May 28, 2022.

11. Subsequent Events (cont'd…)

Concurrent Financing (cont'd…)

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