TEARLACH RESOURCES LIMITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2020

(Expressed in Canadian dollars)

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

TEARLACH RESOURCES LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian funds)

	Unaudited March 31, 2020	Audited September 30, 2019
CURRENT ASSETS		
Cash	$ 102	$ 1,373
GST recoverable	755	485
	$ 857	$ 1,858
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 4 and 10)	$ 27,807	$ 27,691
Loans payable (Note 3)	-	5,185
Promissory notes (Note 3)	-	116,873
Due to related parties (Note 4)	12,890	16,145
	40,697	165,894
Loans payable (Note 3)	20,385	-
Promissory notes (Note 3)	122,411	-
	183,493	165,894
SHAREHOLDERS' DEFICIENCY		
Capital stock (Note 6)	10,433,916	10,433,916
Special warrants (Note 6)	4,124,926	4,124,926
Reserves	1,537,056	1,537,056
Deficit	(16,278,534)	(16,259,934)
	(182,636)	(164,036)
	$ 857	$ 1,858

Nature of Operations and Going Concern (Note 1)
Contingencies (Note 8)

Approved on behalf of the Board: June 26, 2020

"Charles Ross"
Charles Ross, Director

"Raymond Strafehl"
Raymond Strafehl, Director

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

TEARLACH RESOURCES LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(Expressed in Canadian funds)

	Three months ended March 31, 2020	Three months ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
GENERAL AND ADMINISTRATIVE EXPENSES				
Foreign exchange loss (gain)	$ 259	$ (3,916)	$ 192	$ 4,269
Office and general	309	2,568	581	5,098
Interest (Note 3 & 5)	3,097	2,169	6,253	37,271
Management fees (Note 4)	-	15,000	-	30,000
Professional fees	3,052	4,125	5,117	7,881
Transfer agent and filing fees	4,272	4,583	6,483	6,369
LOSS BEFORE OTHER ITEMS	(10,989)	(24,529)	(18,626)	(90,915)
OTHER ITEMS				
Gain on settlement of debt (Note 6)	-	1,742,571	-	1,742,571
Write-off of debt	-	-	26	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (10,989)	$ 1,718,042	$ (18,600)	$ 1,651,656
BASIC AND DILUTED INCOME (LOSS) PER SHARE	$ (0.00)	$ 0.03	$ (0.00)	$ 0.04
WEIGHTED AVERAGE SHARES OUTSTANDING	62,873,557	49,978,086	62,873,557	36,940,905

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

TEARLACH RESOURCES LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
(Unaudited)
(Expressed in Canadian funds)

	Shares Issued	Capital Stock	Shares to be issued	Reserves- Share-based Payments and Other	Special Warrants	Deficit	Total
Balance September 30, 2018	24,187,142	$8,499,595	$3,500	$1,537,056	$4,124,926	$(18,111,995)	$(3,946,918)
Shares issued for debt (Note 6)	38,651,415	1,934,321	(3,500)	-	-	191,750	2,122,571
Net income for the period	-	-	-	-	-	1,651,656	1,651,656
Balance March 31, 2019	62,873,557	10,433,916	-	1,537,056	4,124,926	(16,268,589)	(172,691)
Balance September 30, 2019	62,873,557	$10,433,916	$ -	$1,537,056	$4,124,926	$(16,259,934)	$ (164,036)
Net loss for the period	-	-	-	-	-	(18,600)	(18,600)
Balance March 31, 2020	62,873,557	$10,433,916	$ -	$1,537,056	$4,124,926	$(16,278,534)	$(182,636)

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

TEARLACH RESOURCES LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian funds)

	Six months ended March 31, 2020	Six months ended March 31, 2019
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net income (loss) for the period	$ (18,600)	$ 1,651,656
Adjustments for items not affecting cash:		
Accrued and unpaid management fees	-	15,000
Accrued interest	6,238	30,904
Gain on settlement of debt	-	(1,742,571)
Write-off of debt	(26)	-
	(12,388)	(45,011)
Net changes in non-cash working capital items:		
GST recoverable	(270)	527
Due to related parties	(3,255)	-
Accounts payable and accrued liabilities	142	(26,270)
Net cash used in operating activities	(15,771)	(70,754)
FINANCING ACTIVITIES		
Loan proceeds	14,500	54,459
Promissory notes repaid	-	(2,267)
Related party advances	-	20,192
Net cash provided by financing activities	14,500	72,384
INCREASE (DECREASE) IN CASH	(1,271)	1,630
CASH – BEGINNING OF PERIOD	1,373	1,694
CASH – END OF PERIOD	$ 102	$ 3,423

Supplemental information with respect to cash flows (Note 7)

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

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Tearlach Resources Limited (the "Company") is a British Columbia, Canada incorporated company which has been primarily engaged in the acquisition, exploration and development of mineral and oil and gas properties in Canada and the United States. The Company's head office is at 2300 - 1177 West Hastings Street, Vancouver, B.C., Canada, V6E 2K3. The Company is listed on the NEX Board of the TSX Venture Exchange ("Exchange") under the trading symbol TEA.H.

The condensed interim consolidated financial statements of the Company are presented in Canadian dollars.

Going Concern

The financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue its operations and will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern and acquire resource properties is dependent upon the continued financial support from related parties, the ability of the Company to raise equity financing to conduct exploration and development activities. Given the operating losses accumulated in the last number of years, the Company's ability to realize its assets and discharge its liabilities depends on continued support from its directors, the ability to raise further funds to repay debts and to provide working capital and ultimately on generating future profitable operations. These uncertainties cast significant doubt on the ability of the Company to continue operations as a going concern. The financial statements do not reflect adjustments to the carrying values of assets, liabilities or reported results should the Company be unable to continue as a going concern. At March 31, 2020, the Company had accumulated losses of $16,278,538 (September 30, 2019: $16,259,934).

Statement of compliance

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2019, which have been prepared in accordance with IFRS.

These financial statements were approved by the Board of Directors on June 26, 2020.

Basis of presentation

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2 of the audited consolidated financial statements for the year ended September 30, 2019. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these condensed interim consolidated financial statements are in accordance with IFRS.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Tearlach Resources (California) Ltd., ("Tearlach California"). All inter-company transactions and balances have been eliminated upon consolidation.

NOTE 3 – LOANS AND PROMISSORY NOTES

During the year ended September 30, 2019, the Company received loan advances from a third party in the amount of $5,100. The unsecured loan is payable on demand and bears interest at a rate of 10% per annum. Pursuant to an amended loan agreement the Company entered during the period ended March 31, 2020, the repayment date of the loan is extended to June 30, 2022. All other terms remained the same. During the three and six months ended March 31, 2020, the Company received further advances of $14,500 and recorded $440 and $700 (2019 - $nil) as interest expense on the loan.

During the year ended September 30, 2018, the Company received a promissory note and cash advances of $51,500. The note is issued to a company controlled by a director. The note is payable on demand and bears interest at a rate of 10% per annum. During the year ended September 30, 2019, the Company received further advances of $54,460. Pursuant to an amended loan agreement the Company entered during the period ended March 31, 2020, the repayment date of the loan is extended to June 30, 2022. During the three and months ended March 31, 2020, the Company recorded $2,643 and $5,539 (2019 – $1,139 and $2,570) as interest expense on the promissory note. At March 31, 2020, the principal amount of loan is $105,960 and accrued interest is $16,452.

On March 20, 2018, the Company issued a promissory note to a third party totalling $2,150. The note is payable on demand and bears interest at a rate of 10% per annum. During the year ended September 30, 2019, the Company recorded $55 as interest expense and the promissory note was repaid in full.

NOTE 4 - RELATED PARTY TRANSACTIONS

During the three and six months ended March 31, 2020, the Company entered into the following transactions with related parties:

a) The Company incurred management fees of $nil and $nil to a company controlled by the Chief Financial Officer (“CFO”) of the Company (2019 - $15,000 and $15,000).
b) Promissory note advances totalling $nil were received from a company controlled by the CFO of the Company (2019 – $2,322). The promissory note bore interest at 8% per annum. Interest of $nil and $nil (2019 - $3,374 and $3,374) was accrued on the promissory note.

Amounts owing to related parties were as follows:

	March 31, 2020	September 30, 2019
CFO and companies controlled by the CFO for management fees and expenses	$ 12,890	$ 16,146

Included in accounts payable at March 31, 2020 is $3,168 (September 30, 2019 - $3,132) due to company with a common director. Unless otherwise noted, related party amounts are unsecured, bear no interest and have no fixed terms of repayment. Amounts owing to the CFO were secured by a general security agreement on the assets of the Company.

NOTE 5 - CONVERTIBLE NOTES

On September 6, 2012, the Company issued $2,025,000 in convertible notes. Each note holder has the right to convert the principal amount of the notes into common shares of the Company at a rate of $0.10 per common share and a detachable, transferable warrant to purchase common shares at $0.10 per share for five years. The notes have an interest rate of 8% per annum (calculated semi-annually) and have a maturity date of five years from closing. Interest will be convertible at the market price of the securities at the time of conversion. The Company’s liabilities under the notes are secured by a first charge over the assets of the Company.

The Company classified the notes into debt and equity components based on the residual method. The debt component of $1,549,268 was calculated as the present value of the required interest and principal payment that would have been applicable to non-convertible debt using a market rate of 15% per annum. An amount of $237,866 representing the estimated value of the right of conversion was included in shareholders’ equity as the equity component of convertible notes. An amount of $237,866 representing the estimated value of the warrants was included in shareholders’ equity as warrant reserves.

NOTE 5 - CONVERTIBLE NOTES (continued)

On September 6, 2017, the convertible option of the convertible notes expired unexercised. The amount of $237,866 was reclassified from equity component of convertible notes to reserves, and the amount of $237,866 representing the estimated value of the warrants was reclassified from warrant reserves to other reserves.

During the year ended September 30, 2019, the Company recorded interest expense of $27,075 on the notes.

On January 30, 2019, the convertible notes principal amount of $2,025,000 and accumulated interest of $1,009,505 were settled with 30,345,060 common shares at $0.05 per share for a fair value of $1,517,253 (Note 6).

NOTE 6 – CAPITAL STOCK

Common shares

Authorized: unlimited common shares without par value
unlimited preferred shares without par value

On January 30, 2019, the Company issued 38,651,415 shares at $0.05 per share for a fair value of $1,934,321 to settle debt of $3,868,641, resulting in a gain on settlement of $1,934,321. Of this amount $191,750 was allocated to deficit as it was to a related party and $1,742,571 was allocated to gain on settlement of debt on the statement of comprehensive income (loss).

Stock Option Plan

In December 2006 the Exchange approved a stock option plan (the '2006 Plan'). Any options granted under the 2006 Plan vest according to the terms deemed appropriate by the directors of the Company and that are in compliance with Exchange policy, or, upon Exchange approval, will vest immediately in the event of a change of control of the Company or takeover bid. The number of common shares allowed under the Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 20% of the total number of issued and outstanding common shares of the Company. The maximum number of common shares which may be issued pursuant to options granted was 248,195 or such additional amounts as may be approved from time to time by shareholders of the Company. At the Company's annual general meeting on June 26, 2008 the shareholders approved an increase in the number of options which may be granted to 342,978. The Plan was accepted by the exchange on March 30, 2009.

In July 2019 the Exchange approved a stock option plan (the '2019 Plan'). Any options granted under the 2019 Plan vest according to the terms deemed appropriate by the directors of the Company and that are in compliance with Exchange policy. The number of common shares allowed under the Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of issued and outstanding common shares of the Company. The maximum number of common shares which may be issued pursuant to options granted under the 2019 Plan is 5,944,272.

Stock Options

There are no stock option outstanding at March 31, 2020 and September 30, 2019.

Warrants

The Company had no warrants outstanding at March 31, 2020 and September 30, 2019.

Special Warrants

The Company has 1,309,500 special warrants outstanding (September 30, 2019 – 1,309,500). Each special warrant may be converted into one common share of the Company at no additional cost, subject to certain limitations if as a result of such conversion the special warrant holder would own 10% or more of the shares of the Company. The special warrants have no expiry date.

NOTE 6 – CAPITAL STOCK- (continued)

Reserves

Reserves include share-based payment, share purchase warrant and other reserves. The share-based payment reserve represents the fair value of stock options until such time that the share-based instruments are exercised, at which time the corresponding amount will be transferred to share capital. The warrant reserve represents the fair value of warrants until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. Upon expiry, both share-based payment and warrant reserves are moved to other reserves.

NOTE 7 – CONTINGENCIES

The Company recognizes liabilities for contingencies when it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Legal proceedings in which the Company is involved are summarized below.

Tearlach vs Western States International ("WSI")
On December 11, 2008 the Company commenced legal proceedings in the Supreme Court of British Columbia against WSI and G&O of Monrovia, California (the "Defendants"), alleging numerous breaches in a contract between the Company and the Defendants which contract was entered into April 21, 2006. The Company has obtained a default judgement in the amount of $18,043,692 against WSI and G&O.

Claim for expenses
WSI, G&O and United Pacific Energy Corporation filed an action against the Company, Tearlach California and two of its directors and officers. The Company filed a defence in the action and also filed a cross complaint. On February 1, 2011 the Company obtained a complete dismissal of the action and also obtained judgement in the amount of $18,724,902 on the cross complaint. The judgement has survived various motions and appeals (up to the California Supreme Court) and, as of March 31, 2020 and September 30, 2019, remained outstanding in the amount of $27,307,575, including accrued interest and costs.

NOTE 8 - FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments at March 31, 2020 are summarized below. The Board of Directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

Management of Industry Risk
The Company is engaged primarily in mineral exploration and oil and gas development and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

Financial risk factors
Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash is determined using level one of the fair value hierarchy. The carrying value of accounts payable and accrued liabilities, promissory notes, convertible notes and amount due to related parties approximate their fair value because of the short-term nature of these instruments.

NOTE 8 – FINANCIAL RISK AND CAPITAL MANAGEMENT - (continued)

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

Credit risk
Credit risk is the risk of loss associated with a counter-party’s inability to fulfil its payment of liabilities. The credit risk exposure on cash is limited to its carrying amounts at the date of the statements of financial position. The Company’s credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to cash is minimal.

Liquidity risk
Liquidity risk arises from the Company’s general and capital financing needs. The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. The Company’s liquidity risk is high due to its working capital deficit. As at March 31, 2020, the Company had a cash balance of $102 (September 30, 2019: $1,373) to settle current liabilities of $40,697 (September 30, 2019: $165,894). All of the Company’s financial liabilities are subject to normal trade terms.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest rate risk
The Company has cash balances and no variable rate debt. The Company’s current policy is to invest excess cash in investment-grade demand deposit certificates issued by its banking institutions. The Company monitors the investments it makes and is satisfied with the credit ratings of its banks. The assumed 1% change in interest rates would result in an annual interest expense increase of about $1,000.

(b) Foreign currency risk
The Company’s functional currency is the Canadian dollar. The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars. However, management believes the risk is not currently significant. The Company manages its exposure to these risks by monitoring its financial instruments, if any, dominated in US dollars. The Company does not engage in any form of derivative or hedging instruments to reduce its foreign currency risk.

(c) Price risk
The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company’s earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of oil, nonferrous metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

Capital 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 its exploration and evaluation assets and to maintain a flexible capital structure for its projects for the benefit of its stakeholders, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares. The Company includes the components of shareholders’ equity in its management of capital.

As at March 31, 2020, the Company had capital resources consisting of cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash. The Company’s investment policy is to invest its cash in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

NOTE 9 – FINANCIAL RISK AND CAPITAL MANAGEMENT - (continued)

Due to the Company's net loss, the continuation of the Company is dependent upon its ability to attain profitable operations and to generate cash flow and/or to raise equity capital through the sale of its securities, or secure additional exploration funding through option or joint venture agreements on its exploration and evaluation assets, or through the sale of capital assets or exploration and evaluation assets. In order to obtain financing sufficient to continue operations, the Company will continue to seek private placement funding, and joint venture partners and/or exploration funding for its properties. There were no changes in the Company's approach to capital management during the period ended March 31, 2020.

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were comprised of the following:

	March 31, 2020	September 30, 2019
Trade payables	$ 27,807	$ 11,391
Accruals	-	16,300
Total	$ 27,807	$ 27,691