

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Three months ended March 31, 2017 and 2016

KARNALYTE RESOURCES INC.

Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	\$ 15,091	\$ 16,752
Trade and other receivables	69	77
Prepaid expenses	564	327
	<u>15,724</u>	<u>17,156</u>
Restricted cash	375	375
Capital assets (note 3)	639	710
Exploration and evaluation and other assets (note 4)	4,783	4,783
	<u>\$ 21,521</u>	<u>\$ 23,024</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 233	\$ 406
Provision	-	1,344
	<u>233</u>	<u>1,750</u>
Decommissioning liability	155	136
Total liabilities	<u>388</u>	<u>1,886</u>
Shareholders' equity:		
Share capital (note 5)	129,879	129,879
Contributed surplus	9,206	9,204
Deficit	(117,952)	(117,945)
Total shareholders' equity	<u>21,133</u>	<u>21,138</u>
	<u>\$ 21,521</u>	<u>\$ 23,024</u>

Commitments (note 7)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

"signed"
Robin Phinney, Director

"signed"
Henry Kerkhoven, Director

KARNALYTE RESOURCES INC.

Interim Statements of Comprehensive Loss (unaudited)

For the three months ended March 31, 2017 and 2016
(CAD \$ thousands)

	2017	2016
Expenses:		
General and administrative	\$ 786	\$ 1,953
Depreciation and amortization (note 3)	71	126
Share-based compensation expense (note 5)	2	10
Restructuring expenses	360	-
Recovery of provision	(1,316)	-
Impairment expenses (note 4)	169	409
Other income and expenses	(19)	(160)
	53	2,338
Finance income	(46)	(181)
Finance expense	-	-
Net finance income	(46)	(181)
Comprehensive (loss)	\$ (7)	\$ (2,157)
Loss per share (note 5(b)) Basic and diluted	\$ (0.00)	\$ (0.08)

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Interim Statements of Cash Flows (unaudited)

For the three months ended March 31, 2017 and 2016
(CAD \$ thousands)

	2017	2016
Cash Flows from (used in) Operating Activities:		
Net loss for the period	\$ (7)	\$ (2,157)
Add/deduct:		
Depreciation and amortization (note 3)	71	126
Stock-based compensation expense (note 5(c))	2	10
Impairment expense (note 4)	169	409
Recovery of provision	(1,316)	-
Net finance income	(46)	(181)
Interest income received	47	65
Unrealized foreign exchange gain/(loss)	25	85
Changes in non-cash working capital (note 6)	(437)	26
	(1,492)	(1,617)
Cash Flows from (used in) Investing Activities:		
Additions to intangible assets (note 4)	(169)	(409)
Additions to capital assets (note 3)	-	(17)
Changes in non-cash working capital (note 6)	-	(46)
	(169)	(472)
Change in cash	(1,661)	(2,089)
Cash, beginning of period	16,752	27,733
Cash and cash equivalents, end of period	\$ 15,091	\$ 25,644

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Interim Statements of Changes in Equity (unaudited)

For the three months ended March 31, 2017 and 2016
(CAD \$ thousands)

	2017		2016	
	Number	Amount	Number	Amount
Share Capital:				
Balance, beginning of period	28,116	\$ 129,879	27,478	\$ 129,786
Balance, end of period	28,116	129,879	27,478	129,786
Contributed Surplus:				
Balance, beginning of period		9,204		9,205
Stock-based compensation expense (note 5(c))		2		10
Balance, end of period		9,206		9,215
Deficit:				
Balance, beginning of period		(117,945)		(109,093)
Loss for the period		(7)		(2,157)
Balance, end of period		(117,952)		(111,250)
Balance, end of period		\$ 21,133		\$ 27,751

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Interim Financial Statements (unaudited)

For the years three months ended March 31, 2017 and 2016
(All tabular amounts are in CAD thousands except per share amounts)

1. Reporting entity

Karnalyte Resources Inc. (the “Company” or “Karnalyte”) is incorporated under the laws of the province of Alberta. As at the date of the financial statements, the business of Karnalyte consisted of the exploration and development of its property and planned construction of a production facility and development of a potash mine. The property is situated in Saskatchewan, south of Wynyard and contains a dominant zone of potash and magnesium minerals. The recoverability of amounts recorded as mineral properties and deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop the property and upon future profitable production and the sale thereof.

As of the date of these financial statements, the Company was in its pre-development phase and therefore there is no certainty that the Company will be able to raise additional funds to obtain the necessary capital to move forward to the production stage. While the Company has sufficient cash to meet its short-term corporate operating and capital requirements, it does not currently have adequate funds to proceed with full-scale development of the solution mining facility.

The Company’s operating segments have been identified as the individual mineral reserve streams. As at the date of these financial statements, the Company identified two operating segments, potash and magnesium; however as investment in the magnesium segment is negligible they are grouped as one reporting segment for financial reporting purposes.

The Company’s address is 3150B Faithfull Ave. Saskatoon, SK S7K 8H3.

2. Basis of preparation

(a) Statement of compliance

These condensed interim unaudited financial statements have been prepared by management in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. In preparing these interim financial statements the Company applied the same accounting policies as disclosed in the year-end financial statements dated December 31, 2016. These statements do not include all information or disclosures normally provided in annual statements. These interim statements should be read in conjunction with the audit annual financial statements and related notes.

These financial statements were authorized for issue by the Board of Directors on May 3, 2017.

KARNALYTE RESOURCES INC.

Notes to Interim Financial Statements (unaudited)

For the three months ended March 31, 2017 and 2016

(All tabular amounts are in CAD thousands except per share amounts)

3. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Total
Cost:					
Balance at January 1, 2016	\$ 497	\$ 100	\$ 3,721	\$ 18,711	\$ 23,029
Additions	-	46	12	-	58
Dispositions	-	(29)	(26)	-	(55)
Balance at December 31, 2016	497	117	3,707	18,711	23,032
Additions	-	-	-	-	-
Balance at March 31, 2017	\$ 497	\$ 117	\$ 3,707	\$ 18,711	\$ 23,032
Accumulated depreciation:					
Balance at January 1, 2016	\$ 156	\$ 100	\$ 3,070	\$ 18,711	\$ 22,037
Depreciation	13	13	314	-	340
Dispositions	-	(29)	(26)	-	(55)
Impairment	-	-	-	-	-
Balance at December 31, 2016	169	84	3,358	18,711	22,322
Depreciation	3	4	64	-	71
Balance at March 31, 2017	\$ 172	\$ 88	\$ 3,422	\$ 18,711	\$ 22,393
Carrying amounts:					
December 31, 2016	\$ 328	\$ 33	\$ 349	\$ -	\$ 710
March 31, 2017	\$ 325	\$ 29	\$ 285	\$ -	\$ 639

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Notes to Interim Financial Statements (unaudited)

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4. Exploration and evaluation assets and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2016	\$ 43,774	\$ 165	\$ 277	\$ 44,216
Additions	4,230	5	-	4,235
Balance at December 31, 2016	48,004	170	277	48,451
Additions	169	-	-	169
Balance at March 31, 2017	\$ 48,173	\$ 170	\$ 277	\$ 48,620
Amortization and impairment losses:				
Balance at January 1, 2016	\$ 41,246	\$ 165	\$ 277	\$ 41,688
Impairment	1,975	5	-	1,980
Balance at December 31, 2016	43,221	170	277	43,668
Impairment	169	-	-	169
Balance at March 31, 2017	\$ 43,390	\$ 170	\$ 277	\$ 43,837
Carrying amounts:				
December 31, 2016	\$ 4,783	\$ -	\$ -	\$ 4,783
March 31, 2017	\$ 4,783	\$ -	\$ -	\$ 4,783

5. Share capital

(a) Authorized

As at March 31, 2017 and 2016 the Company was authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. Since its inception, the Company has not declared a dividend. No common shares were issued throughout the three months ended March 31, 2017.

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued throughout the three months ended March 31, 2017.

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Notes to Interim Financial Statements (unaudited)

For the three months ended March 31, 2017 and 2016

(All tabular amounts are in CAD thousands except per share amounts)

5. Share capital (continued)

(b) Earnings per share

Basic earnings per share were calculated as follows:

	2017	2016
Loss for the year ending March 31,	\$ (7)	\$ (2,157)
Weighted average number of common shares outstanding:		
Weighted average issued common shares at beginning of period	27,672	27,478
Weighted average common shares issued	158	-
Weighted average number of common shares outstanding	27,830	27,478
Basic loss per share	\$ (0.00)	\$ (0.08)

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are equal to basic per share amounts due to the Company incurring a net loss for the period. Excluded from the diluted per share calculations were 1,943,000 (2016 - 2,100,000) options as their effect would have been anti-dilutive.

(c) Stock-based compensation expense

The Company has a stock option plan under which directors, officers and non-employees of the Company are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all stock options granted under the plan shall not exceed 10% of the issued common shares of the Company at the time of granting of the options. Options granted under the plan generally have a term of two to five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchange on which the Company's common shares are then listed.

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(All tabular amounts are in CAD thousands except per share amounts)

5. Share capital (continued)

(c) Stock-based compensation expense (continued)

The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	1,943	\$ 0.87	2,079	\$ 1.03
Issued during the period	-	-	90	0.75
Expired during the period	-	-	(9)	8.50
Forfeited during the period	-	-	(60)	5.49
Outstanding at March 31,	1,943	0.87	2,100	0.87
Exercisable at March 31,	1,898	\$ 0.88	1,998	\$ 0.87

Number of Options Outstanding	Exercise Price	Remaining Life (yrs)	Exercisable Options	Exercisable Price
50,000	\$ 1.27	1.26	50,000	\$ 1.27
1,773,000	0.75	3.29	1,773,000	0.75
90,000	0.75	5.70	45,000	0.75
30,000	7.95	0.97	30,000	7.95
1,943,000	\$ 0.87	2.81	1,898,000	\$ 0.88

Share based compensation of \$2,000 (2016 - \$10,000) was expensed during the three month period ended March 31, 2017.

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6. Supplemental cash flow information

Changes in non-cash working capital are as follows:

March 31,	2017	2016
Accounts receivable	\$ 2	\$ (36)
Prepaid expenses	(237)	(246)
Trade and other payables	(202)	348
Provision	-	(86)
	\$ (437)	\$ (20)
Relating to:		
Operating activities	\$ (437)	\$ 26
Investing activities	-	(46)
	\$ (437)	\$ (20)

7. Commitments

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 233	\$ 233	\$ -	\$ -	\$ -
Office lease	37	37	-	-	-
Permit/lease on mineral property	6,669	68	738	738	5,125
	\$ 6,939	\$ 338	\$ 738	\$ 738	\$ 5,125

8. Risk management

Financial instruments included in the statements of financial position consist of cash, trade and other receivables, restricted cash, and trades and other payables. The fair values of these financial instruments approximate their varying amounts due to the short term maturity of the instruments.