

Condensed Interim Unaudited Financial Statements of

**KARNALYTE RESOURCES INC.**

Three months ended March 31, 2019 and 2018

# KARNALYTE RESOURCES INC.

Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,242	\$ 10,504
Trade and other receivables	84	104
Prepaid expenses	742	528
	<u>10,068</u>	<u>11,136</u>
Restricted cash	375	375
Capital assets (note 3)	356	366
Exploration and evaluation and other assets (note 4)	5,044	5,044
<b>ASSETS</b>	<b>\$ 15,843</b>	<b>\$ 16,921</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Trade and other payables	\$ 606	\$ 901
	<u>606</u>	<u>901</u>
Decommissioning liability	1,777	1,707
Total liabilities	<u>2,383</u>	<u>2,608</u>
Shareholders' equity:		
Share capital (note 5)	132,149	132,149
Contributed surplus	9,574	9,522
Deficit	(128,263)	(127,358)
Total shareholders' equity	<u>13,460</u>	<u>14,313</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 15,843</b>	<b>\$ 16,921</b>

Commitments (note 7), Contingent liability (note 9)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

\_\_\_\_\_  
"signed"  
W. Todd Rowan, Director

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"signed"  
Vishvesh Nanavaty, Director

# KARNALYTE RESOURCES INC.

Interim Statements of Loss and Comprehensive Loss (unaudited)

For the three months ended March 31, 2019 and 2018  
(CAD \$ thousands)

	2019	2018
Expenses:		
General and administrative	\$ 749	\$ 616
Depreciation and amortization (note 3)	10	16
Share-based compensation expense (note 5 (c))	52	38
Restructuring expenses	-	10
Impairment expenses (notes 3 and 4)	158	99
Other income	(11)	(27)
	958	752
Finance income	(53)	(7)
Net finance income	(53)	(7)
Loss and Comprehensive loss	\$ (905)	\$ (745)
Loss per share (note 5(b)) Basic and diluted	\$ (0.03)	\$ (0.03)

See accompanying notes to the financial statements.

# KARNALYTE RESOURCES INC.

Interim Statements of Cash Flows (unaudited)

For the three months ended March 31, 2019 and 2018  
(CAD \$ thousands)

	2019	2018
Cash Flows from (used in) Operating Activities:		
Net loss for the period	\$ (905)	\$ (745)
Add/deduct:		
Depreciation and amortization (note 3)	10	16
Stock-based compensation expense (note 5(c))	52	38
Impairment expense (notes 3 and 4)	158	99
Net finance income	(53)	(7)
Interest income received	49	39
Changes in non-cash working capital (note 6)	(475)	(264)
	(1,164)	(824)
Cash Flows used in Investing Activities:		
Additions to mineral properties and intangible assets (note 4)	(98)	(99)
	(98)	(99)
Change in cash and cash equivalents	(1,262)	(923)
Cash and cash equivalents, beginning of period	10,504	12,265
Cash and cash equivalents, end of period	\$ 9,242	\$ 11,342

See accompanying notes to the financial statements.

# KARNALYTE RESOURCES INC.

Interim Statements of Changes in Equity (unaudited)

For the three months ended March 31, 2019 and 2018  
(CAD \$ thousands)

	2019		2018	
	Number	Amount	Number	Amount
Share Capital:				
Balance, beginning of period	42,174	\$ 132,149	28,116	\$ 129,879
Balance, end of period	42,174	132,149	28,116	129,879
Contributed Surplus:				
Balance, beginning of period		9,522		9,217
Stock-based compensation expense (note 5(c))		52		38
Balance, end of period		9,574		9,255
Deficit:				
Balance, beginning of period		(127,358)		(121,340)
Loss for the period		(905)		(745)
Balance, end of period		(128,263)		(122,085)
Balance, end of period		\$ 13,480		\$ 17,049

See accompanying notes to the financial statements.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the years three months ended March 31, 2019 and 2018  
(All tabular amounts are in CAD thousands except per share amounts)

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## 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 for at least the next twelve months, it does not currently have adequate funds to proceed with full-scale development of the solution mining facility.

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, 2018 except as noted below. These statements do not include all information or disclosures normally provided in annual statements. These interim statements should be read in conjunction with the audited annual financial statements and related notes.

This is the first set of financial statements for the Company where IFRS 16, Leases (IFRS 16) and IFRIC 23, Uncertainty over Income Tax Treatments (IFRIC 23) have been applied. Changes to significant accounting policies are described in note 2(b).

These financial statements were authorized for issue by the Board of Directors on May 14, 2019.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2019 and 2018

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

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## 2. Basis of preparation (continued)

### (b) Changes in accounting policy

On January 1, 2019, the Company adopted the new standards, IFRS 16 and IFRIC 23, as issued by the IASB.

#### (i) IFRS 16 - Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments subject to recognition exemptions for leases to explore for and use minerals resources and certain short-term and low-value leases. IFRS 16 has replaced IAS 17, Leases. The implementation of this standard has had no impact at the Company's financial statements as the Company's lease agreements meet the recognition exemptions noted above.

#### (ii) IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The implementation of this standard had no impact on the Company's financial statements.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

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(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, 2018	\$ 497	\$ 117	\$ 3,657	\$ 18,711	\$ 22,982
Additions	-	-	-	-	-
Additions to decommissioning liability	-	-	-	1,175	1,175
Dispositions	-	-	-	-	-
Balance at December 31, 2018	497	117	3,657	19,886	24,157
Additions	-	-	-	-	-
Additions to decommissioning liability	-	-	-	42	42
Balance at March 31, 2019	\$ 497	\$ 117	\$ 3,657	\$ 19,928	\$ 24,199
Accumulated depreciation:					
Balance at January 1, 2018	\$ 182	\$ 99	\$ 3,564	\$ 18,711	\$ 22,556
Depreciation	13	15	32	-	60
Dispositions	-	-	-	-	-
Impairment	-	-	-	1,175	1,175
Balance at December 31, 2018	195	114	3,596	19,886	23,791
Depreciation	3	2	5	-	10
Impairment	-	-	-	42	42
Balance at March 31, 2019	\$ 198	\$ 116	\$ 3,601	\$ 19,928	\$ 23,843
Carrying amounts:					
December 31, 2018	\$ 302	\$ 3	\$ 61	\$ -	\$ 366
March 31, 2019	\$ 299	\$ 1	\$ 56	\$ -	\$ 356



# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2019 and 2018

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

## 4. Exploration and evaluation assets and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2018	\$ 48,862	\$ 170	\$ 277	\$ 49,309
Additions	535	15	-	550
Additions to decommissioning liability	354	-	-	354
Balance at December 31, 2018	49,751	185	277	50,213
Additions	94	4	-	98
Additions to decommissioning liability	18	-	-	18
Balance at March 31, 2019	\$ 49,863	\$ 189	\$ 277	\$ 50,329
Amortization and impairment losses:				
Balance at January 1, 2018	\$ 43,818	\$ 170	\$ 277	\$ 44,265
Impairment	889	15	-	904
Balance at December 31, 2018	44,707	185	277	45,169
Impairment	112	4	-	116
Balance at March 31, 2019	\$ 44,819	\$ 189	\$ 277	\$ 45,285
Carrying amounts:				
December 31, 2018	\$ 5,044	\$ -	\$ -	\$ 5,044
March 31, 2019	\$ 5,044	\$ -	\$ -	\$ 5,044

## 5. Share capital

### (a) Authorized

As at March 31, 2019 and 2018 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, 2019.

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, 2019.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2019 and 2018

(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:

	2019	2018
Loss for the period ending March 31,	\$ (905)	\$ (745)
Weighted average number of common shares (thousands) outstanding:		
Weighted average issued common shares at beginning of period	28,501	28,116
Weighted average common shares issued	3,852	-
Weighted average number of common shares outstanding	32,353	28,116
Basic loss per share	\$ (0.03)	\$ (0.03)

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 1,575,000 (2018 - 800,000) 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.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2019 and 2018

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

## 5. Share capital (continued)

### (c) Stock-based compensation expense (continued)

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

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	1,950	\$ 0.65	1,045	\$ 0.98
Issued during the period	-	-	-	-
Cancelled during the period	375	0.61	225	1.81
Expired during the period	-	-	-	-
Forfeited during the period	-	-	20	0.88
Outstanding at March 31,	1,575	0.65	800	0.75
Exercisable at March 31,	823	\$ 0.69	270	\$ 0.75

Number of Options Outstanding	Exercise Price	Remaining Life (yrs)	Exercisable Options	Exercisable Price
210	\$ 0.75	1.29	210	\$ 0.75
60	0.75	3.70	60	0.75
380	0.75	5.72	265	0.75
200	0.75	5.72	50	0.75
100	0.75	5.72	25	0.75
625	0.51	4.19	213	0.51
1,575	\$ 0.65	4.39	823	\$ 0.69

Share based compensation of \$52 (2018 - \$38) was expensed during the three month period ended March 31, 2019.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

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## 6. Supplemental cash flow information

Changes in non-cash working capital are as follows:

March 31,	2019	2018
Accounts receivable	\$ 34	\$ 11
Prepaid expenses	(214)	(193)
Trade and other payables	(295)	(82)
	<u>\$ (475)</u>	<u>\$ (264)</u>
Relating to:		
Operating activities	\$ (475)	\$ (264)
	<u>\$ (475)</u>	<u>\$ (264)</u>

## 7. Commitments

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 606	\$ 606	\$ -	\$ -	\$ -
Office lease	50	50	-	-	-
Permit/lease on mineral property	6,233	341	738	738	4,416
Project contracts	58	58	-	-	-
	<u>\$ 6,947</u>	<u>\$ 1,055</u>	<u>\$ 738</u>	<u>\$ 738</u>	<u>\$ 4,416</u>

## 8. Financial instruments and related 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. As required by IFRS 9, trade and other receivable has been reclassified as measured at amortized cost. Accordingly, all financial instruments included in the statements of financial position are classified as measured at amortized cost. The fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments. There have been no changes to the risks and related management thereof as disclosed in the annual financial statements during the interim period ended March 31, 2019.

# KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2019 and 2018

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## 9. Contingent liability

Since its annual general meeting on May 5<sup>th</sup>, 2017, the Company has been reviewed its strategy and restructured its operations. The restructuring has included terminations and resignations of certain officers and employees.

In the fourth quarter of 2017, the Company received a statement of claim filed at the Court of Queen's Bench of Alberta by Mr. Siu Ma, the Company's former Executive Vice-president and Chief Operating Officer, in the amount of \$728,750. Mr. Ma's claim is for an alleged breach of contract for the Company's failure to provide payments to Mr. Ma after he terminated the employment agreement alleging a change of control had occurred. The Company has denied Mr. Ma's allegations and filed a statement of defense and has recorded an estimate of all amounts payable to Mr. Ma under his contract. Actual amounts payable may vary from amounts estimated.