

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Three months ended March 31, 2020 and 2019

KARNALYTE RESOURCES INC.

Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,292	\$ 7,520
Trade and other receivables	64	117
Prepaid expenses	291	427
	<u>7,647</u>	<u>8,064</u>
Restricted cash	375	375
Capital assets (note 4)	376	392
Exploration and evaluation and other assets (note 5)	5,044	5,044
ASSETS	\$ 13,442	\$ 13,875

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Trade and other payables	\$ 948	\$ 871
	<u>948</u>	<u>871</u>
Lease obligation	65	71
Decommissioning liability	1,582	1,607
Total liabilities	<u>2,595</u>	<u>2,549</u>
Shareholders' equity:		
Share capital (note 6)	132,149	132,149
Contributed surplus	9,630	9,626
Deficit	(130,932)	(130,449)
Total shareholders' equity	<u>10,847</u>	<u>11,326</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 13,442	\$ 13,875

Basis of presentation (note 2), Contingent liabilities (note 9)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

"signed"
Vishvesh Nanavaty, Director

"signed"
Gerald Scherman, Director

KARNALYTE RESOURCES INC.

Interim Statements of Loss and Comprehensive Loss (unaudited)

For the three months ended March 31, 2020 and 2019
(CAD \$ thousands)

	2020	2019
Expenses:		
General and administrative	\$ 351	\$ 665
Depreciation and amortization (note 4)	16	10
Share-based compensation expense (note 6 (c))	4	52
Impairment expenses (note 5)	174	242
Other income	(43)	(11)
	502	958
Finance income	(32)	(53)
Finance expense	13	-
Net finance income	(19)	(53)
Loss and Comprehensive loss	\$ (483)	\$ (905)
Loss per share (note 6(b)) Basic and diluted	\$ (0.01)	\$ (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, 2020 and 2019
(CAD \$ thousands)

	2020	2019
Cash Flows from (used in) Operating Activities:		
Net loss for the period	\$ (483)	\$ (905)
Add/deduct:		
Depreciation and amortization (note 4)	16	10
Stock-based compensation expense (note 6(c))	4	52
Impairment expense (note 5)	174	242
Net finance income	(30)	(53)
Interest income received	44	49
Other income	(32)	-
Changes in non-cash working capital (note 7)	265	(475)
	(42)	(1,080)
Cash Flows used in Investing Activities:		
Additions to mineral properties and intangible assets (note 5)	(174)	(182)
	(174)	(182)
Cash Flows used in Financing Activities:		
Repayment of lease obligation	(6)	-
	(6)	-
Effect of foreign exchange on cash	(6)	-
Change in cash	(228)	(1,262)
Cash, beginning of period	7,520	10,504
Cash and cash equivalents, end of period	\$ 7,292	\$ 9,242

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Interim Statements of Changes in Equity (unaudited)

For the three months ended March 31, 2020 and 2019
(CAD \$ thousands)

	2020		2019	
	Number	Amount	Number	Amount
Share Capital:				
Balance, beginning of period	42,174	\$ 132,149	42,174	\$ 132,149
Balance, end of period	42,174	132,149	42,174	132,149
Contributed Surplus:				
Balance, beginning of period		9,626		9,522
Stock-based compensation expense (note 6(c))		4		52
Balance, end of period		9,630		9,574
Deficit:				
Balance, beginning of period		(130,449)		(127,358)
Loss for the period		(483)		(905)
Balance, end of period		(130,932)		(128,263)
Balance, end of period		\$ 10,847		\$ 13,460

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, 2020 and 2019
(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 Company’s address is 3150B Faithfull Ave. Saskatoon, SK S7K 8H3.

2. Basis of presentation

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

The Company is in its pre-development phase and therefore there is no certainty that the Company will be able to raise additional funds to move forward to the production stage. As at March 31, 2020, the Company had working capital of \$6,699,000. In addition to operating expenses, the Company is committed to expenditures in 2020 on its mineral properties to keep the Company in good standing. The Company has sufficient cash to meet its short-term corporate operating and capital requirements but does not currently have adequate funds to proceed with full-scale development of the solution mining facility. The ability of the Company to continue as a going concern will require further equity issuances or other forms of financings. On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and capital markets is not known at this time. There is no assurance that the Company will be successful in obtaining required funding at an acceptable cost as and when needed or at all. Failure to obtain additional funding on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or reduce or terminate its operations.

These financial statements do not include any adjustments to carrying values of asset amounts and liabilities, or reported expenses that may be necessary if the going concern assumption were not appropriate.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2020 and 2019

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

3. 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, 2019. 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.

These financial statements were authorized for issue by the Board of Directors on May 12, 2020.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2020 and 2019

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

4. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Right of Use Asset	Total
Cost:						
Balance at January 1, 2019	\$ 497	\$ 117	\$ 3,657	\$ 19,886	\$ -	\$ 24,157
Additions	-	-	-	-	80	80
Additions to decommissioning liability	-	-	-	-	-	-
Disposals	-	-	(14)	-	-	(14)
Balance at December 31, 2019	497	117	3,643	19,886	80	24,223
Additions	-	-	-	-	-	-
Disposals	-	-	(5)	-	-	(5)
Balance at March 31, 2020	\$ 497	\$ 117	\$ 3,638	\$ 19,886	\$ 80	\$ 24,218
Accumulated depreciation:						
Balance at January 1, 2019	\$ 195	\$ 114	\$ 3,596	\$ 19,886	\$ -	\$ 23,791
Depreciation	13	3	20	-	18	54
Dispositions	-	-	(14)	-	-	(14)
Balance at December 31, 2019	208	117	3,602	19,886	18	23,831
Depreciation	3	-	4	-	9	16
Disposals	-	-	(5)	-	-	(5)
Balance at March 31, 2020	\$ 211	\$ 117	\$ 3,601	\$ 19,886	\$ 27	\$ 23,842
Carrying amounts:						
December 31, 2019	\$ 289	\$ -	\$ 41	\$ -	\$ 62	\$ 392
March 31, 2020	\$ 286	\$ -	\$ 37	\$ -	\$ 53	\$ 376

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2020 and 2019
(All tabular amounts are in CAD thousands except per share amounts)

5. Exploration and evaluation assets and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2019	\$ 50,023	\$ 185	\$ 277	\$ 50,485
Additions	730	17	-	747
Additions to decommissioning liability	-	-	-	-
Balance at December 31, 2019	50,753	202	277	51,232
Additions	171	3	-	174
Additions to decommissioning liability	-	-	-	-
Balance at March 31, 2020	\$ 50,924	\$ 205	\$ 277	\$ 51,406
Amortization and impairment losses:				
Balance at January 1, 2019	\$ 44,979	\$ 185	\$ 277	\$ 45,441
Impairment	730	17	-	747
Balance at December 31, 2019	45,709	202	277	46,188
Impairment	171	3	-	174
Balance at March 31, 2020	\$ 45,880	\$ 205	\$ 277	\$ 46,362
Carrying amounts:				
December 31, 2019	\$ 5,044	\$ -	\$ -	\$ 5,044
March 31, 2020	\$ 5,044	\$ -	\$ -	\$ 5,044

6. Share capital

(a) Authorized

As at March 31, 2020 and 2019 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, 2020.

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, 2020.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2020 and 2019

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

6. Share capital (continued)

(b) Earnings per share

Basic earnings per share were calculated as follows:

	2020	2019
Loss for the period ending March 31,	\$ (483)	\$ (905)
Weighted average number of common shares (thousands) outstanding:		
Weighted average issued common shares at beginning of period	42,174	28,501
Weighted average common shares issued	-	3,852
Weighted average number of common shares outstanding	42,174	32,353
Basic loss per share	\$ (0.01)	\$ (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 1,150,000 (2019 – 1,575,000) 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, 2020 and 2019

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

6. Share capital (continued)

(c) Stock-based compensation expense (continued)

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

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	1,150	\$ 0.66	1,950	\$ 0.65
Issued during the period	-	-	-	-
Cancelled during the period	-	-	-	-
Expired during the period	-	-	375	0.61
Forfeited during the period	-	-	-	-
Outstanding at March 31,	1,150	0.66	1,575	0.65
Exercisable at March 31,	988	\$ 0.67	823	\$ 0.69

Number of Options Outstanding	Exercise Price	Remaining Life (yrs)	Exercisable Options
210	\$ 0.75	0.29	210
60	0.75	2.70	60
230	0.75	4.71	230
200	0.75	4.71	150
450	0.51	3.19	338
1,150	\$ 0.66	3.12	988

Share based compensation of \$4 (2019 - \$52) was expensed during the three month period ended March 31, 2020.

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7. Supplemental cash flow information

Changes in non-cash working capital are as follows:

March 31,	2020	2019
Accounts receivable	\$ 52	\$ 34
Prepaid expenses	(163)	(214)
Trade and other payables	376	(295)
	<hr/>	<hr/>
	\$ 265	\$ (475)
Relating to:		
Operating activities	\$ 265	\$ (475)
	<hr/>	<hr/>
	\$ 265	\$ (475)

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. 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, 2020.

9. Contingent liabilities

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.

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Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2020 and 2019

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

9. Contingent liabilities (continued)

In the fourth quarter of 2019, the Company received a statement of claim filed at the Court of Queen's Bench of Saskatchewan by Frank Wheatley, the Company's former Chief Executive Officer, in the amount of \$450,000. Mr. Wheatley's claim is for an alleged breach of contract, wrongful dismissal, egregious conduct on termination, and defamation relating to the termination of his employment on September 11, 2019. The Company has denied Mr. Wheatley's allegations and filed a statement of defense and has recorded an estimate of all amounts payable to Mr. Wheatley under his contract. The Company estimated and accrued \$233,000 as owing to Mr. Wheatley of which approximately \$15,000 has been paid. Actual amounts may vary from amounts estimated.

10. Comparative figures

Certain prior year balances have been reclassified to conform to the current financial statement presentation.