

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Three months ended March 31, 2021 and 2020

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

| | March 31, 2021 | December 31, 2020 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,324 | \$ 4,821 |
| Trade and other receivables | 122 | 117 |
| Prepaid expenses | 731 | 353 |
| | <u>4,177</u> | <u>5,291</u> |
| Restricted cash | 375 | 375 |
| Capital assets (note 4) | 301 | 318 |
| Exploration and evaluation and other assets (note 5) | 5,257 | 5,257 |
| ASSETS | \$ 10,110 | \$ 11,241 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade and other payables | \$ 1,083 | \$ 1,460 |
| Current portion of lease obligation | 26 | 39 |
| | <u>1,109</u> | <u>1,499</u> |
| Decommissioning liability | 1,639 | 1,812 |
| Total liabilities | <u>2,748</u> | <u>3,311</u> |
| Shareholders' equity: | | |
| Share capital (note 6) | 132,149 | 132,149 |
| Contributed surplus | 9,668 | 9,659 |
| Deficit | (134,455) | (133,878) |
| Total shareholders' equity | <u>7,362</u> | <u>7,930</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 10,110 | \$ 11,241 |

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

See accompanying notes to the financial statements.

Approved on behalf of the Board on May 11, 2021:

"signed"
Vishvesh Nanavaty, Director

"signed"
Gerald Scherman, Director

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Loss and Comprehensive Loss (unaudited)

For the three months ended March 31, 2021 and 2020
(CAD \$ thousands)

| | 2021 | 2020 |
|---|-----------|-----------|
| Expenses: | | |
| General and administrative | \$ 591 | \$ 351 |
| Depreciation (note 4) | 17 | 16 |
| Share-based compensation expense (note 6 (c)) | 9 | 4 |
| Impairment expenses (note 5) | 152 | 174 |
| Other income | (190) | (43) |
| | 579 | 502 |
| Finance income | (6) | (32) |
| Finance expense | 4 | 13 |
| Net finance income | (2) | (19) |
| Loss and Comprehensive loss | \$ (577) | \$ (483) |
| Loss per share (note 6(b)) Basic and diluted | \$ (0.01) | \$ (0.01) |

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Cash Flows (unaudited)

For the three months ended March 31, 2021 and 2020
(CAD \$ thousands)

| | 2021 | 2020 |
|--|----------|----------|
| Cash Flows from (used in) Operating Activities: | | |
| Net loss for the period | \$ (577) | \$ (483) |
| Add/(deduct): | | |
| Depreciation (note 4) | 17 | 16 |
| Share-based compensation expense (note 6(c)) | 9 | 4 |
| Impairment expense (notes 5) | 152 | 174 |
| Net finance income | (2) | (30) |
| Interest income received | 4 | 44 |
| Other income | (178) | (32) |
| Changes in non-cash working capital (note 7) | (759) | 265 |
| | (1,334) | (42) |
| Cash Flows from (used in) Investing Activities: | | |
| Additions to mineral properties and intangible assets (note 5) | (152) | (174) |
| | (152) | (174) |
| Cash Flows from (used in) Financing Activities: | | |
| Repayment of lease obligation | (13) | (6) |
| | (13) | (6) |
| Effect of foreign exchange on cash | 2 | (6) |
| Change in cash and cash equivalents | (1,497) | (228) |
| Cash and cash equivalents, beginning of period | 4,821 | 7,520 |
| Cash and cash equivalents, end of period | \$ 3,324 | \$ 7,292 |
| Cash and cash equivalents are comprised of: | | |
| Cash | 3,272 | 7,248 |
| Cash equivalents | 52 | 44 |
| Cash and cash equivalents, end of period | \$ 3,324 | \$ 7,292 |

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Changes in Equity (unaudited)

For the three months ended March 31, 2021 and 2020
(CAD \$ thousands)

| | 2021 | | 2020 | |
|--|--------|------------|--------|------------|
| | 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 | | 9,659 | | 9,626 |
| Share-based compensation expense (note 6(c)) | | 9 | | 4 |
| Balance, end of period | | 9,668 | | 9,630 |
| Deficit: | | | | |
| Balance, beginning of period | | (133,878) | | (130,449) |
| Net loss for the period | | (577) | | (483) |
| Balance, end of period | | (134,455) | | (130,932) |
| Balance, end of period | | \$ 7,362 | | \$ 10,847 |

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2021 and 2020

(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. There is also uncertainty with respect to various legal matters. As at March 31, 2021, the Company had working capital of \$3,068,000. In addition to operating expenses, the Company is committed to expenditures in 2021 on its mineral properties to keep the Company in good standing. The Company has adequate cash to meet its existing commitments as well as to meet short-term operating and capital requirements but does not currently have adequate funds to proceed with full-scale development of the solution mining facility. The Company is considering strategic alternatives as 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, 2021 and 2020

(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, 2020. These statements do not include all information or disclosures normally provided in annual statements. These interim statements should be read in conjunction with the annual financial statements and related notes.

These financial statements were authorized for issue by the Board of Directors on May 11, 2021.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2021 and 2020

(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, 2020 | \$ 497 | \$ 117 | \$ 3,643 | \$ 19,886 | \$ 80 | \$ 24,223 |
| Additions to decommissioning liability | - | - | - | 129 | - | 129 |
| Disposals | - | - | (5) | - | - | (5) |
| Balance at December 31, 2020 | 497 | 117 | 3,638 | 20,015 | 80 | 24,347 |
| Additions to decommissioning liability | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Balance at March 31, 2021 | \$ 497 | \$ 117 | \$ 3,638 | \$ 20,015 | \$ 80 | \$ 24,347 |
| Accumulated depreciation: | | | | | | |
| Balance at January 1, 2020 | \$ 208 | \$ 117 | \$ 3,602 | \$ 19,886 | \$ 18 | \$ 23,831 |
| Depreciation | 15 | - | 22 | - | 37 | 74 |
| Dispositions | - | - | (5) | - | - | (5) |
| Impairment | - | - | - | 129 | - | 129 |
| Balance at December 31, 2020 | 223 | 117 | 3,619 | 20,015 | 55 | 24,029 |
| Depreciation | 3 | - | 5 | - | 9 | 17 |
| Disposals | - | - | - | - | - | - |
| Impairment | - | - | - | - | - | - |
| Balance at March 31, 2021 | \$ 226 | \$ 117 | \$ 3,624 | \$ 20,015 | \$ 64 | \$ 24,046 |
| Carrying amounts: | | | | | | |
| December 31, 2020 | \$ 274 | \$ - | \$ 19 | \$ - | \$ 25 | \$ 318 |
| March 31, 2021 | \$ 271 | \$ - | \$ 14 | \$ - | \$ 16 | \$ 301 |

As at March 31, 2021, cumulative impairment losses recognized for capital assets is \$20,193,000 (2020 - \$20,193,000).

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2021 and 2020

(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, 2020 | \$ 50,753 | \$ 202 | \$ 277 | \$ 51,232 |
| Additions | 1,044 | 10 | - | 1,054 |
| Additions to decommissioning liability | 58 | - | - | 58 |
| Balance at December 31, 2020 | 51,855 | 212 | 277 | 52,344 |
| Additions | 151 | 1 | - | 152 |
| Additions to decommissioning liability | - | - | - | - |
| Balance at March 31, 2021 | \$ 52,006 | \$ 213 | \$ 277 | \$ 52,496 |
| Amortization and impairment losses: | | | | |
| Balance at January 1, 2020 | \$ 45,709 | \$ 202 | \$ 277 | \$ 46,188 |
| Impairment | 889 | 10 | - | 899 |
| Balance at December 31, 2020 | 46,598 | 212 | 277 | 47,087 |
| Impairment | 151 | 1 | - | 152 |
| Balance at March 31, 2021 | \$ 46,749 | \$ 213 | \$ 277 | \$ 47,239 |
| Carrying amounts: | | | | |
| December 31, 2020 | \$ 5,257 | \$ - | \$ - | \$ 5,257 |
| March 31, 2021 | \$ 5,257 | \$ - | \$ - | \$ 5,257 |

As at March 31, 2021, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$46,936,000 (2020 - \$46,784,000).

6. Share capital

(a) Authorized

As at March 31, 2021 and 2020 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, 2021.

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, 2021.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2021 and 2020

(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:

| | 2021 | 2020 |
|--|-----------|-----------|
| Loss for the period ending March 31, | \$ (577) | \$ (483) |
| Weighted average number (thousands) of common shares outstanding | 42,174 | 42,174 |
| Basic loss per share | \$ (0.01) | \$ (0.01) |

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 950,000 (2020 - 1,150,000) options as their effect would have been anti-dilutive.

(c) Share-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.

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

| | 2021 | | 2020 | |
|---------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at January 1, | 950 | \$ 0.42 | 1,150 | \$ 0.66 |
| Issued during the period | - | - | - | - |
| Outstanding at March 31, | 950 | 0.42 | 1,150 | 0.66 |
| Exercisable at March 31, | 605 | \$ 0.54 | 988 | \$ 0.67 |

KARNALYTE RESOURCES INC.

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For the three months ended March 31, 2021 and 2020

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

6. Share capital (continued)

(c) Share-based compensation expense (continued)

| Number of Options Outstanding | Exercise Price | Remaining Life (yrs) | Exercisable Options | Exercisable Price |
|-------------------------------------|-------------------|-------------------------|------------------------|----------------------|
| 15,000 | \$ 0.75 | 0.20 | 15,000 | \$ 0.75 |
| 15,000 | 0.75 | 0.70 | 15,000 | 0.75 |
| 15,000 | 0.75 | 1.20 | 15,000 | 0.75 |
| 15,000 | 0.75 | 1.70 | 15,000 | 0.75 |
| 250,000 | 0.51 | 2.19 | 250,000 | 0.51 |
| 45,000 | 0.75 | 2.21 | 45,000 | 0.75 |
| 45,000 | 0.75 | 2.71 | 45,000 | 0.75 |
| 45,000 | 0.75 | 3.21 | 45,000 | 0.75 |
| 45,000 | 0.75 | 3.71 | 45,000 | 0.75 |
| 460,000 | 0.19 | 4.29 | 115,000 | 0.19 |
| 950,000 | \$ 0.42 | 2.21 | 605,000 | \$ 0.54 |

Share-based compensation of \$9,000 (2020 - \$4,000) was expensed during the three month period ended March 31, 2021. The forfeiture rate assumed in the calculation of all share based compensation expenses was 11%.

7. Supplemental cash flow information

Operating activities included in the statements of cash flows are as follows:

| March 31, | 2021 | 2020 |
|--------------------------------------|----------|--------|
| Changes in non-cash working capital: | | |
| Accounts receivable | \$ (4) | \$ 52 |
| Prepaid expenses | (378) | (163) |
| Trade and other payables | (377) | 376 |
| | \$ (759) | \$ 265 |

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2021 and 2020
(All tabular amounts are in CAD\$ thousands except per share amounts)

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. The Company considers its capital structure to include cash and cash equivalents and non-cash working capital. During the period January 1, 2021 to March 31, 2021, cash and cash equivalents and non-cash working capital declined by \$724,000 to \$3,068,000. 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, 2021.

9. Contingent liabilities

During the first quarter of 2021, the Company received an originating application filed by Messrs. Peter Matson and Gregory George Szabo against the Company. The applicants are seeking a declaration that the Company oppressed its shareholders; the removal of all current directors; fixing the size of the Company's board at six; appointing Messrs. Joe Vidal, Neil Yelland, Joe Clavelle, Todd Rowan, and two GSFC nominees; reimbursing all costs incurred by the applicants and Mr. Mark Zachanowich in connection with requisitioning the special meeting of shareholders held on December 15, 2020; and damages in the amount of \$3.25 million. The Company has filed a claim for insurance coverage under its directors and officers insurance policy for this matter, which is subject to certain limits and a \$50,000 deductible per claim. The Company is working with its legal counsel and insurer to respond to the application.

During the first quarter of 2021, the Company received a statement of claim filed by Mr. Dan Brown against the Company, Frank Wheatley, Mark Zachanowich, Peter Matson, Todd Rowan, Gregory Szabo, Sanjeev Varma and Vishvesh Nanavaty. Mr. Brown is seeking a declaration that certain statements made by the Defendants' about the Plaintiff are false and defamatory; a written apology; a declaration that the defendants have harassed, intimidated, and threatened the Plaintiff; damages in the amount of \$180,000 for breach of contract; general damages of \$500,000; punitive, exemplary and aggravated damages of \$200,000; that the defendants pay Mr. Brown for those monies paid by Mr. Brown for his shares in the Company; and an award of special damages, past and future loss of income, and cost of future care. The Company has filed a claim for insurance coverage under its directors and officers insurance policy for this matter, which is subject to certain limits and a \$50,000 deductible per claim. The Company is working with its legal counsel and insurer to defend the claim.

There have been no other changes in contingent liabilities as disclosed in the annual financial statements during the interim period ended March 31, 2021.