

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Six months ended June 30, 2021 and 2020

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,764	\$ 4,821
Trade and other receivables	61	117
Prepaid expenses	563	353
	<u>3,388</u>	<u>5,291</u>
Restricted cash	375	375
Capital assets (note 4)	285	318
Exploration and evaluation and other assets (note 5)	5,257	5,257
ASSETS	\$ 9,305	\$ 11,241
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 1,068	\$ 1,460
Current portion of lease obligation	12	39
	<u>1,080</u>	<u>1,499</u>
Decommissioning liability	1,694	1,812
Total liabilities	<u>2,774</u>	<u>3,311</u>
Shareholders' equity:		
Share capital (note 6)	132,149	132,149
Contributed surplus	9,675	9,659
Deficit	(135,293)	(133,878)
Total shareholders' equity	<u>6,531</u>	<u>7,930</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 9,305	\$ 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 August 12, 2021:

"signed"
Vishvesh Nanavaty, Director

"signed"
Gerald Scherman, Director

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Loss and Comprehensive Loss (unaudited)

For the three and six months ended June 30, 2021 and 2020
(CAD \$ thousands)

	Three months ended		Six months ended	
	2021	2020	2021	2020
Expenses:				
General and administrative	\$ 479	\$ 340	\$ 1,070	\$ 692
Depreciation (note 4)	16	17	33	33
Share-based compensation (note 6(c))	7	2	16	6
Restructuring	124	63	124	63
Impairment (note 5)	163	295	315	468
Other expense/(income)	48	28	(143)	(16)
	837	745	1,415	1,246
Finance income	(5)	(8)	(11)	(39)
Finance expense	7	5	11	18
Net finance expense/(income)	2	(3)	-	(21)
Loss and Comprehensive loss	\$ (839)	\$ (742)	\$ (1,415)	\$ (1,225)
Loss per share (note 6(b)) Basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.03)

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Cash Flows (unaudited)

For the six months ended June 30, 2021 and 2020

(CAD \$ thousands)

	2021	2020
Cash Flows from (used in) Operating Activities:		
Net loss for the period	\$ (1,415)	\$ (1,225)
Add/(deduct):		
Depreciation (note 4)	33	33
Share-based compensation (note 6(c))	16	6
Impairment (notes 5)	315	468
Net finance income	-	(21)
Interest income received	8	48
Other income	(130)	-
Changes in non-cash working capital (note 7)	(546)	(44)
	(1,719)	(735)
Cash Flows from (used in) Investing Activities:		
Additions to mineral properties and intangible assets (note 5)	(315)	(349)
	(315)	(349)
Cash Flows from (used in) Financing Activities:		
Repayment of lease obligation	(27)	(13)
	(27)	(13)
Effect of foreign exchange on cash	4	(7)
Change in cash and cash equivalents	(2,057)	(1,104)
Cash and cash equivalents, beginning of period	4,821	7,520
Cash and cash equivalents, end of period	\$ 2,764	\$ 6,416
Cash and cash equivalents are comprised of:		
Cash	2,711	6,372
Cash equivalents	53	44
Cash and cash equivalents, end of period	\$ 2,764	\$ 6,416

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Changes in Equity (unaudited)

For the six months ended June 30, 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 (note 6(c))		16		6
Balance, end of period		9,675		9,632
Deficit:				
Balance, beginning of period		(133,878)		(130,449)
Net loss for the period		(1,415)		(1,225)
Balance, end of period		(135,293)		(131,674)
Balance, end of period		\$ 6,531		\$ 10,107

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 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 possible 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 June 30, 2021, the Company had working capital of \$2,308,000. 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 expects to have 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 pursuing the sale of non-strategic assets and 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 and six months ended June 30, 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 August 12, 2021.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 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 June 30, 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	6	-	8	-	19	33
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Balance at June 30, 2021	\$ 229	\$ 117	\$ 3,627	\$ 20,015	\$ 74	\$ 24,062
Carrying amounts:						
December 31, 2020	\$ 274	\$ -	\$ 19	\$ -	\$ 25	\$ 318
June 30, 2021	\$ 268	\$ -	\$ 11	\$ -	\$ 6	\$ 285

As at June 30, 2021, cumulative impairment losses recognized for capital assets is \$20,193,000 (December 31, 2020 - \$20,193,000).

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2021 and 2020
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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	313	2	-	315
Additions to decommissioning liability	-	-	-	-
Balance at June 30, 2021	\$ 52,168	\$ 214	\$ 277	\$ 52,659
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	313	2	-	315
Balance at June 30, 2021	\$ 46,911	\$ 214	\$ 277	\$ 47,402
Carrying amounts:				
December 31, 2020	\$ 5,257	\$ -	\$ -	\$ 5,257
June 30, 2021	\$ 5,257	\$ -	\$ -	\$ 5,257

As at June 30, 2021, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$47,099,000 (December 31, 2020 - \$46,784,000).

6. Share capital

(a) Authorized

As at June 30, 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 six months ended June 30, 2021.

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued throughout the six months ended June 30, 2021.

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Notes to Condensed Interim Financial Statements (unaudited)

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6. Share capital (continued)

(b) Earnings per share

Basic earnings per share were calculated as follows:

	Three months ended		Six months ended	
	2021	2020	2021	2020
Loss for the period ending June 30,	\$ (839)	\$ (742)	\$ (1,415)	\$ (1,225)
Weighted average number (thousands) of common shares outstanding	42,174	42,174	42,174	42,174
Basic loss per share	\$ (0.02)	\$ (0.02)	\$ (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 935,000 (2020 - 1,125,000) 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
Expired during the period	15	0.75	-	-
Forfeited during the period	-	-	(25)	0.51
Outstanding at June 30,	935	0.41	1,125	0.66
Exercisable at June 30,	590	\$ 0.65	1,125	\$ 0.66

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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	0.45	15,000	0.75
15,000	0.75	0.95	15,000	0.75
15,000	0.75	1.45	15,000	0.75
250,000	0.51	1.94	250,000	0.51
45,000	0.75	1.96	45,000	0.75
45,000	0.75	2.46	45,000	0.75
45,000	0.75	2.96	45,000	0.75
45,000	0.75	3.46	45,000	0.75
460,000	0.19	4.04	115,000	0.19
935,000	\$ 0.41	2.19	590,000	\$ 0.65

Share-based compensation of \$7,000 (2020 - \$2,000) was expensed during the three month period ended June 30, 2021. Share-based compensation of \$16,000 (2020 - \$6,000) was expensed during the six month period ended June 30, 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:

June 30,	2021	2020
Changes in non-cash working capital:		
Accounts receivable	\$ 56	\$ 55
Prepaid expenses	(210)	(47)
Trade and other payables	(392)	(52)
	\$ (546)	\$ (44)

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8. Financial instruments and related risk management

Financial instruments included in the statements of financial position consist of cash and cash equivalents, 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 June 30, 2021, cash and cash equivalents and non-cash working capital declined by \$1,484,000 to \$2,308,000. There have been no changes to the risks and related management thereof as disclosed in the annual financial statements during the six month period ended June 30, 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 six month period ended June 30, 2021.

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Notes to Condensed Interim Financial Statements (unaudited)

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

10. Comparative figures

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