

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Three months ended March 31, 2022 and 2021

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	March 31, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,133	\$ 1,799
Trade and other receivables	69	50
Prepays	732	649
	<u>1,934</u>	<u>2,498</u>
Restricted cash	375	375
Capital assets (note 4)	260	263
Exploration and evaluation and other assets (note 5)	5,257	5,257
ASSETS	\$ 7,826	\$ 8,393

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Trade and other payables	\$ 924	\$ 884
Decommissioning liability (note 6)	1,544	1,746
Total liabilities	<u>2,468</u>	<u>2,630</u>
Shareholders' equity		
Share capital (note 7)	132,149	132,149
Contributed surplus	9,699	9,685
Deficit	(136,490)	(136,071)
Total shareholders' equity	<u>5,358</u>	<u>5,763</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 7,826	\$ 8,393

Basis of presentation (note 2), Contingent liabilities (note 10)

See accompanying notes to the financial statements.

Approved on behalf of the Board on May 10, 2022

"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, 2022 and 2021
(CAD \$ thousands)

	2022	2021
Expenses		
General and administrative	\$ 376	\$ 591
Depreciation (note 4)	3	17
Share-based compensation (note 7(c))	14	9
Impairment (note 5)	239	152
Other income	(217)	(190)
	415	579
Finance income	(3)	(6)
Finance expense	7	4
Net finance expense (income)	4	(2)
Loss and Comprehensive loss	\$ (419)	\$ (577)
Loss per share (note 7(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, 2022 and 2021
(CAD \$ thousands)

	2022	2021
Cash Flows (used in) from Operating Activities		
Net loss for the period	\$ (419)	\$ (577)
Add (deduct)		
Depreciation (note 4)	3	17
Share-based compensation (note 7(c))	14	9
Impairment (notes 5)	239	152
Other income	(209)	(178)
Net finance expense (income)	4	(2)
Interest income received	3	4
Changes in non-cash working capital (note 8)	(62)	(759)
	(427)	(1,334)
Cash Flows used in Investing Activities		
Additions to mineral properties and intangible assets (note 5)	(239)	(152)
Cash Flows used in Financing Activities		
Repayment of lease obligation	-	(13)
Effect of foreign exchange on cash	-	2
Change in cash and cash equivalents	(666)	(1,497)
Cash and cash equivalents, beginning of period	1,799	4,821
Cash and cash equivalents, end of period	\$ 1,133	\$ 3,324
Cash and cash equivalents are comprised of:		
Cash	1,072	3,272
Cash equivalents	61	52
Cash and cash equivalents, end of period	\$ 1,133	\$ 3,324

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, 2022 and 2021
(CAD \$ thousands)

	2022		2021	
	Number	Amount	Number	Amount
Share Capital	42,174	\$ 132,149	42,174	\$ 132,149
Contributed Surplus				
Balance, beginning of period		9,685		9,569
Share-based compensation (note 7(c))		14		9
Balance, end of period		9,699		9,668
Deficit				
Balance, beginning of period		(136,071)		(133,878)
Net loss for the period		(419)		(577)
Balance, end of period		(136,490)		(134,455)
Balance, end of period		\$ 5,358		\$ 7,362

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2022 and 2021

(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 PO Box 22055 RPO Wildwood, Saskatoon, SK S7H 5P1.

2. Basis of presentation

These financial statements are prepared on the assumption that the Company will continue as a going concern. 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 and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company is in its pre-development phase and therefore there is material uncertainty regarding the Company’s ability to raise additional funds to maintain sufficient financial resources to fund ongoing operating and required exploration expenditures and to move forward to the production stage. There is also material uncertainty with respect to various legal matters which may result in additional liabilities to the Company (note 10). As at March 31, 2022, the Company had incurred an accumulated deficit of \$136,490,000 and expects to incur further expenditures on the exploration and future development of its mineral exploration projects. As at March 31, 2022, the Company had working capital (current assets less current liabilities) of \$1,010,000 which is expected to be insufficient to fund operations in the upcoming year. In addition to ongoing operating expenses, the Company is committed to expenditures in 2022 and subsequent years on its regulatory spending requirements and mineral properties to keep the Company in good standing (note 9). The Company also expects to provide funding to settle the decommissioning liability (note 6).

The ability of the Company to continue as a going concern is dependent upon obtaining further equity issuances or other forms of financings. The Company is pursuing additional capital. 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, 2022 and 2021

(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, 2021. 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 10, 2022.

4. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Right of Use Asset	Total
Cost						
Balance at January 1, 2021	\$ 497	\$ 117	\$ 3,658	\$ 20,015	\$ 80	\$ 24,367
Disposals	(48)	(117)	(93)	-	(80)	(338)
Balance at December 31, 2021	449	-	3,565	20,015	-	24,029
Balance at March 31, 2022	\$ 449	\$ -	\$ 3,565	\$ 20,015	\$ -	\$ 24,029
Accumulated depreciation						
Balance at January 1, 2021	\$ 223	\$ 117	\$ 3,639	\$ 20,015	\$ 55	\$ 24,049
Depreciation	13	-	15	-	25	53
Disposals	(48)	(117)	(91)	-	(80)	(336)
Balance at December 31, 2021	188	-	3,563	20,015	-	23,766
Depreciation	3	-	-	-	-	3
Balance at March 31, 2022	\$ 191	\$ -	\$ 3,563	\$ 20,015	\$ -	\$ 23,769
Carrying amounts						
December 31, 2021	\$ 261	\$ -	\$ 2	\$ -	\$ -	\$ 263
March 31, 2022	\$ 258	\$ -	\$ 2	\$ -	\$ -	\$ 260

As at March 31, 2022, cumulative impairment losses recognized for capital assets is \$20,128,000 (December 31, 2021 - \$20,128,000).

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2022 and 2021

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

5. Exploration and evaluation and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost				
Balance at January 1, 2021	\$ 51,855	\$ 212	\$ 257	\$ 52,324
Additions	519	5	-	524
Disposals	-	-	(11)	(11)
Balance at December 31, 2021	52,374	217	246	52,837
Additions	238	1	-	239
Balance at March 31, 2022	\$ 52,612	\$ 218	\$ 246	\$ 53,076
Amortization and impairment losses				
Balance at January 1, 2021	\$ 46,598	\$ 212	\$ 257	\$ 47,067
Disposals	-	-	(11)	(11)
Impairment	519	5	-	524
Balance at December 31, 2021	47,117	217	246	47,580
Impairment	238	1	-	239
Balance at March 31, 2022	\$ 47,355	\$ 218	\$ 246	\$ 47,819
Carrying amounts:				
December 31, 2021	\$ 5,257	\$ -	\$ -	\$ 5,257
March 31, 2022	\$ 5,257	\$ -	\$ -	\$ 5,257

As at March 31, 2022, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$47,547,000 (December 31, 2021 - \$47,308,000).

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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)

6. Decommissioning liability

	March 31, 2022	December 31, 2021
Beginning balance	\$ 1,746	\$ 1,812
Change in estimate	(209)	(93)
Unwinding of discount	7	27
Ending balance	\$ 1,544	\$ 1,746

The undiscounted amount of estimated costs required to settle the obligations at March 31, 2022 is \$1,730,000 (December 31, 2021 - \$1,730,000) which are expected to be incurred in 2038. As at March 31, 2022 the estimated costs have been inflated at 1.85 percent (December 31, 2021 – 1.72 percent) and discounted at a risk free rate of 2.44 percent (December 31, 2021 – 1.67 percent).

7. Share capital

(a) Authorized

As at March 31, 2022 and 2021 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, 2022.

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, 2022.

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Notes to Condensed Interim Financial Statements (unaudited)

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7. Share capital (continued)

(b) Earnings per share

Basic earnings per share were calculated as follows:

	2022		2021	
Loss for the period ending March 31,	\$	(419)	\$	(577)
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 945,000 (2021 – 950,000) 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:

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	945	\$ 0.38	950	\$ 0.42
Issued during the period	-	-	-	-
Outstanding at March 31,	945	0.38	950	0.42
Exercisable at March 31,	570	\$ 0.46	605	\$ 0.54

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7. Share capital (continued)

(c) Share-based compensation expense (continued)

Number of Options Outstanding	Exercise Price	Remaining Life (yrs)	Exercisable Options
15,000	\$ 0.75	0.20	15,000
15,000	0.75	0.70	15,000
175,000	0.51	1.19	175,000
35,000	0.75	1.21	35,000
35,000	0.75	1.71	35,000
35,000	0.75	2.21	35,000
35,000	0.75	2.71	35,000
300,000	0.19	3.29	225,000
300,000	0.27	4.67	-
945,000	\$ 0.38	1.99	570,000

Share-based compensation of \$14,000 (2021 - \$9,000) was expensed during the three month period ended March 31, 2022. The forfeiture rate assumed in the calculation of all share based compensation expenses was 11%.

8. Supplemental cash flow information

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

March 31,	2022	2021
Changes in non-cash working capital		
Trade and other receivables	\$ (19)	\$ (4)
Prepays	(83)	(378)
Trade and other payables	40	(377)
	\$ (62)	\$ (759)

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9. 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 trade 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, 2022 to March 31, 2022, cash and cash equivalents and non-cash working capital declined by \$604,000 to \$1,010,000. There have been no changes to the risks and related management thereof as disclosed in the annual financial statements during the three month period ended March 31, 2022.

In addition to the minimum regulatory expenditure requirements, the following are the commitments of the Company as at March 31, 2022:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 924	\$ 924	\$ -	\$ -	\$ -
Lease on mineral property	4,802	68	735	735	3,264
Project contracts	143	143	-	-	-
	<u>\$ 5,869</u>	<u>\$ 1,135</u>	<u>\$ 735</u>	<u>\$ 735</u>	<u>\$ 3,264</u>

10. Contingent liabilities

There have been no changes in contingent liabilities as disclosed in the annual financial statements during the three month period ended March 31, 2022.