

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Six months ended June 30, 2022 and 2021

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 973	\$ 1,799
Trade and other receivables	57	50
Prepays	474	649
	<u>1,504</u>	<u>2,498</u>
Restricted cash	375	375
Capital assets (note 4)	257	263
Exploration and evaluation and other assets (note 5)	5,049	5,257
ASSETS	\$ 7,185	\$ 8,393

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Trade and other payables	\$ 905	\$ 884
Decommissioning liability (note 6)	1,320	1,746
Total liabilities	<u>2,225</u>	<u>2,630</u>
Shareholders' equity		
Share capital (note 7)	132,172	132,149
Contributed surplus	9,701	9,685
Deficit	(136,913)	(136,071)
Total shareholders' equity	<u>4,960</u>	<u>5,763</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 7,185	\$ 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 August 12, 2022:

"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, 2022 and 2021
(CAD \$ thousands)

	Three months ended		Six months ended	
	2022	2021	2022	2021
Expenses				
General and administrative	\$ 399	\$ 479	\$ 775	\$ 1,070
Depreciation (note 4)	3	16	6	33
Share-based compensation (note 7(c))	11	7	25	16
Restructuring	-	124	-	124
Impairment (note 5)	312	163	550	315
Other (income) expense	(241)	48	(458)	(143)
Gain on disposal of mineral properties and intangible assets	(66)	-	(66)	-
	418	837	832	1,415
Finance income	(4)	(5)	(7)	(11)
Finance expense	10	7	17	11
Net finance expense	6	2	10	-
Loss and Comprehensive loss	\$ (424)	\$ (839)	\$ (842)	\$ (1,415)
Loss per share (note 7(b)) Basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (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, 2022 and 2021
(CAD \$ thousands)

	2022	2021
Cash Flows (used in) from Operating Activities		
Net loss for the period	\$ (842)	\$ (1,415)
Add (deduct)		
Depreciation (note 4)	6	33
Share-based compensation (note 7(c))	25	16
Impairment (note 5)	550	315
Net finance expense	10	-
Interest income received	5	8
Other income	(442)	(130)
Gain on disposal of mineral properties and intangible assets	(66)	-
Changes in non-cash working capital (note 8)	189	(546)
	<u>(565)</u>	<u>(1,719)</u>
Cash Flows (used in) from Investing Activities		
Additions to mineral properties and intangible assets (note 5)	(550)	(315)
Proceeds on disposal of mineral properties and intangible assets	275	-
	<u>(275)</u>	<u>(315)</u>
Cash Flows from (used in) Financing Activities		
Repayment of lease obligation	-	(27)
Exercise of options (note 7(a))	14	-
	<u>14</u>	<u>(27)</u>
Effect of foreign exchange on cash	-	4
Change in cash and cash equivalents	(826)	(2,057)
Cash and cash equivalents, beginning of period	1,799	4,821
Cash and cash equivalents, end of period	\$ 973	\$ 2,764
Cash and cash equivalents are comprised of:		
Cash	911	2,711
Cash equivalents	62	53
Cash and cash equivalents, end of period	\$ 973	\$ 2,764

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, 2022 and 2021
(CAD \$ thousands)

	2022		2021	
	Number	Amount	Number	Amount
Share Capital				
Balance, beginning of period	42,174	\$ 132,149	42,174	\$ 132,149
Common shares issued on exercise of share options (note 7(a))	75	14	-	-
Transfer from contributed surplus on options exercise	-	9	-	-
Balance, end of period	42,249	132,172	42,174	132,149
Contributed Surplus				
Balance, beginning of period		9,685		9,659
Share-based compensation (note 7(c))		25		16
Transfer to share capital on options exercise		(9)		-
Balance, end of period		9,701		9,675
Deficit				
Balance, beginning of period		(136,071)		(133,878)
Net loss for the period		(842)		(1,415)
Balance, end of period		(136,913)		(135,293)
Balance, end of period		\$ 4,960		\$ 6,531

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, 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 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 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 that the Company will be able to raise additional funds to move forward to the production stage. As at June 30, 2022, the Company had working capital (current assets less current liabilities) of \$599,000. 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).

On June 22, 2022, the Company announced the launch of a rights offering (the “Rights Offering”). This Rights Offering was completed on August 3, 2022 which resulted in an equity raise of \$3,862,000 (note 11). 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 is dependent upon obtaining further equity issuances or other forms of financings. 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, 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 August 12, 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 June 30, 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	6	-	-	-	-	6
Balance at June 30, 2022	\$ 194	\$ -	\$ 3,563	\$ 20,015	\$ -	\$ 23,772
Carrying amounts						
December 31, 2021	\$ 261	\$ -	\$ 2	\$ -	\$ -	\$ 263
June 30, 2022	\$ 255	\$ -	\$ 2	\$ -	\$ -	\$ 257

As at June 30, 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 and six months ended June 30, 2022 and 2021
(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, 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	548	2	-	550
Disposals	(281)	-	-	(281)
Balance at June 30, 2022	\$ 52,641	\$ 219	\$ 246	\$ 53,106
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
Disposals	(73)	-	-	(73)
Impairment	548	2	-	550
Balance at June 30, 2022	\$ 47,592	\$ 219	\$ 246	\$ 48,057
Carrying amounts:				
December 31, 2021	\$ 5,257	\$ -	\$ -	\$ 5,257
June 30, 2022	\$ 5,049	\$ -	\$ -	\$ 5,049

As at June 30, 2022, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$47,786,000 (December 31, 2021 - \$47,308,000).

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Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2022 and 2021
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6. Decommissioning liability

	June 30, 2022	December 31, 2021
Beginning balance	\$ 1,746	\$ 1,812
Change in estimate	(443)	(93)
Unwinding of discount	17	27
Ending balance	\$ 1,320	\$ 1,746

The undiscounted amount of estimated costs required to settle the obligations at June 30, 2022 is \$1,730,000 (December 31, 2021 - \$1,730,000) which are expected to be incurred in 2038. As at June 30, 2022 the estimated costs have been inflated at 1.80 percent (December 31, 2021 – 1.72 percent) and discounted at a risk free rate of 3.19 percent (December 31, 2021 – 1.67 percent).

7. Share capital

(a) Authorized

As at June 30, 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.

During the six months ended June 30, 2022, gross proceeds of \$14,250 were received as a result of 75,000 stock options being exercised for 75,000 common shares. As at June 30, 2022, the Company has 42,249,847 common shares outstanding.

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, 2022.

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Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2022 and 2021
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7. Share capital (continued)

(b) Earnings per share

	Three months ended		Six months ended	
	2022	2021	2022	2021
Loss for the period ending June 30,	\$ (424)	\$ (839)	\$ (842)	\$ (1,415)
Weighted average number (thousands) of common shares outstanding	42,175	42,174	42,175	42,174
Basic loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (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 855,000 (2021 - 935,000) 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
Expired during the period	(15)	0.75	(15)	0.75
Exercised during the period	(75)	0.19	-	-
Outstanding at June 30,	855	0.39	935	0.41
Exercisable at June 30,	555	\$ 0.46	590	\$ 0.65

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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	0.45	15,000
175,000	0.51	0.94	175,000
35,000	0.75	0.96	35,000
35,000	0.75	1.46	35,000
35,000	0.75	1.96	35,000
35,000	0.75	2.46	35,000
225,000	0.19	3.04	150,000
300,000	0.27	4.42	75,000
855,000	\$ 0.39	1.96	555,000

Share-based compensation of 11,000 (2021 - \$7,000) was expensed during the three month period ended June 30, 2022. Share-based compensation of \$25,000 (2021 - \$16,000) was expensed during the six month period ended June 30, 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:

June 30,	2022	2021
Changes in non-cash working capital		
Trade and other receivables	\$ (7)	\$ 56
Prepays	175	(210)
Trade and other payables	21	(392)
	\$ 189	\$ (546)

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For the three and six months ended June 30, 2022 and 2021
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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 June 30, 2022, cash and cash equivalents and non-cash working capital declined by \$1,015,000 to \$599,000. 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, 2022.

In addition to the minimum regulatory expenditure requirements, the following are the commitments of the Company as at June 30, 2022:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 905	\$ 905	\$ -	\$ -	\$ -
Lease on mineral property	4,802	68	735	735	3,264
Project contracts	276	276	-	-	-
	<u>\$ 5,983</u>	<u>\$ 1,249</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 six month period ended June 30, 2022.

11. Subsequent event

On August 3, 2022, the Company's Rights Offering was completed which resulted in an issuance of 11,034,135 common shares at a price of \$0.35 per share for gross proceeds of \$3,862,000. The total number of issued and outstanding common shares upon completion of the Rights Offering is 53,283,982 common shares. The Company did not pay any commissions on the Rights Offering.

Gujarat State Fertilizers and Chemicals ("GSFC"), a related party, acquired 9,100,000 common shares in the Company during the Rights Offering. This brought GSFC's ownership to 25,434,558 common shares representing approximately 47.73% of the issued and outstanding common shares of the Company.