

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Three months ended March 31, 2023 and 2022

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	March 31, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,495	\$ 3,681
Trade and other receivables	68	162
Prepays	506	366
	<u>4,069</u>	<u>4,209</u>
Restricted cash	375	375
Capital assets (note 4)	247	250
Exploration and evaluation and other assets (note 5)	5,049	5,049
ASSETS	\$ 9,740	\$ 9,883

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Trade and other payables	\$ 912	\$ 628
Decommissioning liability (note 6)	1,334	1,378
Total liabilities	<u>2,246</u>	<u>2,006</u>
Shareholders' equity		
Share capital (note 7)	135,962	135,962
Contributed surplus	9,717	9,714
Deficit	(138,185)	(137,799)
Total shareholders' equity	<u>7,494</u>	<u>7,877</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 9,740	\$ 9,883

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

See accompanying notes to the financial statements.

Approved on behalf of the Board on May 11, 2023

"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, 2023 and 2022
(CAD \$ thousands)

	2023	2022
Expenses		
General and administrative	\$ 341	\$ 376
Depreciation (note 4)	3	3
Share-based compensation (note 7(c))	3	14
Impairment (note 5)	134	239
Other income	(66)	(217)
	415	415
Finance income	(41)	(3)
Finance expense	12	7
Net finance (income) expense	(29)	4
Loss and Comprehensive loss	\$ (386)	\$ (419)
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, 2023 and 2022
(CAD \$ thousands)

	2023	2022
Cash Flows (used in) from Operating Activities		
Net loss for the period	\$ (386)	\$ (419)
Add (deduct)		
Depreciation (note 4)	3	3
Share-based compensation (note 7(c))	3	14
Impairment (note 5)	134	239
Other income	(63)	(209)
Net finance (income) expense	(29)	4
Interest income received	46	3
Changes in non-cash working capital (note 8)	238	(62)
	(54)	(427)
Cash Flows used in Investing Activities		
Additions to exploration and evaluation and other assets (note 5)	(134)	(239)
Effect of foreign exchange on cash	2	-
Change in cash and cash equivalents	(186)	(666)
Cash and cash equivalents, beginning of period	3,681	1,799
Cash and cash equivalents, end of period	\$ 3,495	\$ 1,133
Cash and cash equivalents are comprised of:		
Cash	3,426	1,072
Cash equivalents	69	61
Cash and cash equivalents, end of period	\$ 3,495	\$ 1,133

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, 2023 and 2022
(CAD \$ thousands)

	2023		2022	
	Number	Amount	Number	Amount
Share Capital	53,283	\$ 135,962	42,174	\$ 132,149
Contributed Surplus				
Balance, beginning of period		9,714		9,685
Share-based compensation (note 7(c))		3		14
Balance, end of period		9,717		9,699
Deficit				
Balance, beginning of period		(137,799)		(136,071)
Net loss for the period		(386)		(419)
Balance, end of period		(138,185)		(136,490)
Balance, end of period		\$ 7,494		\$ 5,358

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

(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 that the Company will be able to raise additional funds to move forward to the production stage. As at March 31, 2023, the Company had working capital (current assets less current liabilities) of \$3,157,000. In addition to ongoing operating expenses, the Company is committed to expenditures in 2023 and subsequent years on its regulatory spending requirements and mineral properties to keep the Company in good standing (note 9). The Company’s cash position may also be impacted by a requirement to fund the decommissioning liability (note 6) and resolve the legal matters as disclosed in note 17 of the annual financial statements.

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 the resolution of the above matters and 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 months ended March 31, 2023 and 2022

(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, 2022. 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, 2023.

(b) Changes in accounting policy

A number of amendments to existing standards became effective January 1, 2023 but they did not have an effect on the Company’s financial statements.

(c) New standards and interpretations not yet adopted

A number of amendments to existing standards are not yet effective for the period ended March 31, 2023 and have not been applied in preparing these condensed consolidated interim financial statements. The Company does not intend to early adopt any of the amendments and does not expect them to have a material impact on its financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

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

4. Capital assets

	Land and Buildings	Processing and Other Equipment	Assets Under Construction	Total
Cost				
Balance at January 1, 2022	\$ 449	\$ 3,565	\$ 20,015	\$ 24,029
Balance at December 31, 2022	449	3,565	20,015	24,029
Balance at March 31, 2023	\$ 449	\$ 3,565	\$ 20,015	\$ 24,029
Accumulated depreciation				
Balance at January 1, 2022	\$ 188	\$ 3,563	\$ 20,015	\$ 23,766
Depreciation	11	2	-	13
Balance at December 31, 2022	199	3,565	20,015	23,779
Depreciation	3	-	-	3
Balance at March 31, 2023	\$ 202	\$ 3,565	\$ 20,015	\$ 23,782
Carrying amounts				
December 31, 2022	\$ 250	\$ -	\$ -	\$ 250
March 31, 2023	\$ 247	\$ -	\$ -	\$ 247

As at March 31, 2023, cumulative impairment losses recognized for capital assets is \$20,128,000 (December 31, 2022 - \$20,128,000).

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

(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, 2022	\$ 52,374	\$ 217	\$ 246	\$ 52,837
Additions	1,023	6	-	1,029
Disposals	(281)	-	-	(281)
Balance at December 31, 2022	53,116	223	246	53,585
Additions	133	1	-	134
Balance at March 31, 2023	\$ 53,249	\$ 224	\$ 246	\$ 53,719
Accumulated amortization and impairment losses				
Balance at January 1, 2022	\$ 47,117	\$ 217	\$ 246	\$ 47,580
Disposals	(73)	-	-	(73)
Impairment	1,023	6	-	1,029
Balance at December 31, 2022	48,067	223	246	48,536
Impairment	133	1	-	134
Balance at March 31, 2023	\$ 48,200	\$ 224	\$ 246	\$ 48,670
Carrying amounts				
December 31, 2022	\$ 5,049	\$ -	\$ -	\$ 5,049
March 31, 2023	\$ 5,049	\$ -	\$ -	\$ 5,049

As at March 31, 2023, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$48,398,000 (December 31, 2022 - \$48,264,000).

6. Decommissioning liability

	March 31, 2023	December 31, 2022
Beginning balance	\$ 1,378	\$ 1,746
Change in estimate	(56)	(406)
Unwinding of discount	12	38
Ending balance	\$ 1,334	\$ 1,378

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

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

6. Decommissioning liability (continued)

The undiscounted amount of estimated costs required to settle the obligations at March 31, 2023 is \$1,730,000 (December 31, 2022 - \$1,730,000) which are expected to be incurred in 2038. As at March 31, 2023 the estimated costs have been inflated at an implied inflation rate of 1.62 percent (December 31, 2022 – 2.07 percent) and discounted at a risk free nominal rate of 2.96 percent (December 31, 2022 – 3.25 percent). The change in estimate is included in other income.

7. Share capital

(a) Authorized

As at March 31, 2023 and 2022 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, 2023.

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, 2023.

(b) Earnings per share

Basic earnings per share were calculated as follows:

	2023	2022
Loss for the period ending March 31,	\$ (386)	\$ (419)
Weighted average number (thousands) of common shares outstanding	53,283	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 840,000 (2022 – 945,000) options as their effect would have been anti-dilutive.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

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

7. Share capital (continued)

(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:

	2023		2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	840	\$ 0.38	945	\$ 0.38
Issued during the period	-	-	-	-
Outstanding at March 31,	840	0.38	945	0.38
Exercisable at March 31,	690	\$ 0.40	570	\$ 0.46

Number of Options Outstanding	Exercise Price	Remaining Life (years)	Exercisable Options
175,000	\$ 0.51	0.19	175,000
35,000	0.75	0.21	35,000
35,000	0.75	0.71	35,000
35,000	0.75	1.21	35,000
35,000	0.75	1.71	35,000
225,000	0.19	2.29	225,000
300,000	0.27	3.67	150,000
840,000	\$ 0.38	1.43	690,000

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

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

7. Share capital (continued)

(c) Share-based compensation expense (continued)

Share-based compensation of \$3,000 (2022 - \$14,000) was expensed during the three month period ended March 31, 2023. 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,	2023	2022
Changes in non-cash working capital		
Trade and other receivables	\$ 94	\$ (19)
Prepays	(140)	(83)
Trade and other payables	284	40
	\$ 238	\$ (62)

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, 2023 to March 31, 2023, cash and cash equivalents and non-cash working capital declined by \$424,000 to \$3,157,000. 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, 2023.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2023 and 2022

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

9. Financial instruments and related risk management (continued)

In addition to the minimum regulatory expenditure requirements, the following are the commitments of the Company as at March 31, 2023:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 912	\$ 912	\$ -	\$ -	\$ -
Lease on mineral property	4,435	68	735	735	2,897
Project contracts	48	48	-	-	-
	<u>\$ 5,395</u>	<u>\$ 1,028</u>	<u>\$ 735</u>	<u>\$ 735</u>	<u>\$ 2,897</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, 2023.