

Financial Statements of

KARNALYTE RESOURCES INC.

Years ended December 31, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Karnalyte Resources Inc.

Opinion

We have audited the financial statements of Karnalyte Resources Inc. (the Entity), which comprise:

- the statements of financial position as at December 31, 2023 and December 31, 2022
- the statements of loss and comprehensive loss for the years then ended
- the statement of cash flows for the years then ended
- the statements of changes in equity for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information

(hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditor's Responsibilities for the Audit of the Financial Statements***” section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity requires additional funding to finance its operating and exploration activities beyond its 2024 fiscal year and there are uncertainties with respect to the Entity's future cash position.



As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "Material Uncertainty related to Going Concern" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of indicators for impairment or reversal of impairment of non-financial assets

We draw attention to Notes 3(d) (ii) i, 4 (e) (i), 6 and 7 to the financial statements. The non-financial assets of the Entity consist of capital assets and exploration and evaluation and other assets. The Entity has non-financial assets of \$5,287 thousand. Cumulative Impairment losses recognized for non-financial assets is \$68,938 thousand. Non-financial assets are assessed at each reporting date for indicators of impairment or reversal of impairment.

Judgment is required in assessing internal and external indicators of impairment or impairment reversal. Internal and external indicators for capital and other non-financial assets include significant changes in the extent or manner in which an asset is expected to be used. Indicators for exploration and evaluation assets include the period for which the Entity has the right to explore, expected renewals of exploration rights, whether substantive exploration and evaluation expenditures on mineral properties are budgeted, and results of exploration and evaluation activities on the exploration and evaluation assets. Management also considers whether sufficient data exists to indicate that the carrying amount of capital assets and exploration and evaluation and other assets is unlikely to be recovered in full from successful development or by sale.

Why the matter is a key audit matter

We identified the evaluation of indicators for impairment or reversal of impairment for non-financial assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of non-financial assets and amounts previously reported as impaired. This matter was of most significance due to the judgment required to evaluate the results of our audit procedures and assess the Entity's determination of whether the judgments, individually and in the aggregate, result in indicators of impairment or reversal of impairment.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:



We inspected exploration license renewals and discussed with management if any rights were not expected to be renewed to assess the status of the Entity's rights to explore.

We compared the Entity's actual exploration and evaluation expenditures in 2023 to the budgeted expenditures to assess management's ability to accurately budget.

We read the Entity's exploration budget for the upcoming year to determine whether the Entity has plans to incur further exploration and evaluation expenditures.

We read information included in the Entity's technical reports and internal and external communications to assess if the Entity has decided to continue or discontinue exploration for and evaluation of mineral resources in the specific area.

Other Information

Management is responsible for the other information. Other information comprises:

- the information in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters



that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Brittany Walter.

Saskatoon, Canada

March 21, 2024

KARNALYTE RESOURCES INC.

Statements of Financial Position

December 31, 2023 and 2022
(CAD \$ thousands)

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,296	\$ 3,681
Trade and other receivables	58	162
Prepays	362	366
	2,716	4,209
Restricted cash (note 5)	375	375
Capital assets (note 6)	238	250
Exploration and evaluation and other assets (note 7)	5,049	5,049
ASSETS	\$ 8,378	\$ 9,883

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Trade and other payables	\$ 572	\$ 628
Decommissioning liability (note 8)	1,319	1,378
Total liabilities	1,891	2,006
Shareholders' equity		
Share capital (note 9)	135,962	135,962
Contributed surplus	9,746	9,714
Deficit	(139,221)	(137,799)
Total shareholders' equity	6,487	7,877
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 8,378	\$ 9,883

Basis of presentation (note 2), Commitments (note 16(c)), Contingent liabilities (note 17)

See accompanying notes to the financial statements.

Approved on behalf of the Board on March 21, 2024

"signed"
Vishvesh Nanavaty, Director

"signed"
Divyabhash Anjaria, Director

KARNALYTE RESOURCES INC.

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2023 and 2022
(CAD \$ thousands)

	2023	2022
Expenses		
General and administrative (notes 10, 11 and 12)	\$ 1,228	\$ 1,339
Depreciation (note 6)	12	13
Share-based compensation (notes 9(c) and 12)	32	38
Impairment (note 7)	546	1,029
Other income	(307)	(607)
Gain on disposal of mineral properties and intangible assets	-	(66)
	1,511	1,746
Finance income	(133)	(62)
Finance expense	44	44
Net finance income (note 13)	(89)	(18)
Loss and Comprehensive loss	\$ (1,422)	\$ (1,728)
Loss per share (note 9(b)) Basic and diluted	\$ (0.03)	\$ (0.04)

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Statements of Cash Flows

For the years ended December 31, 2023 and 2022
(CAD \$ thousands)

	2023	2022
Cash Flows (used in) from Operating Activities		
Net loss for the period	\$ (1,422)	\$ (1,728)
Add/deduct		
Depreciation (note 6)	12	13
Share-based compensation (note 9(c))	32	38
Impairment (note 7)	546	1,029
Other income	(103)	(406)
Net finance income (note 13)	(89)	(18)
Interest income received	138	49
Gain on disposal of mineral properties and intangible assets	-	(66)
Changes in non-cash working capital (note 15)	47	(85)
	<u>(839)</u>	<u>(1,174)</u>
Cash Flows (used in) from Investing Activities		
Additions to mineral properties and intangible assets (note 7)	(546)	(1,029)
Proceeds on disposal of mineral properties and intangible assets	-	275
	<u>(546)</u>	<u>(754)</u>
Cash Flows from (used in) Financing Activities		
Exercise of options	-	14
Issuance of common shares	-	3,862
Cost of issuance of common shares	-	(72)
	<u>-</u>	<u>3,804</u>
Effect of foreign exchange on cash	-	6
Change in cash and cash equivalents	(1,385)	1,882
Cash and cash equivalents, beginning of year	3,681	1,799
Cash and cash equivalents, end of year	<u>\$ 2,296</u>	<u>\$ 3,681</u>
Cash and cash equivalents are comprised of		
Cash	2,218	3,612
Cash equivalents	78	69
Cash and cash equivalents, end of year	<u>\$ 2,296</u>	<u>\$ 3,681</u>

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(CAD \$ thousands)

	2023		2022	
	Number	Amount	Number	Amount
Share Capital				
Balance, beginning of period	53,283	\$ 135,962	42,174	\$ 132,149
Common shares issued on exercise of share options (note 9(a))	-	-	75	14
Common shares issued on rights offering, net of share issuance costs (note 9(a))	-	-	11,034	3,790
Transfer from contributed surplus on options exercise	-	-	-	9
Balance, end of period	53,283	135,962	53,283	135,962
Contributed Surplus				
Balance, beginning of year		9,714		9,685
Share-based compensation (note 9(c))		32		38
Transfer to share capital on options exercise		-		(9)
Balance, end of year		9,746		9,714
Deficit				
Balance, beginning of year		(137,799)		(136,071)
Net loss for the year		(1,422)		(1,728)
Balance, end of year		(139,221)		(137,799)
Balance, end of year		\$ 6,487		\$ 7,877

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 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 December 31, 2023, the Company had working capital (current assets less current liabilities) of \$2,144,000. In addition to ongoing operating expenses, the Company is committed to expenditures in 2024 and subsequent years on its regulatory spending requirements and mineral properties to keep the Company in good standing (note 16(c)). The Company’s cash position may also be impacted by a requirement to fund the decommissioning liability (notes 5 and 8).

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 Financial Statements

For the years ended December 31, 2023 and 2022

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

3. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared by management in accordance with IFRS Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

3. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(i) Use of estimates

i. Impairment of non-financial assets

Where an indicator of impairment or reversal of impairment exists, an estimate of the recoverable amount of capital assets and exploration and evaluation and other assets is made. Recoverable amounts are based on the higher of their value-in-use and fair value less costs to sell. These calculations require the use of estimates and assumptions regarding market conditions, capital requirements, discount rates, future cash flows and profit margins. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Management does not expect a significant difference between value in use and fair value less cost to sell. A change in assumptions may significantly impact the potential impairment of these assets.

ii. Reserve Estimates

The estimation of potash reserves is an inherently complex process. Proven and probable reserves are estimated based on geological data, geophysical data, engineering data, projected future rates of production, estimated commodity prices, costs, discount rates and the timing of future expenditures. Reserves estimates, although not reported as part of the Company's financial statements, can have a significant effect on earnings, assets, as a result of their impact on depletion and impairment, decommissioning provisions and deferred income taxes. Accordingly, the impact to the financial statements of changes to estimates of reserves in future periods could be material.

iii. Decommissioning Provisions

Amounts are recorded for decommissioning provisions that will be incurred by the Company at the end of the operating life of the facilities and properties, and upon retirement of its mining assets. Estimates of these costs are subject to uncertainty associated with the method, timing and extend of future decommissioning activities. The provision and related asset and expense are impacted by estimates with respect to the costs and timing of decommissioning.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

3. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(i) Use of estimates (continued)

iv. Share-Based Compensation

Compensation expense recognized for the Company's share-based compensation plan is accrued over the vesting period based on grant date fair values. Fair values are determined using the Black-Scholes option pricing model while the fair value of restricted and performance awards are valued based on the closing share price on the date immediately prior to the grant date. In assessing the fair value of share based compensation, significant assumptions such as expected volatility, dividend yield, expected term, estimated forfeiture rates and performance multipliers for performance awards are made.

(ii) Judgements

The following are the critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

i. Impairment of non-financial assets

Judgements are required to assess when impairment or reversal of indicators exist for capital assets and exploration and evaluation and other assets.

Capital and other non-financial assets

Management uses judgment in assessing internal and external indicators of impairment including significant changes in the extent or manner in which an asset is expected to be used. The use of a significant portion of the Company's capital assets is related to exploration and evaluation activity.

Exploration and evaluation assets

Management uses judgment in assessing indicators of impairment including the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive exploration and evaluation expenditures on mineral properties are budgeted, and results of exploration and evaluation activities on the exploration and evaluation assets. Management also considers whether sufficient data exists to indicate that the carrying amount of capital assets and exploration and evaluation and other assets is unlikely to be recovered in full from successful development or by sale.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

3. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(ii) Judgements (continued)

ii. Contingent liabilities

Contingent liabilities are reviewed continuously to assess whether an outflow of cash has become probable. If the recognition criteria are met, then a provision is recorded in the period in which the change in probability occurs. Assessing whether a contingent liability is probable requires the Company to make judgements about the existence of past events and the application of applicable laws, contractual or constructive obligations.

(e) New standards adopted

(i) Disclosure of Accounting Policies (Amendments to IAS 1)

On February 12, 2021, the IASB issued an amendment to IAS 1 Presentation of Financial Statements to require companies to disclose their material accounting policy information rather than their significant accounting policies and provided guidance on the application of materiality to the disclosure of accounting policies. The amendment to IAS 1 is effective for annual reporting periods beginning on or after January 1, 2023 with early adoption permitted. Management reviewed the accounting policies in Note 4 and amended them to only include accounting policy information that is considered material based on guidance in the amendments.

(f) New standards not yet adopted

There are no new standards not yet adopted that are expected to have a material impact on the Company's financial statements.

4. Material accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

4. Material accounting policies (continued)

(a) Financial instruments

Classification

Financial Instruments are classified upon initial recognition into one of the following categories: fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”), or amortized cost. Financial assets are classified into one of these categories upon initial recognition based on the Company’s business model for managing its financial assets and their cash flow characteristics. Classifications are not changed subsequent to initial recognition unless the Company changes its business model for managing its financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

The Company’s cash, trade and other receivables and restricted cash are classified as amortized cost. Trade and other payables are also classified as amortized cost. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss, as well as any gain or loss on derecognition.

Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the statements of profit or loss.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

4. Material accounting policies (continued)

(b) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Property, plant and equipment and intangible exploration assets

(i) Recognition and measurement

i. Exploration and evaluation expenditures

Pre-exploration costs are recognized in profit and loss as incurred. After obtaining a license, mineral exploration and evaluation costs, including the costs of acquiring permits and directly attributable general and administrative costs, are initially capitalized as exploration and evaluation assets.

ii. Development and production costs

Upon determination of technical feasibility and commercial viability the costs associated with the exploration and evaluation of the associated proven and probable reserves are transferred to development and production assets. The associated costs are assessed for impairment at the time the costs are transferred from exploration and evaluation expenditures to development and production assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized when they increase the future economic benefits embodied in the specific asset to which they relate, such as developing proven and/or probable reserves and bringing in or enhancing production from reserves or resources, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized and the cost of the replacement part is recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Development and production expenditures are recognized as assets under construction until the assets are available for their intended use and not depreciated. When assets are available for their intended use, the asset is depreciated and recognized at its original cost less accumulated depletion and depreciation.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

4. Material accounting policies (continued)

(c) Property, plant and equipment and intangible exploration assets (continued)

(ii) Depletion and depreciation

When significant parts of an item of property, plant and equipment, including mining interests, have different useful lives, they are accounted for as separate items (major components). Once commercial production begins, the accumulated costs of capital assets and exploration and evaluation assets will be amortized to operations on a unit of production basis over economically recoverable proven plus probable reserves or over the estimated useful life, if shorter.

Reserves are estimated using independent reserve engineer reports and represent the estimated quantities of potash and magnesium which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known resources and which are considered commercially viable.

Depreciation is recognized in profit or loss on a straight-line basis or unit of production over the estimated useful lives of each part of an item of capital assets and intangible exploration and evaluation assets. Land is not depreciated.

The estimated useful lives for capital assets for the current and comparative years are as follows:

Buildings	25 years
Land Improvements	20 years
Processing and other equipment	5 - 10 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(d) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of other intangible assets from the date they were available for use.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

4. Material accounting policies (continued)

(d) Other intangible assets (continued)

The estimated useful lives for the intangible assets are as follows:

Patents	20 years
Computer Software	1 year

(e) Impairment

(i) Non-financial assets

The non-financial assets of the Company consist of capital assets and exploration and evaluation and other assets. For the purpose of impairment testing, non-financial assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ("CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Upon the establishment of technical feasibility and at the time sufficient funding becomes available to proceed with plant construction, the related exploration and evaluation assets are transferred to development and production assets and are assessed for impairment at the time that the costs are transferred.

Non-financial assets are assessed for an indication of impairment at each financial reporting period or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. In determining the recoverable amount of the CGU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Recoverable amount is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves and therefore is subject to the estimation of mineral reserves or the amount a market participant is willing to pay to acquire the assets of the CGU.

In respect of non-financial assets, impairment losses recognized in prior years are assessed at each reporting date for any indication that the fair value has recovered. An impairment loss is reversed if there has been a change in the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

4. Material accounting policies (continued)

(f) Share-based compensation

The grant date fair value of options granted to employees is calculated using the Black-Scholes option pricing model and is recognized as compensation expense, within profit and loss, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(g) Rental income

Rental income from the lease of land owned by the Company is recognized in other income on a straight-line basis over the term of the lease.

(h) Provisions

Contingent liabilities are not recognized in the statement of financial position except for certain contingent liabilities assumed in a business combination.

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

4. Material accounting policies (continued)

(j) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

5. Restricted cash

The Company was required to submit three separate \$125,000 irrevocable letters of credit to Saskatchewan Ministry of Environment towards any future environmental damage that could potentially be caused by the operation of its test facility near Wynyard, Saskatchewan. The letters of credit have been provided by the Company's bank on behalf of the Company and are secured by interest-bearing deposits that are not available to the Company for general use. Funds are invested in Guaranteed Investment Certificates which are redeemable upon maturity in July and August 2025.

KARNALYTE RESOURCES INC.

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6. 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 December 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	12	-	-	12
Balance at December 31, 2023	\$ 211	\$ 3,565	\$ 20,015	\$ 23,791
Carrying amounts				
December 31, 2022	\$ 250	\$ -	\$ -	\$ 250
December 31, 2023	\$ 238	\$ -	\$ -	\$ 238

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

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

7. 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	543	3	-	546
Balance at December 31, 2023	\$ 53,659	\$ 226	\$ 246	\$ 54,131
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	543	3	-	546
Balance at December 31, 2023	\$ 48,610	\$ 226	\$ 246	\$ 49,082
Carrying amounts				
December 31, 2022	\$ 5,049	\$ -	\$ -	\$ 5,049
December 31, 2023	\$ 5,049	\$ -	\$ -	\$ 5,049

As at December 31, 2023, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$48,810,000 (December 31, 2022 - \$48,264,000).

At December 31, 2023, the Company assessed whether there was any indication that previously recognized impairment losses required reversal. The Company determined that there were no indications that the asset values had increased significantly during the period. The Company is updating the project technical and economical feasibility and has not obtained project financing. Therefore, in addition to the impairment losses recognized in prior years, the Company recorded an impairment loss of \$546,000 (2022 - \$1,029,000) to impair additions to exploration and evaluation assets to their estimated recoverable amount.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

7. Exploration and evaluation and other assets (continued)

Disclosure of sensitivities of the recoverable amount to changes in management estimates are not meaningful given the methodology described above in determining the fair value less cost to sell. However the identification of a buyer of the project in its entirety, or the Company's ability to secure adequate financing for the development of the mine on economic terms, could result in a material difference from the current estimate of the recoverable amount.

8. Decommissioning liability

December 31,	2023	2022
Beginning balance	\$ 1,378	\$ 1,746
Change in estimate	(103)	(406)
Unwinding of discount	44	38
Ending balance	\$ 1,319	\$ 1,378

The undiscounted amount of estimated costs required to settle the obligations at December 31, 2023 is \$1,730,000 (2022 - \$1,730,000) which are expected to be incurred in 2038. The estimated costs have been inflated at an implied inflation rate of 1.66 percent (2022 – 2.07 percent) and discounted at a risk free nominal rate of 3.06 percent (2022 – 3.25 percent) for the year ending December 31, 2023. The change in estimate is included in other income.

9. Share capital

(a) Authorized

As at December 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.

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued throughout the year ended December 31, 2023.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

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

9. Share capital (continued)

(b) Loss per share

Basic loss per share was calculated as follows:

	2023	2022
Loss for the year ending December 31,	\$ (1,422)	\$ (1,728)
Weighted average number of common shares	53,283	46,747
Basic loss per share	\$ (0.03)	\$ (0.04)

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 900,000 (2022 - 840,000) options as their effect would have been anti-dilutive.

(c) Stock-based compensation

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.

KARNALYTE RESOURCES INC.

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For the years ended December 31, 2023 and 2022

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9. Share capital (continued)

(c) Stock-based compensation (continued)

The number 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
During the year				
Issued	380	0.21	-	-
Expired	(245)	0.58	(30)	0.75
Exercised	-	-	(75)	0.19
Cancelled	(75)	0.19	-	-
Outstanding at December 31,	900	0.27	840	0.38
Exercisable at December 31,	520	\$ 0.31	690	\$ 0.40

Number of Options Outstanding	Exercise Price	Remaining Life (yrs)	Vested Exercisable Options
35,000	0.75	0.46	35,000
35,000	0.75	0.96	35,000
150,000	0.19	1.53	150,000
300,000	0.27	2.92	300,000
380,000	0.21	4.59	-
900,000	\$ 0.27	2.09	520,000

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9. Share capital (continued)

(c) Stock-based compensation (continued)

In August 2023, the Company granted stock options to directors in accordance with the Company's Stock Option Plan as approved by shareholders on August 26, 2016. The fair value of the options issued was estimated on the date of grant using the Black-Scholes option-pricing model. The options vest over two years and have a life of five years. The inputs used in the measurement of the fair values at grant date of these options were as follows:

	August 3, 2023
Number of options	380,000
Exercise price	\$0.21
Dividend yield	nil
Interest rate	4.04%
Volatility rate	101.02%
Fair value per option	\$0.21

Share based compensation of \$32,000 (2022 - \$38,000) was expensed during the year ended December 31, 2023. The forfeiture rate assumed in the calculation of all share based compensation expenses was 11%.

10. Nature of general and administrative expenses

The Company is required to present its financial performance by nature or by function. The Company has presented its financial performance by the underlying nature of the expense with the exception of general and administrative expenses. Had the general and administrative expenses been presented by their nature, the Company would disclose payroll expense and employee benefits of \$258,000 (2022 – \$257,000), accounting and legal of \$217,000 (2022 – \$246,000), consulting of \$141,000 (2022 – \$143,000) and office and sundry expense of \$612,000 (2022 – \$693,000) for the year ending December 31, 2023.

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11. Insurance proceeds

During the year, the Company received insurance proceeds of \$72,000 (2022 - \$162,000) which partially offset general and administrative expenses (2022 – general and administrative expenses).

12. Related party transactions

Transactions with key management personnel

The aggregate payroll expense of key management personnel and directors was as follows:

December 31,	2023	2022
Salaries, benefits and other compensation arrangements	\$ 597	\$ 616
Share-based compensation	32	38
	<u>\$ 629</u>	<u>\$ 654</u>

13. Finance income and expenses

December 31,	2023	2022
Finance income		
Interest income on bank deposits	\$ (133)	\$ (62)
Financial expenses		
Unwinding of discount on provisions (note 8)	44	38
Foreign exchange loss	-	6
	<u>44</u>	<u>44</u>
Net finance income recognized in comprehensive loss	<u>\$ (89)</u>	<u>\$ (18)</u>

KARNALYTE RESOURCES INC.

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14. Income tax expense

The provision for income taxes in the statement of loss reflects an effective tax rate which differs from the expected statutory rate. Differences are as follows:

	2023	2022
Loss before tax	\$ (1,422)	\$ (1,728)
Expected tax rate	27%	27%
Expected income tax	(384)	(467)
Non-deductible expenses	-	-
Stock-based compensation	9	15
Change in unrecognized deferred tax assets	312	524
Other	63	(72)
Total income tax expense	\$ -	\$ -

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	2023	2022
Capital assets	\$ 1,732	\$ 1,833
Share issue costs	12	15
Intangible assets (including E&E)	11,844	11,672
Assets under construction	4,774	4,774
Non-capital losses	17,357	17,113
Net deferred tax assets	\$ 35,719	\$ 35,407

The deferred tax assets have not been recognized at this time because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

The Company has Canadian non-capital losses for which no benefit has been recognized in the financial statements of approximately \$64,286,000 (2022 - \$63,381,000) which commence expiry in 2026.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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15. Supplemental cash flow information

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

December 31,	2023	2022
Changes in non-cash working capital		
Trade and other receivables	\$ 99	\$ (112)
Prepays	4	283
Trade and other payables	(56)	(256)
	\$ 47	\$ (85)

16. Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

- credit risk;
- liquidity risk;
- market risk;
- currency risk; and
- interest rate risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. To date, no specific risk management tools have been put in place to mitigate these risks.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligation.

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16. Financial risk management (continued)

(b) Credit risk (continued)

Cash and cash equivalents consist of bank balances and short-term deposits that are redeemable at any time at the option of the Company. The Company manages the credit exposure related to short-term investments by depositing only with large Canadian financial institutions which management believes the risk of loss to be remote. The majority of the cash and cash equivalents are currently held by one financial institution.

The carrying amounts of cash and cash equivalents, trade and other receivables, and restricted cash represent the maximum credit exposure.

(c) Liquidity risk and commitments

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company has adequate cash available to discharge all current liabilities as at December 31, 2023.

The Company will need to obtain funding in order to continue mine development and achieve commercial production. It is the intent of the Company to raise these funds through equity issuances and other forms of financing (note 2).

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

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 572	\$ 572	\$ -	\$ -	\$ -
Lease on mineral property	4,367	367	735	735	2,530
Project contracts	7	7	-	-	-
	<u>\$ 4,946</u>	<u>\$ 946</u>	<u>\$ 735</u>	<u>\$ 735</u>	<u>\$ 2,530</u>

The Company has entered into a contract for consulting services.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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16. Financial risk management (continued)

(d) Market risk (continued)

The Company may use both financial derivatives and physical delivery sales contracts in the future to manage market risks. Should the Company reach commercial production a sales off-take contract exists where GSFC has committed to purchase approximately 350,000 tonnes per year of potash increasing to 600,000 tonnes per year for a period of 20 years from the commencement of commercial production. Pricing will be denominated in USD based on CFR India.

(e) Currency risk

The following financial instruments were denominated in U.S. dollars:

December 31,	2023	2022
	USD	USD
Cash	\$ -	\$ 1
Prepays	26	24
Trade and other payables	-	1

The exchange rate on the period ending date December 31, 2023 was 1 Canadian dollar equals \$0.7561 USD (2022 - \$1 Canadian: \$0.7383 USD). As of December 31, 2023, if the exchange rate would change by 1% it would have an impact of \$1,000 on the reported comprehensive loss.

The USD cash balances throughout the year fluctuated depending on the amount of funds available and the prevailing foreign exchange rates at the time of the transactions and transfers between the USD and CAD accounts. The exchange rate fluctuated between \$0.7207 USD to \$0.7617 USD to 1.00 Canadian dollar. The net foreign exchange differences are presented as finance expense in the Statement of Comprehensive Loss.

(f) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest income is generated through funds invested in regular and high interest savings accounts, treasury bills and guaranteed investment certificates. Had the interest rate been 100 basis point higher (or lower) throughout the year ended December 31, 2023, comprehensive loss would have been lower (or higher) by approximately \$24,000 (2022 - \$22,000).

KARNALYTE RESOURCES INC.

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16. Financial risk management (continued)

(g) Capital management

The Company considers its capital structure to include cash and cash equivalents and non-cash working capital. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying potash assets. In order to maintain or adjust the capital structure, the Company may issue shares and adjust its capital spending based on available funding in the capital markets. To advance the Wynyard project, the Company will need to secure a significant amount of additional capital. 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 obtain the necessary capital to move forward to the production stage.

The Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company updated its reclamation program for the Wynyard project in 2018 in accordance with Government of Saskatchewan regulations. This update will result in the requirement to increase the amount held as restricted cash in order to satisfy the financial assurance requirements of the Government of Saskatchewan. The timing of when this increase will be required is not known.

To maintain a listing on the Toronto Stock Exchange, certain financial position criteria must be met.

The Company is not subject to any other externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

17. Contingent liabilities

In the fourth quarter of 2017, the Company received a statement of claim filed at the Court of Queen's Bench of Alberta by Mr. Siu Ma, the Company's former Executive Vice-president and Chief Operating Officer, in the amount of \$728,750. Mr. Ma's claim is for an alleged breach of contract for the Company's failure to provide payments to Mr. Ma after he terminated the employment agreement alleging a change of control had occurred. The Company has denied Mr. Ma's allegations and filed a statement of defense and has recorded an estimate of all amounts payable to Mr. Ma under his contract. Actual amounts payable may vary from amounts estimated.

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17. Contingent liabilities (continued)

During the second quarter of 2023, the Company reached a settlement with Messrs. Peter Matson and Gregory George Szabo who, on February 1, 2021 filed an originating application against the Company and others.