

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Three months ended March 31, 2024 and 2023

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,003	\$ 2,296
Trade and other receivables	75	58
Prepays	511	362
	<u>2,589</u>	<u>2,716</u>
Restricted cash	375	375
Capital assets (note 4)	235	238
Exploration and evaluation and other assets (note 5)	5,049	5,049
ASSETS	\$ 8,248	\$ 8,378
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	\$ 957	\$ 572
Decommissioning liability (note 6)	1,282	1,319
Total liabilities	<u>2,239</u>	<u>1,891</u>
Shareholders' equity		
Share capital (note 7)	135,962	135,962
Contributed surplus	9,756	9,746
Deficit	(139,709)	(139,221)
Total shareholders' equity	<u>6,009</u>	<u>6,487</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 8,248	\$ 8,378

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

See accompanying notes to the financial statements.

Approved on behalf of the Board of Directors on May 9, 2024

"signed"
Vishvesh Nanavaty, Director

"signed"
Divyabhash Anjaria, Director

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Loss and Comprehensive Loss (unaudited)

For the three months ended March 31, 2024 and 2023
(CAD \$ thousands)

	2024	2023
Expenses		
General and administrative	\$ 410	\$ 341
Depreciation (note 4)	3	3
Share-based compensation (note 7(c))	10	3
Impairment (note 5)	140	134
Other income	(57)	(66)
	506	415
Finance income	(28)	(41)
Finance expense	10	12
Net finance income	(18)	(29)
Loss and Comprehensive loss	\$ (488)	\$ (386)
Basic and diluted loss per share (note 7(b))	\$ (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, 2024 and 2023
(CAD \$ thousands)

	2024	2023
Cash Flows (used in) from Operating Activities		
Net loss for the period	\$ (488)	\$ (386)
Add (deduct)		
Depreciation (note 4)	3	3
Share-based compensation (note 7(c))	10	3
Impairment (note 5)	140	134
Other income	(47)	(63)
Net finance income	(18)	(29)
Interest income received	25	46
Changes in non-cash working capital (note 8)	222	238
	(153)	(54)
Cash Flows used in Investing Activities		
Additions to exploration and evaluation and other assets (note 5)	(140)	(134)
Effect of foreign exchange on cash	-	2
Change in cash and cash equivalents	(293)	(186)
Cash and cash equivalents, beginning of period	2,296	3,681
Cash and cash equivalents, end of period	\$ 2,003	\$ 3,495
Cash and cash equivalents are comprised of:		
Cash	1,925	3,426
Cash equivalents	78	69
Cash and cash equivalents, end of period	\$ 2,003	\$ 3,495

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, 2024 and 2023
(CAD \$ thousands)

	2024		2023	
	Number	Amount	Number	Amount
Share Capital	53,283	\$ 135,962	53,283	\$ 135,962
Contributed Surplus				
Balance, beginning of period		9,746		9,714
Share-based compensation (note 7(c))		10		3
Balance, end of period		9,756		9,717
Deficit				
Balance, beginning of period		(139,221)		(137,799)
Net loss for the period		(488)		(386)
Balance, end of period		(139,709)		(138,185)
Balance, end of period		\$ 6,009		\$ 7,494

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2024 and 2023

(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, 2024, the Company had working capital (current assets less current liabilities) of \$1,632,000. 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 9). The Company’s cash position may also be impacted by a requirement to fund the decommissioning liability (note 6).

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 months ended March 31, 2024 and 2023

(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, 2023. 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 9, 2024.

(b) Changes in accounting policy

A number of amendments to existing standards became effective January 1, 2024 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, 2024 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, 2024 and 2023

(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, 2023	\$ 449	\$ 3,565	\$ 20,015	\$ 24,029
Balance at December 31, 2023	449	3,565	20,015	24,029
Balance at March 31, 2024	\$ 449	\$ 3,565	\$ 20,015	\$ 24,029
Accumulated depreciation				
Balance at January 1, 2023	\$ 199	\$ 3,565	\$ 20,015	\$ 23,779
Depreciation	12	-	-	12
Balance at December 31, 2023	211	3,565	20,015	23,791
Depreciation	3	-	-	3
Balance at March 31, 2024	\$ 214	\$ 3,565	\$ 20,015	\$ 23,794
Carrying amounts				
December 31, 2023	\$ 238	\$ -	\$ -	\$ 238
March 31, 2024	\$ 235	\$ -	\$ -	\$ 235

As at March 31, 2024, cumulative impairment losses recognized for capital assets is \$20,128,000 (December 31, 2023 - \$20,128,000).

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Notes to Condensed Interim Financial Statements (unaudited)

For the three months ended March 31, 2024 and 2023

(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, 2023	\$ 53,116	\$ 223	\$ 246	\$ 53,585
Additions	543	3	-	546
Balance at December 31, 2023	53,659	226	246	54,131
Additions	138	2	-	140
Balance at March 31, 2024	\$ 53,797	\$ 228	\$ 246	\$ 54,271
Accumulated amortization and impairment losses				
Balance at January 1, 2023	\$ 48,067	\$ 223	\$ 246	\$ 48,536
Impairment	543	3	-	546
Balance at December 31, 2023	48,610	226	246	49,082
Impairment	138	2	-	140
Balance at March 31, 2024	\$ 48,748	\$ 228	\$ 246	\$ 49,222
Carrying amounts				
December 31, 2023	\$ 5,049	\$ -	\$ -	\$ 5,049
March 31, 2024	\$ 5,049	\$ -	\$ -	\$ 5,049

As at March 31, 2024, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$48,950,000 (December 31, 2023 - \$48,810,000).

6. Decommissioning liability

	March 31, 2024	December 31, 2023
Beginning balance	\$ 1,319	\$ 1,378
Change in estimate	(47)	(103)
Unwinding of discount	10	44
Ending balance	\$ 1,282	\$ 1,319

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Notes to Condensed Interim Financial Statements (unaudited)

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6. Decommissioning liability (continued)

The undiscounted amount of estimated costs required to settle the obligations at March 31, 2024 is \$1,730,000 (December 31, 2023 - \$1,730,000) which are expected to be incurred in 2038. As at March 31, 2024 the estimated costs have been inflated at an implied inflation rate of 1.89 percent (December 31, 2023 – 1.66 percent) and discounted at a risk free nominal rate of 3.44 percent (December 31, 2023 – 3.06 percent). The change in estimate is included in other income.

7. Share capital

(a) Authorized

As at March 31, 2024 and 2023 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, 2024.

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, 2024.

(b) Earnings per share

Basic earnings per share were calculated as follows:

	2024	2023
Loss for the period ending March 31,	\$ (488)	\$ (386)
Weighted average number (thousands) of common shares outstanding	53,283	53,283
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 900,000 (2023 – 840,000) 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, 2024 and 2023

(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 Board of 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:

	2024		2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	900	\$ 0.27	840	\$ 0.38
Issued during the period	-	-	-	-
Outstanding at March 31,	900	0.27	840	0.38
Exercisable at March 31,	615	\$ 0.30	690	\$ 0.40

Number of Options Outstanding	Exercise Price	Remaining Life (years)	Exercisable Options
35,000	0.75	0.21	35,000
35,000	0.75	0.71	35,000
150,000	0.19	1.28	150,000
300,000	0.27	2.67	300,000
380,000	0.21	4.35	95,000
900,000	\$ 0.27	1.84	615,000

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7. Share capital (continued)

(c) Share-based compensation expense (continued)

Share-based compensation of \$10,000 (2023 - \$3,000) was expensed during the three month period ended March 31, 2024. 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,	2024	2023
Changes in non-cash working capital		
Trade and other receivables	\$ (14)	\$ 94
Prepays	(149)	(140)
Trade and other payables	385	284
	\$ 222	\$ 238

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, 2024 to March 31, 2024, cash and cash equivalents and non-cash working capital declined by \$512,000 to \$1,632,000. 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, 2024.

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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, 2024:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 957	\$ 957	\$ -	\$ -	\$ -
Lease on mineral property	4,067	68	735	735	2,529
Project contracts	22	19	3	-	-
	<u>\$ 5,046</u>	<u>\$ 1,044</u>	<u>\$ 738</u>	<u>\$ 735</u>	<u>\$ 2,529</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, 2024.