

Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Six months ended June 30, 2025 and 2024

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Financial Position (unaudited)

(CAD \$ thousands)

As at	June 30, 2025	December 31, 2024
-------	------------------	----------------------

ASSETS

Current assets

Cash and cash equivalents	\$ 1,053	\$ 870
Trade and other receivables	76	61
Prepays	433	294
	1,562	1,225

Restricted cash	375	375
Capital assets (note 4)	220	226
Exploration and evaluation and other assets (note 5)	4,629	5,049

ASSETS	\$ 6,786	\$ 6,875
---------------	-----------------	-----------------

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Trade and other payables	\$ 682	\$ 721
--------------------------	--------	--------

<u>Decommissioning liability (note 6)</u>	<u>1,565</u>	<u>1,571</u>
---	--------------	--------------

Total liabilities	2,247	2,292
-------------------	-------	-------

Shareholders' equity

Share capital (note 7)	135,962	135,962
Contributed surplus	9,792	9,783
Deficit	(141,215)	(141,162)

Total shareholders' equity	4,539	4,583
----------------------------	-------	-------

LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,786	\$ 6,875
---	-----------------	-----------------

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

See accompanying notes to the financial statements.

Approved on behalf of the Board on August 13, 2025:

"signed"
Sanjeev Varma, Director

"signed"
Divyabhash Anjaria, Director

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Income/(Loss) and Comprehensive Income/(Loss) (unaudited)

For the three and six months ended June 30, 2025 and 2024

(CAD \$ thousands)

	Three months ended		Six months ended	
	2025	2024	2025	2024
		restated (note 11)		restated (note 11)
Expenses				
General and administrative	\$ 367	\$ 380	\$ 671	\$ 790
Depreciation (note 4)	3	3	6	6
Share-based compensation (note 7(c))	4	7	9	17
Impairment (note 5)	161	152	406	292
Other income	(62)	(27)	(62)	(50)
Gain on disposal of exploration and evaluation and other assets (note 5)	(988)	-	(988)	-
	(515)	515	42	1,055
Finance income	(8)	(18)	(14)	(46)
Finance expense	12	13	25	25
Net finance expense/(income)	4	(5)	11	(21)
Income/(loss) and Comprehensive income/(loss)	\$ 511	\$ (510)	\$ (53)	\$ (1,034)
Income/(loss) per share (note 7(b))				
Basic and diluted	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.02)

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Cash Flows (unaudited)

For the six months ended June 30, 2025 and 2024

(CAD \$ thousands)

	2025	2024
		restated (note 11)
Cash Flows (used in) from Operating Activities		
Net loss for the period	\$ (53)	\$ (1,034)
Add (deduct)		
Depreciation (note 4)	6	6
Share-based compensation (note 7(c))	9	17
Impairment (note 5)	406	292
Other income	(31)	(28)
Gain on disposal of exploration and evaluation and other assets (note 5)	(988)	-
Net finance expense/(income)	11	(21)
Interest income received	10	46
Changes in non-cash working capital (note 8)	(189)	(118)
	(819)	(840)
Cash Flows (used in) from Investing Activities		
Additions to mineral properties and intangible assets (note 5)	(406)	(292)
Proceeds on disposal of exploration and evaluation and other assets (note 5)	1,408	-
	1,002	(292)
Change in cash and cash equivalents	183	(1,132)
Cash and cash equivalents, beginning of period	870	2,296
Cash and cash equivalents, end of period	\$ 1,053	\$ 1,164
Cash and cash equivalents are comprised of:		
Cash	1,014	1,085
Cash equivalents	39	79
Cash and cash equivalents, end of period	\$ 1,053	\$ 1,164

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Condensed Interim Statements of Changes in Equity (unaudited)

For the six months ended June 30, 2025 and 2024

(CAD \$ thousands)

	2025		2024	
	Number	Amount	Number	Amount restated (note 11)
Share Capital	53,283	\$ 135,962	53,283	\$ 135,962
Contributed Surplus				
Balance, beginning of period		9,783		9,746
Share-based compensation (note 7(c))		9		17
Balance, end of period		9,792		9,763
Deficit				
Balance, beginning of period		(141,162)		(139,438)
Net loss for the period		(53)		(1,034)
Balance, end of period		(141,215)		(140,472)
Balance, end of period		\$ 4,539		\$ 5,253

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

1. Reporting entity

Karnalyte Resources Inc. (the “Company” or “Karnalyte”) is incorporated under the laws of the province of Alberta. As at the date of the financial statements, the business of Karnalyte consisted of the exploration and development of its property and possible construction of a production facility and development of a potash mine. The property is situated in Saskatchewan, south of Wynyard and contains a dominant zone of potash and magnesium minerals.

The Company’s address is PO Box 22055 RPO Wildwood, Saskatoon, SK S7H 5P1.

2. Basis of presentation

These financial statements are prepared on the assumption that the Company will continue as a going concern. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company is in its pre-development phase and therefore there is material uncertainty that the Company will be able to raise additional funds to maintain sufficient financial resources to fund ongoing operating and required exploration expenditures and to move forward to the production stage. As at June 30, 2025, the Company had working capital (current assets less current liabilities) of \$880,000 which is expected to be insufficient to fund operations in the upcoming year. In addition to ongoing operating expenses, the Company is committed to expenditures in 2025 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 ability of the Company to continue as a going concern is dependent upon obtaining further equity issuances or other forms of financings. There is no assurance that the Company will be successful in obtaining required funding at an acceptable cost as and when needed or at all. Failure to obtain additional funding on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or reduce or terminate its operations.

These financial statements do not include any adjustments to carrying values of asset amounts and liabilities or reported expenses that may be necessary if the going concern assumption were not appropriate.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

(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 restated financial statements for the year ended December 31, 2024. These statements do not include all information or disclosures normally provided in annual statements. These interim statements should be read in conjunction with the annual financial statements and related notes.

These financial statements were authorized for issue by the Board of Directors on August 13, 2025.

(b) Changes in accounting policy

A number of amendments to existing standards became effective January 1, 2025 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 June 30, 2025 and have not been applied in preparing these condensed 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. The one new standard that may have an impact on disclosures is described below.

(i) Financial statement presentation

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18, *Presentation and Disclosure of Financial Statements* (“IFRS 18”). IFRS 18 is effective for periods beginning on or after January 1, 2027, with early adoption permitted. IFRS 18 is expected to improve the quality of financial reporting by requiring defined subtotals in the statement of profit or loss, requiring disclosure about management-defined performance measures, and adding new principles for aggregation and disaggregation of information. The Company has not yet determined the impact of this standard on its disclosures.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

(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, 2024	\$ 449	\$ 3,565	\$ 20,015	\$ 24,029
Disposals	-	(1,892)	-	(1,892)
Balance at December 31, 2024	449	1,673	20,015	22,137
Balance at June 30, 2025	\$ 449	\$ 1,673	\$ 20,015	\$ 22,137
Accumulated depreciation and impairment				
Balance at January 1, 2024	\$ 211	\$ 3,565	\$ 20,015	\$ 23,791
Depreciation	12	-	-	12
Disposals	-	(1,892)	-	(1,892)
Balance at December 31, 2024	223	1,673	20,015	21,911
Depreciation	6	-	-	6
Balance at June 30, 2025	\$ 229	\$ 1,673	\$ 20,015	\$ 21,917
Carrying amounts				
December 31, 2024	\$ 226	\$ -	\$ -	\$ 226
June 30, 2025	\$ 220	\$ -	\$ -	\$ 220

As at June 30, 2025, cumulative impairment losses recognized for capital assets is \$20,123,000 (December 31, 2024 - \$20,123,000). The impairment indicators, as determined in 2014 by previous management, continue to exist as at June 30, 2025.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

5. Exploration and evaluation assets and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost				
Balance at January 1, 2024	\$ 53,659	\$ 226	\$ 246	\$ 54,131
Additions	718	14	-	732
Disposals	(518)	-	(6)	(524)
Balance at December 31, 2024	53,859	240	240	54,339
Additions	403	3	-	406
Disposals	(420)	-	-	(420)
Balance at June 30, 2025	\$ 53,842	\$ 243	\$ 240	\$ 54,325
Accumulated depreciation and impairment				
Balance at January 1, 2024	\$ 48,610	\$ 226	\$ 246	\$ 49,082
Disposals	(518)	-	(6)	(524)
Impairment	718	14	-	732
Balance at December 31, 2024	48,810	240	240	49,290
Impairment	403	3	-	406
Balance at June 30, 2025	\$ 49,213	\$ 243	\$ 240	\$ 49,696
Carrying amounts				
December 31, 2024	\$ 5,049	\$ -	\$ -	\$ 5,049
June 30, 2025	\$ 4,629	\$ -	\$ -	\$ 4,629

As at June 30, 2025, cumulative impairment losses recognized for exploration and evaluation assets and other assets is \$49,430,000 (December 31, 2024 - \$49,024,000).

6. Decommissioning liability

	June 30, 2025	December 31, 2024
Beginning balance	\$ 1,571	\$ 1,536
Change in estimate	(32)	(15)
Unwinding of discount	26	50
Ending balance	\$ 1,565	\$ 1,571

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

(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 June 30, 2025 is \$1,730,000 (December 31, 2024 - \$1,730,000) which are expected to be incurred in 2038. As at June 30, 2025 the estimated costs have been inflated at an implied inflation rate of 1.82 percent (December 31, 2024 – 1.79 percent) and discounted at a risk free nominal rate of 3.51 percent (December 31, 2024 – 3.31 percent). The change in estimate is included in other income.

7. Share capital

(a) Authorized

As at June 30, 2025 and 2024 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 six months ended June 30, 2025.

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued throughout the six months ended June 30, 2025.

(b) Income/(loss) per share

	<u>Three months ended</u>		<u>Six months ended</u>	
	2025	2024	2025	2024
Income/(loss) for the period ended June 30, \$	511	\$ (510)	\$ (53)	\$ (1,034)
Weighted average number (thousands) of common shares outstanding	53,283	53,283	53,283	53,283
Basic income/(loss) per share	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.02)
Income/(loss) for the period ended June 30, \$	511	\$ (510)	\$ (53)	\$ (1,034)
Weighted average number (thousands) of common shares outstanding	53,283	53,283	53,283	53,283
Dilutive effect of stock options	913	-	-	-
Weighted average number (thousands) of common shares outstanding	54,196	53,283	53,283	53,283
Diluted income/(loss) per share	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.02)

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

7. Share capital (continued)

(b) Income/(loss) per share (continued)

For the six months ended June 30, 2025, 913,000 options were excluded from the diluted weighted average number of common shares as their effect would have been anti-dilutive. For the three and six months ended June 30, 2024, 1,095,000 options were excluded from the diluted weighted average number of common shares as their effect would have been anti-dilutive.

(c) Share-based compensation expense

The Company has a stock option plan under which directors, officers and non-employees of the Company are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all stock options granted under the plan shall not exceed 10% of the issued common shares of the Company at the time of granting of the options. Options granted under the plan generally have a term of two to five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchange on which the Company's common shares are then listed.

The number (thousands) and weighted average exercise prices of share options are as follows:

	2025		2024	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	960	\$ 0.21	900	\$ 0.27
Expired during the period	-	-	(35)	0.75
Forfeited during the period	(47)	0.19	-	-
Issued during the period	-	-	230	0.13
Outstanding at June 30,	913	0.21	1,095	0.22
Exercisable at June 30,	775	\$ 0.22	580	\$ 0.27

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

7. Share capital (continued)

(c) Share-based compensation expense (continued)

Number of Options Outstanding	Exercise Price	Remaining Life (years)	Exercisable Options
150,000	0.19	0.04	150,000
300,000	0.27	1.42	300,000
242,500	0.21	3.10	210,000
220,000	0.13	4.00	115,000
912,500	\$ 0.21	2.14	775,000

Share-based compensation of \$4,000 (2024 - \$7,000) was expensed during the three month period ended June 30, 2025. Share-based compensation of \$9,000 (2024 - \$17,000) was expensed during the six month period ended June 30, 2025. The forfeiture rate assumed in the calculation of all share-based compensation expenses was 11%.

8. Supplemental cash flow information

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

June 30,	2025	2024
Changes in non-cash working capital		
Trade and other receivables	\$ (11)	\$ (23)
Prepays	(139)	(132)
Trade and other payables	(39)	37
	\$ (189)	\$ (118)

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

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, 2025 to June 30, 2025, cash and cash equivalents and non-cash working capital increased by \$376,000 to \$880,000. During the six month period ended June 30, 2025, there have been no changes to the risks and related management thereof as disclosed in the annual financial statements.

In addition to the minimum regulatory expenditure requirements, the following are the commitments of the Company as at June 30, 2025:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 682	\$ 682	\$ -	\$ -	\$ -
Lease on mineral property	3,700	367	735	735	1,863
Project contracts	7	7	-	-	-
	\$ 4,389	\$ 1,056	\$ 735	\$ 735	\$ 1,863

10. Contingent liabilities

During the six month period ended June 30, 2025, there have been no changes in contingent liabilities as disclosed in the annual financial statements.

11. Restatement

The Company has restated the comparative figures presented for the three and six month periods ended June 30, 2024 due to a calculation error when determining the required adjustment to the decommissioning liability. There is no impact on the previously reported total cash flows used in operating activities or the loss per share, basic and diluted for the period ended June 30, 2024.

The Company does not expect any adverse affect on the Company's day to day operations as a result of the June 30, 2024 restatement.

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

11. Restatement (continued)

The decommissioning liability reports the discounted amount of estimated costs required to settle the Company's obligations to dismantle, decommission and to complete activities to remediate site disturbance which are expected to be incurred in 2038 (note 6). Provisions are made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligations at the reporting date. Subsequent to the initial measurement, the provisions 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 changes in the estimated future cash flows are either capitalized or recognized immediately in other income.

The following tables summarize the line items impacted by the error on the financial statements:

	Three months ended June 30, 2024		
	Previously reported	Adjustment	Restated
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS			
Other income	(35)	8	(27)
Finance expense	11	2	13
Loss and comprehensive loss	(500)	(10)	(510)

KARNALYTE RESOURCES INC.

Notes to Condensed Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2025 and 2024

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

11. Restatement (continued)

	Six months ended June 30, 2024		
	Previously reported	Adjustment	Restated
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS			
Other income	(93)	43	(50)
Finance expense	21	4	25
Loss and comprehensive loss	(987)	(47)	(1,034)
STATEMENTS OF CASH FLOWS			
Cash Flows (used in) from Operating Activities			
Net loss for the period	\$ (987)	\$ (47)	\$ (1,034)
Other income	(71)	43	(28)
Net finance income	(25)	4	(21)
STATEMENTS OF CHANGES IN EQUITY			
Deficit			
Balance, beginning of period	\$ (139,221)	\$ (217)	\$ (139,438)
Net loss for the period	(987)	(47)	(1,034)
Balance, end of period	(140,208)	(264)	(140,472)