Condensed Interim Unaudited Financial Statements of

KARNALYTE RESOURCES INC.

Nine months ended September 30, 2019 and 2018

KARNALYTE RESOURCES INC.

Interim Statements of Financial Position (unaudited)

(CAD $ thousands)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	$ 8,190	$ 10,504
Trade and other receivables	59	104
Prepaid expenses	441	528
	8,690	11,136
Restricted cash	375	375
Capital assets (note 3)	408	366
Exploration and evaluation and other assets (note 4)	5,044	5,044
ASSETS	$ 14,517	$ 16,921
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 935	$ 901
	935	901
Lease obligation	76	-
Decommissioning liability	1,881	1,707
Total liabilities	2,892	2,608
Shareholders' equity:		
Share capital (note 5)	132,149	132,149
Contributed surplus	9,614	9,522
Deficit	(130,138)	(127,358)
Total shareholders' equity	11,625	14,313
LIABILITIES AND SHAREHOLDERS' EQUITY	$ 14,517	$ 16,921

Commitments (note 7), Contingent liability (note 10)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

"signed"	"signed"
Vishvesh Nanavaty, Director	D.C. Anjaria, Director

KARNALYTE RESOURCES INC.

Interim Statements of Comprehensive Loss (unaudited)

For the three and nine months ended September 30, 2019 and 2018
(CAD $ thousands)

	Three months ended		Nine months ended	
	2019	2018	2019	2018
Expenses:				
General and administrative	$ 657	$ 1,172	$ 2,053	$ 2,850
Depreciation and amortization (note 3)	17	16	38	49
Stock-based compensation expense (note 5)	17	103	92	212
Restructuring expenses	233	-	233	10
Impairment expenses (notes 3 and 4)	22	92	510	290
Other income and expenses	(8)	(11)	(26)	(48)
	938	1,372	2,900	3,363
Finance income	(39)	(33)	(145)	(86)
Finance expense	8	-	25	23
Net finance income	(31)	(33)	(120)	(63)
Net and comprehensive loss	$ (907)	$ (1,339)	$ (2,780)	$ (3,300)
Loss per share (note 5(b)) Basic and diluted	$ (0.02)	$ (0.05)	$ (0.07)	$ (0.12)

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Interim Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2019 and 2018
(CAD $ thousands)

	2019	2018
Cash Flows from (used in) Operating Activities:		
Net and comprehensive loss for the period	$ (2,780)	$ (3,300)
Add/(deduct):		
Depreciation and amortization (note 3)	38	49
Stock-based compensation expense (note 5(c))	92	212
Impairment expense (notes 3 and 4)	510	290
Net finance income	(120)	(63)
Interest income received	141	101
Changes in non-cash working capital (note 6)	171	175
	(1,948)	(2,536)
Cash Flows from (used in) Investing Activities:		
Additions to intangible assets (note 4)	(360)	(290)
Additions to capital assets (note 3)	(80)	-
Changes in non-cash working capital (note 6)	-	(1)
	(440)	(291)
Cash Flows from (used in) Financing Activities:		
Additions to lease obligation	80	-
Repayment of lease obligation	(4)	-
	76	-
Effect of foreign exchange on cash	(2)	(1)
Change in cash	(2,314)	(2,828)
Cash, beginning of period	10,504	12,265
Cash and cash equivalents, end of period	$ 8,190	$ 9,437

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Interim Statements of Changes in Equity (unaudited)

For the nine months ended September 30, 2019 and 2018
(CAD $ thousands)

	2019		2018	
	Number	Amount	Number	Amount
Share Capital:				
Balance, beginning of period	42,174	$ 132,149	28,116	$ 129,879
Balance, end of period	42,174	132,149	28,116	129,879
Contributed Surplus:				
Balance, beginning of period		9,522		9,217
Stock-based compensation expense (note 5(c))		92		212
Balance, end of period		9,614		9,429
Deficit:				
Balance, beginning of period		(127,358)		(121,340)
Loss for the period		(2,780)		(3,300)
Balance, end of period		(130,138)		(124,640)
Balance, end of period		$ 11,625		$ 14,668

See accompanying notes to the financial statements.

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 recoverability of amounts recorded as mineral properties and deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop the property and upon future profitable production and the sale thereof.

As of the date of these financial statements, the Company was 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. While the Company has sufficient cash to meet its short-term corporate operating and capital requirements, it does not currently have adequate funds to proceed with full-scale development of the solution mining facility.

The Company’s operating segments have been identified as the individual mineral reserve streams. As at the date of these financial statements, the Company identified two operating segments, potash and magnesium; however as investment in the magnesium segment is negligible they are grouped as one reporting segment for financial reporting purposes.

The Company’s address is 3150B Faithfull Ave. Saskatoon, SK S7K 8H3.

2. 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, 2018. 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 audited financial statements and related notes.

Effective January 1, 2019, the Company applied IFRS 16, Leases (IFRS 16) and IFRIC 23, Uncertainty over Income Tax Treatments (IFRIC 23). Changes to significant accounting policies are described in note 2(b).

These financial statements were authorized for issue by the Board of Directors on November 5, 2019.

2. Basis of preparation (continued)

(b) Changes in accounting policy

On January 1, 2019, the Company adopted the new standards, IFRS 16 and IFRIC 23, as issued by the IASB.

(i) IFRS 16 – Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease ability representing its obligation to make lease payments subject to recognition exemptions for leases to explore for and use minerals resources and certain short-term and low-value leases. IFRS 16 has replaced IAS 17, Leases.

Adoption of IFRS 16 resulted in a change to the Company's accounting policies as previously disclosed in the 2018 annual financial statements. The Company now recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured by increasing the lease liability by the interest cost on the lease liability and decreasing it by the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of where a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to not be exercised.

The Company uses judgement in determining the lease term for some lease contracts that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognized.

The Company does not recognize right-of-use assets and lease liabilities for leases of low value and short-term leases that have a lease term of less than 12 months. The lease payments related to these leases are recognized as an expense on a straight-line basis over the term of the lease.

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

2. Basis of preparation (continued)

(b) Changes in accounting policy

(ii) IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The implementation of this standard had no impact on the Company's financial statements.

3. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Right of Use Asset	Total
Cost:						
Balance at January 1, 2018	$ 497	$ 117	$ 3,657	$ 18,711	$ -	$ 22,982
Additions	-	-	-	-	-	-
Additions to decommissioning liability	-	-	-	1,175	-	1,175
Disposals	-	-	-	-	-	-
Balance at December 31, 2018	497	117	3,657	19,886	-	24,157
Additions	-	-	-	-	80	80
Additions to decommissioning liability	-	-	-	103	-	103
Disposals	-	-	-	-	-	-
Balance at September 30, 2019	$497	$ 117	$ 3,657	$ 19,989	$ 80	$ 24,340
Accumulated depreciation:						
Balance at January 1, 2018	$ 182	$ 99	$ 3,564	$ 18,711	$ -	$ 22,556
Depreciation	13	15	32	-	-	60
Impairment	-	-	-	1,175	-	1,175
Balance at December 31, 2018	195	114	3,596	19,886	-	23,791
Depreciation	10	3	16	-	9	38
Impairment	-	-	-	103	-	103
Balance at September 30, 2019	$ 205	$ 117	$ 3,612	$ 19,989	$ 9	$ 23,932
Carrying amounts:						
December 31, 2018	$ 302	$ 3	$ 61	$ -	$ -	$ 366
September 30, 2019	$ 292	$ -	$ 45	$ -	$ 71	$ 408

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

4. Exploration and evaluation assets and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2018	$ 48,862	$ 170	$ 277	$ 49,309
Additions	535	15	-	550
Additions to decommissioning liability	354	-	-	354
Sale of assets	-	-	-	-
Balance at December 31, 2018	49,751	185	277	50,213
Additions	344	16	-	360
Additions to decommissioning liability	47	-	-	47
Balance at September 30, 2019	$ 50,142	$ 201	$ 277	$ 50,620
Amortization and impairment losses:				
Balance at January 1, 2018	$ 43,818	$ 170	$ 277	$ 44,265
Impairment	889	15	-	904
Balance at December 31, 2018	44,707	185	277	45,169
Impairment	391	16	-	407
Balance at September 30, 2019	$ 45,098	$ 201	$ 277	$ 45,576
Carrying amounts:				
December 31, 2018	$ 5,044	$ -	$ -	$ 5,044
September 30, 2019	$ 5,044	$ -	$ -	$ 5,044

5. Share capital

(a) Authorized

As at September 30, 2019 and 2018 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 nine months ended September 30, 2019.

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued throughout the nine months ended September 30, 2019.

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

5. Share capital (continued)

(b) Earnings per share

Basic earnings per share were calculated as follows:

	Three months ended		Nine months ended	
	2019	2018	2019	2018
Loss for the period ending Sept 30,	$ (907)	$ (1,339)	$ (2,780)	$ (3,300)
Weighted average number of common shares:				
Issued common shares at beginning of period	35,473	28,116	28,501	28,116
Common shares issued	3,543	-	10,515	-
Weighted average number of common shares	39,016	28,116	39,016	28,116
Basic loss per share	$ (0.02)	$ (0.05)	$ (0.07)	$ (0.12)

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 1,250,000 (2018 – 1,950,000) options as their effect would have been anti-dilutive.

(c) Stock-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.

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

5. Share capital (continued)

(c) Stock-based compensation expense (continued)

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

	2019			2018		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding at January 1,	1,950	$	0.65	1,045	$	0.98
Issued during the period	-		-	1,150		0.57
Expired during the period	(375)		0.61	(225)		1.81
Forfeited during the period	(325)		0.66	(20)		0.88
Exercised during the period	-		-	-		-
Outstanding at September 30,	1,250		0.65	1,950		0.65
Exercisable at September 30,	818	$	0.68	453	$	0.75

Number of Options Outstanding		Exercise Price	Remaining Life (yrs)	Exercisable Options		Exercisable Price
210,000	$	0.75	0.79	210,000	$	0.75
60,000		0.75	3.20	60,000		0.75
230,000		0.75	5.21	173,000		0.75
200,000		0.75	5.21	100,000		0.75
50,000		0.75	5.69	25,000		0.75
500,000		0.51	3.69	250,000		0.51
1,250,000	$	0.68	3.89	818,000	$	0.68

Stock-based compensation of $17,000 (2018 - $103,000) was expensed during the three month period ended September 30, 2019. Stock-based compensation of $92,000 (2018 - $212,000) was expensed during the nine month period ended September 30, 2019.

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

6. Supplemental cash flow information

Changes in non-cash working capital are as follows:

September 30,		2019		2018
Accounts receivable	$	49	$	15
Prepaid expenses		87		(188)
Trade and other payables		35		347
	$	171	$	174
Relating to:				
Operating activities	$	171	$	175
Investing activities		-		(1)
	$	171	$	174

7. Commitments

		Contractual cash flows		Less than one year		Two - three years		Four - five years		More than five years
Trade and other payables	$	935	$	935	$	-	$	-	$	-
Office lease		227		118		109		-		-
Permit/lease on mineral property		5,934		119		738		738		4,339
Project contracts		90		90		-		-		-
	$	7,186	$	1,262	$	847	$	738	$	4,339

8. Related party disclosures

The Company entered into a consulting agreement with Gujarat State Fertilizers and Chemicals Limited, a related party, to assist with evaluation and development of the Proteous Nitrogen Project and to further its engineering activities respecting the Wynyard Potash Project with a view to optimizing the projects costs and revalidating certain technical aspects of the project. During the quarter, the Company incurred $66,000 in expenses under this agreement. There are no firm commitments of spending under the agreement. Gujarat State Fertilizers and Chemicals Limited is a 38.7% shareholder of the Company.

9. Financial instruments and related risk management

Financial instruments included in the statements of financial position consist of cash, trade and other receivables, restricted cash, and trades and other payables. As required by IFRS 9, trade and other receivable has been reclassified as measured at amortized cost. Accordingly, all financial instruments included in the statements of financial position are classified as measured at amortized cost. The fair values of these financial instruments approximate their carrying amounts due to the short term maturity of the instruments. There have been no changes to the risks and related management thereof as disclosed in the annual financial statements during the interim period ended September 30, 2019.

10. Contingent liability

Following its annual general meeting on May 5, 2017, the Company reviewed its strategy and restructured its operations. The restructuring resulted in terminations and resignations of certain officers and employees.

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 his 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.