



KARNALYTE RESOURCES INC. ANNOUNCES SECOND QUARTER 2016 RESULTS AND PROVIDES OPERATIONS UPDATE

Not for distribution to U.S. news wire services or dissemination in the United States.

SASKATOON, SK (CNW–AUGUST 11, 2016) - Karnalyte Resources Inc. ("**Karnalyte**" or the "**Company**") (TSX: KRN) today filed unaudited interim financial statements and Management's Discussion and Analysis ("**MD&A**") for the six months ended June 30, 2016 (the "**Second Quarter**"). The financial results of the Second Quarter are as follows:

- A decrease in general and administrative expenses of \$1,530,000 from the comparative 2015 amount;
- A decrease in cash since year-end of \$5,976,000 as at June 30, 2016; and
- An increase in trade and other payables liabilities of \$45,000 since year end to June 30, 2016.

As at June 30, 2016, the Company had net working capital of \$20.5 million compared to \$30.2 million at June 30, 2015, including \$21.8 million and \$32.0 million, respectively, in cash. Karnalyte's Second Quarter 2016 Financial Statements and MD&A are available at www.sedar.com.

"These financial results reflect the Company's focus on the financing over the past quarter; we have continued to maintain Karnalyte's strong balance sheet while positioning the company for future growth," said Karnalyte's President Robin Phinney.

OPERATIONS UPDATE

The Company has successfully completed the first stage of the previously announced optimization program (the "**Optimization Program**"). The major aim of the Optimization Program is to test whether it is possible to achieve a higher potash concentration than predicted by previous laboratory testing and computer modelling. The Company anticipates that any increase in potash concentration could significantly reduce operating costs and enhance project economics.

The Optimization Program is being conducted in two phases: (1) the cavern development stage, and (2) the brine production stage. The first stage, which is now complete, consisted of a cold leaching process lasting approximately three months to develop a production cavern from which the potash brine solution will be mined. The Company is pleased to report that the production cavern base has developed as anticipated. "We are encouraged by the results from the first stage of the Optimization Program," said Mr. Phinney. "It has the potential to significantly improve the already strong metrics of our project."

The Company is currently preparing for the commencement of the second stage of the Optimization Program, which consists of a hot leaching phase to produce a concentrated potash brine solution. This is accomplished by injecting heated source water into the production cavern, recovering the concentrated brine solution and analyzing the potash concentration levels. The heating equipment, piping, and natural gas supply have now been installed for the second stage of the Optimization Program. The Company anticipates that the second stage will commence in the middle of August, 2016, and run until the end of October, 2016.

COMMERCIAL STRATEGY

Upon completion of the Optimization Program Karnalyte will have achieved all of the key technical milestones for the Company's planned potash mine at Wynyard, Saskatchewan (the "**Project**"). The



Company has already secured sales for approximately 56% of its potash production from the first phase of its 625,000 tons per year ("**tpy**") potash production facility ("**Phase 1**") through the off-take agreement with GSFC, and will now focus on securing sales for the remaining 44% of its potash production from Phase 1.

The unique composition of the Wynyard carnallite deposit allows the Company to produce high-purity potash products with low sodium content. Karnalyte has undertaken a sales strategy driven by its unique resource which is designed to target the increasing market demand for high-purity white soluble potash products. In addition to Karnalyte's 97% purity granular potash product, KCI97TM, the Company intends to produce a superior grade (99% purity / K₂O 62%+) KCI99TM in three formats: compacted, granular, and feedstock crystal to primarily serve the North American fertilizer market.

"Karnalyte believes that by following a strategy of providing agricultural producers with a superior grade product – at or near the same price point as the industry's granular products – we will ensure the Company can secure sales for the remaining 44% of our potash production from Phase 1," said Mr. Phinney.

Karnalyte expects that by securing sales for the remainder of the production from Phase 1 it will further de-risk financing for Phase 1 and position itself to ensure the long term sustainability of the Project.

In addition, the Company is exploring multiple options for the sale of its potash products including entering into a strategic partnership with an existing potash producer in Saskatchewan.

ABOUT KARNALYTE RESOURCES INC.

Karnalyte is engaged in the business of exploration and development of high quality potash and magnesium products. Karnalyte intends to develop and extract a carnallite-sylvite mineral deposit through a known solution mining process at competitive costs and with minimal environmental impact. Using a staged approach to construction, the Company plans to operate a solution mining facility that will initially produce 625,000 tpy, increasing to 2.125 million tpy of potash.

Karnalyte's Common Shares are traded on the TSX under the symbol KRN.

FORWARD-LOOKING STATEMENTS

Certain information included in this press release is forward-looking, within the meaning of applicable Canadian securities laws. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "plan", "intend", "forecast", "future", "guidance", "may", "predict", "project", "should", "strategy", "target", "will" or similar words or phrases suggesting future outcomes or language suggesting an outlook.

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Karnalyte, including, without limitation, assumptions as to: the ability of Karnalyte to obtain financing of its Wynyard mine project on terms favourable to it; and the ability of Karnalyte to receive, in a timely manner, the necessary approvals from the board of directors, shareholders, regulatory authorities, and other third parties.

Karnalyte believes the expectations and assumptions upon which the forward-looking information is based are reasonable. However, no assurance can be given that these assumptions and expectations will prove to be correct. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this press release.



Actual results may vary from the forward-looking information presented in this press release, and such variations could be material. Risks factors and uncertainties could cause actual results to vary from the forward-looking information in this press release. Additional information on forward-looking statements and other factors that could affect Karnalyte's operations and financial results are included in documents on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

These forward-looking statements are made as of the date hereof and are expressly qualified in their entirety by this cautionary statement. Subject to applicable securities laws, the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

For further information, please contact:

Karnalyte Resources Inc.
1(306) 986-1486
info@karnalyte.com
www.karnalyte.com