



KARNALYTE RESOURCES INC. PROVIDES UPDATES ON OPTIMIZATION PROGRAM AND CORPORATE DEVELOPMENTS

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SASKATOON, SK (CNW– October 3, 2016) – Karnalyte Resources Inc. (“Karnalyte” or the “Company”) (TSX: KRN) is pleased to announce the successful operation of the second stage of the optimization program at the Company's potash mine at Wynyard, Saskatchewan (the “Optimization Program”). “I have exciting news for Karnalyte shareholders,” said the Company’s President, Robin Phinney. “The preliminary results from the Optimization Program have confirmed that we can successfully extract KCl and MgCl₂ from our prolific carnallite resource to produce high purity potash and magnesium products.”

Optimization Program

The Company’s economic projections for the first phase of the planned 625,000 tonnes per year (tpy) potash mine at Wynyard (“Phase 1”) were based on laboratory dissolution tests and computer modelling. Given the challenging environment for potash, Karnalyte sought to improve the economics for Phase 1 based on internal calculations which indicate that any increase in potash concentration could significantly reduce projected operating costs.

Karnalyte has retained industry-leading experts in potash solution mining, Ercosplan Ingenieurgesellschaft Geotechnik und Bergbau mBH from Erfurt, Germany (“Ercosplan”) to design, monitor and independently verify the results of the Optimization Program. Ercosplan was previously engaged by Karnalyte to develop the Company’s Technical Report in 2012 (updated in July of 2016), and will prepare a third party report on the measured results from the Optimization Program.

In September of 2016 the Company began the second stage of the Optimization Program which consists of a continuous hot leaching process through a single well. Source water was injected into the production cavern at temperatures up to 85°C and has produced up to 20 m³ per hour of richly saturated potash and magnesium brine. “These test results indicate that Karnalyte can continuously extract potash brine at commercial scale production rates” commented Mr. Phinney.

The Company plans to run the Optimization Program until the end of October, 2016 with a final report expected to be issued in late December, 2016. Mr. Phinney commented “I would like to thank the dedicated technical teams at Ercosplan and Karnalyte who have designed and are conducting this test. We look forward to results that will optimize the plant design and improve operating costs for Phase 1.”

Testing to evaluate other parameters that may improve KCl concentration is ongoing, but preliminary results from the Optimization Program indicate that further potash concentration may be achieved from a commercial scale dual-well production cavern. Pending the results of the Optimization Program, Karnalyte may consider testing a dual-well production cavern which would become the first cavern to feed the Phase 1 production plant. The Company anticipates that upon completion of these tests it will have achieved all engineering milestones necessary to technically de-risk Phase 1 and secure financing on favorable terms.



For Karnalyte's corporate video on the Optimization Program please visit the Company's website at <http://www.karnalyte.com/investors/presentation/> .

Framework Agreement

The Company also announces the termination of the Framework Agreement (the "Framework Agreement") with Gujarat State Fertilizers and Chemicals Limited ("GSFC") (the "Termination"). The Framework Agreement was entered into in order to facilitate the completion of the transactions as contemplated by the agreement in principle announced March 14, 2016 with GSFC (the "Agreement in Principle"). The Framework Agreement contains, among other things, an agreement with respect to the composition of the board of directors of Karnalyte, voting support and solicitation. As the transactions contemplated by the Agreement in Principle have not been consummated, the Framework Agreement has terminated automatically effective September 30, 2016.

Director Resignation

As a result of the Framework Agreement Termination, GSFC was required to cause one of its nominee directors to resign. Mr. Mukund Purohit has resigned as a director of Karnalyte effective September 30, 2016. Karnalyte thanks Mr. Purohit for his years of service to the Company and wishes him success in his future endeavours.

Share Issuance

On January 10, 2013, Karnalyte announced that GSFC would subscribe for 19.98% of the Company's issued and outstanding common shares (after giving effect to the transaction) at a price of \$8.15 per common share (the "Issue Price") in a non-brokered private placement (the "Private Placement") for total gross proceeds of approximately \$45 million. Based on the Company's then issued and outstanding common share capital, Karnalyte issued approximately 5,490,000 common shares to GSFC upon closing of the Private Placement.

The Issue Price was based on a 20% premium to the volume weighted average price of Karnalyte's common shares traded on the Toronto Stock Exchange ("TSX") for the 20 trading days ended December 20, 2012. Pursuant to the terms of the subscription agreement for the Private Placement (the "Subscription Agreement"), the Issue Price was subject to an adjustment if commercial production had not commenced on or before October 1, 2016 which may be satisfied by the issuance of an additional 555,555 common shares by Karnalyte to GSFC at that time (the "Adjustment Shares").

At Karnalyte's annual and special meeting of shareholders held on May 12, 2014 (the "Meeting") the Company's shareholders were asked to pass an ordinary resolution approving the issuance of the Adjustment Shares to GSFC as set forth in the information circular of the Company dated April 7, 2014 (the "Resolution"). The Resolution was approved at the Meeting with 99.32% of shareholders' votes cast in favour of the issuance of the Adjustment Shares.

As Karnalyte has not commenced commercial production on or before October 1, 2016, the Company has issued the Adjustment Shares to GSFC for no additional consideration in accordance with the terms of the Subscription Agreement, resulting in a subscription price adjustment to \$7.40 per common share.



For further information with respect to Karnalyte's continuing obligations under the Subscription Agreement and Framework Agreement please refer to the Company's SEDAR profile available at www.sedar.com.

ABOUT KARNALYTE RESOURCES INC.

Karnalyte is engaged in the business of exploration and development of high purity 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 outcome of the Optimization Program, projected economics for the Company's planned potash production facility, the ability of Karnalyte to obtain financing on terms favourable to the Company, and the ability of Karnalyte to receive, in a timely manner, the necessary approvals from the Company's 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. Risk 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 Company's profile on 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.

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