



KARNALYTE RESOURCES INC. ANNOUNCES 2018 SECOND QUARTER RESULTS

AND

PROVIDES UPDATE ON POTASH AND NITROGEN PROJECTS

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SASKATOON, SK (CNW- August 9, 2018) – Karnalyte Resources Inc. (“Karnalyte” or the “Company”) (TSX: KRN) today announced its financial results and operational and corporate highlights for the second quarter ended June 30, 2018, and provided an update on the status of its Wynyard Potash Project and Proteos Nitrogen Project.

Overview

Karnalyte has made significant progress in investigating the economic and technical viability of the Proteos Nitrogen Project during the second quarter of 2018. In addition to issuing an invitation for expressions of interest for the technical and economic aspects of the project, and initiating an independent market analysis, Karnalyte has undertaken due diligence on a number of potential project sites.

Mr. Frank Wheatley, President of Karnalyte, commented that: “The technical assistance provided by Karnalyte’s strategic partner Gujarat State Fertilizers & Chemicals Limited (GSFC) from their five (5) decades experience in nitrogen fertilizer production has allowed Karnalyte to streamline some of the early phases of development, and we are grateful for their technical and commercial assistance as we continue to explore the Proteos Nitrogen Project.”

With respect to the Wynyard Potash Project, while there have been some encouraging signs regarding the potash price environment, prices have not yet recovered to the point where the Wynyard Potash Project is economically viable and financeable. During the second half of 2018, Karnalyte and GSFC intend to revisit the timing and sequence of the steps required to re-activate development of the project.

Proteos Nitrogen Project

Pre-Feasibility Study

Karnalyte has initiated several component parts of the pre-feasibility study on the Proteos Nitrogen Project, designed to explore the technical and economic viability of the proposed project, including an invitation for expressions of interest on the technical and economic aspects of the project, an independent market analysis, and due diligence on a number of potential project sites.

Expression of Interest

As previously reported on July 30, 2018, Karnalyte has issued, through its strategic partner GSFC, an invitation for expressions of interest (“EOI”) from a select group of international technology providers and engineering, procurement and construction contractors, for developing the Proteos Nitrogen Project on a lump sum turn-key basis.

The scope of work covered by the EOI includes all phases of development, from basic engineering, through detailed engineering, procurement, construction, commissioning and satisfaction of all relevant performance and completion tests, including all ancillary facilities and infrastructure, together with an estimate of total capital costs for the project. Karnalyte / GSFC have requested that all EOIs be provided on or before the end of August, 2018. After receipt, Karnalyte / GSFC will review the EOIs with a view to developing a short list of technology providers / contractors to receive a formal request for proposal, for EPC arrangements, for development of the Proteos Nitrogen Project.

Independent Market Analysis

Karnalyte has retained Integer Research Ltd. (“Integer Research”) to undertake a first phase independent market study of the nitrogen fertilizer industry in North America, with particular focus on Central Canada. The purpose of the study is to validate Karnalyte’s internal market analysis, and Karnalyte anticipates receiving the first phase report in September 2018. Subject to a positive outcome for the Project in the first phase study, Karnalyte intends to retain Integer Research to undertake a second phase study in order to support discussions regarding project financing for the Proteos Nitrogen Project.

About Integer Research

Integer Research is an internationally recognized independent consultant to the fertilizers and chemicals industry that provides market studies, including supply/demand, trade and cost analysis and price forecasts. With respect to nitrogen, they offer capabilities across the nitrogen value chain, including analysis of ammonia, urea, UAN, and other nitrogen products. They produce market documentation for lenders and banks in support of project financing for greenfield and brownfield fertilizer projects. Through their offices in London, Beijing, and Tokyo, Integer Research offers consultancy series and industry intelligence to fertilizer and chemicals markets worldwide.

Feedback from Potential Customers

As part of Karnalyte’s internal market analysis, it has spoken with a number of potential customers based in Saskatchewan for the two nitrogen fertilizer products it is considering producing, anhydrous ammonia and urea. Those discussions confirm Karnalyte’s market thesis that there is, as with most industrial materials, both a desire and a demand for an independent, alternate source of supply of nitrogen fertilizer in central Saskatchewan.

Project Site

Karnalyte is currently undertaking due diligence on a number of potential project sites located in Central Saskatchewan that match Karnalyte’s project site selection criteria, which include adequate space for the initial development, as well as for potential future expansion, together with proximity to all requisite infrastructure, including natural gas, power, water, rail and highway.

Milestones: Indicative project development milestones include:

- | | |
|--------------------------------------------------|------------------|
| • Receipt of EOIs | August 2018 |
| • Receipt of Phase 1 independent market analysis | September 2018 |
| • Project Site – selection of preferred site | Second Half 2018 |

- Completion of Pre-Feasibility Study:

Second Half 2018

As initial milestones are achieved, management will be in a better position to prepare a more detailed project development schedule and budget. All initial development activities for the first phase of investigation of this opportunity will be funded from working capital.

Wynyard Potash Project

While there have been some encouraging signs regarding the potash price environment, potash prices have not yet recovered to the point where the Wynyard Potash Project is economically viable and financeable. However, given the lead times necessary to prepare a major mining project for construction, and in order to ensure that it is developed in a timely fashion to take advantage of any future increase in potash prices, during the second half of 2018, Karnalyte and GSFC intend to revisit the timing and sequence of the steps required to re-activate development of the project.

Outlook for 2018

During the second half of 2018, the Company will continue to ensure that it is in a position to re-activate the development of the Wynyard Potash Project, if the improving potash price environment results in the Wynyard Potash Project becoming economically viable and financeable. In addition, the Company will continue to explore the technical and economic viability of developing the Proteos Nitrogen Project, with a view towards making an investment decision during the first half of 2019.

2018 Second Quarter Results

At June 30, 2018, the Company had cash of \$10.2 million, a positive working capital of \$10.3 million and no debt. The Company has adequate cash to fund any existing commitments in 2018 and through the second quarter of 2019. Furthermore, the Company has sufficient cash to meet short term operating and capital requirements. Karnalyte's Second Quarter 2018 Financial Statements and Managements' Discussion and Analysis are available at www.sedar.com.

The information has been summarized from the Company's Condensed Interim Unaudited Financial Statements.

Selected Quarterly Results		
	2018 June 30	2017 June 30
Total revenue	\$ -	\$ -
Comprehensive (loss)	(1,215)	(1,581)
Basic and diluted loss per share	(0.04)	(0.06)
Total current assets	10,880	9,685
Total assets	16,692	20,557
Total liabilities	788	1,003
Total shareholders' equity	15,904	19,554

*Expressed in thousands except loss per share

New Mailing List

In order to receive the latest updates, we encourage all shareholders to subscribe to our mailing list. Due to some technical issues with the old list, the Company has established a new mailing list. In order to sign up to the new list, please use the following link: <http://karnalyte.com/mailling-list-signup/>

About Karnalyte Resources Inc.

Karnalyte Resources Inc. is an advanced development stage company focused on two fertilizer products, potash and nitrogen, to be produced and manufactured in Saskatchewan. Karnalyte owns the construction ready Wynyard Potash Project, with planned phase 1 production of 625,000 tonnes per year (tpy) of high grade granular potash, and two subsequent phases of 750,000 tpy each, taking total production up to 2.125 million tonnes per year (Mtpy). Karnalyte is also exploring the development of the Proteos Nitrogen Project, which is a proposed small-scale nitrogen fertilizer plant with a nameplate production capacity of approximately 700 metric tonnes per day (mtpd) of ammonia and approximately 1,200 mtpd of urea, and a target customer market of independent fertilizer wholesalers in Central Saskatchewan.

About the Wynyard Potash Project

The Wynyard Potash Project is a construction ready solution mining potash project located in Wynyard, Saskatchewan, with planned phase 1 production of 625,000 tpy of high grade granular potash, and two subsequent phases of 750,000 tpy each, taking total production up to 2.125 Mtpy. All environmental permits remain valid, preliminary detailed engineering is complete, and the existing offtake agreement with Gujarat State Fertilizers & Chemicals Limited remains in effect. Further development is dependent on improved potash prices.

About the Proteos Nitrogen Project

The Proteos Nitrogen Project is an advanced stage development project consisting of a proposed small-scale nitrogen fertilizer plant to be located in Central Saskatchewan, having a nameplate production capacity of approximately 700 mtpd of ammonia and approximately 1,200 mtpd of urea, and designed to produce two products – anhydrous ammonia (82-0-0) and granular urea (46-0-0). Karnalyte's primary target market is independent local Saskatchewan fertilizer wholesalers within a 400-kilometer radius of Saskatoon, Saskatchewan. A secondary target market is the US Midwest fertilizer wholesalers near to the Canadian – United States border. The proposed plant would be the first greenfield nitrogen fertilizer plant built in Canada in the last 26 years.

About Gujarat State Fertilizers & Chemicals Limited

Gujarat State Fertilizers & Chemicals Limited ("GSFC") is a leading Indian Fortune 500 chemicals and fertilizer company that has been in business for more than 50 years. GSFC currently operates one ammonia plant of 445,000 Mtpy nameplate capacity, which was commissioned in the year 2000 based on Linde's technology (after the two old ammonia plants established in 1969 were retired due to higher energy consumption), and two urea plants, with a total of 370,590 Mtpy nameplate capacity which were established in 1969, at its fertilizer production complex in Vadodara, Gujarat State, India. GSFC's urea plants have consistently operated at optimum capacity over the past five decades.

As the Company's strategic partner and single largest shareholder, GSFC remains committed to the Company and the Wynyard Potash Project, and is fully supportive of the Company pursuing the development of the Proteos Nitrogen Project. GSFC has also confirmed to the Company that it will continue



to support the structuring of the most cost-effective financing package for the development of the Wynyard Potash Project, as GSFC has consistently offered to the Company since becoming a shareholder in 2013.

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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: projected economics for the Company’s planned potash production facility, the confirmation in an independent feasibility study of Karnalyte’s assumptions regarding the technical and economic viability of the Proteos Nitrogen Project, 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. Without limiting the generality of the foregoing, readers are cautioned that the Company has not received a feasibility study prepared by a third party with respect to the Proteos Nitrogen Project.

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 Company assumes no obligation to update or revise them to reflect new events or circumstances.