



KARNALYTE RESOURCES INC. ANNOUNCES CESSATION OF NEGOTIATIONS IN RESPECT OF FINANCING FOR PHASE I POTASH MINE AND ANNOUNCES ITS ANNUAL MEETING OF SHAREHOLDERS

CALGARY, AB (August 2, 2016) – Karnalyte Resources Inc. (“Karnalyte” or the “Company”) (TSX; KRN) announces the cessation of negotiations with Gujarat State Fertilizers and Chemicals Limited (“GSFC”) in respect of the proposed USD 700 million financing for Phase I of the Company’s potash mine at Wynyard, Saskatchewan (the “Transaction”), as disclosed in the news release of the Company dated March 14, 2016. GSFC has ceased negotiations in respect of the Transaction as Karnalyte and GSFC have been unable to reach an agreement on certain fundamental terms of the Transaction, including with respect to governance matters and the terms upon which Karnalyte’s secondary minerals, including magnesium, will be developed in a separate entity to allow current Karnalyte shareholders to benefit from these currently untapped assets.

While the parties have not formally terminated the framework agreement dated February 24, 2016 by and among Karnalyte, GSFC and Robin Phinney (the “Framework Agreement”), which requires that three of the six directors of Karnalyte be nominees of GSFC, the Framework Agreement will terminate on September 30, 2016 in accordance with its terms. The Framework Agreement had been entered into by the parties to such agreement in order to facilitate the Transaction. Further information concerning the Framework Agreement can be found in the news release of the Company dated March 14, 2016. The Framework Agreement is available on the Company’s SEDAR profile at www.sedar.com.

Karnalyte will hold an annual meeting of shareholders of the Company, which will take place on August 26, 2016 at 1:00 p.m. (Saskatoon time) at the Sheraton Cavalier, 612 Spadina Cres., Saskatoon, Saskatchewan. The record date for the meeting will be the close of business on August 2, 2016.

Pursuant to the Framework Agreement, the Company will put forward the following persons as nominees for election as directors: Robin Phinney, Henry Kerkhoven and Sokuen Sue Ng, as nominees of Mr. Phinney, and Vishvesh D. Nanavaty, Sanjeev V. Varma and Mukund Purohit as nominees of GSFC. Pursuant to the terms of the Framework Agreement, one of the GSFC nominees will be required to resign on September 30, 2016, when the Framework Agreement terminates in accordance with its terms.

Karnalyte also announces that Julius Brinkman, Vice President of Capital Markets, ceased to be engaged by Karnalyte effective July 29, 2016.

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. Karnalyte owns a 100% interest in Subsurface Permit KP 360A and Subsurface Mineral Lease KLSA-010 located near Wynyard, Saskatchewan, comprising a total of 85,126 acres. Karnalyte's Common Shares are traded on the TSX under the symbol KRN.

For further information, please contact:

Karnalyte Resources Inc.

1(306) 986-1486

info@karnalyte.com

www.karnalyte.com