

KARNALYTE RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

(CAD \$ thousands)	September 30, 2015	December 31, 2014
Current assets		
Cash	\$ 30,445	\$ 40,740
Trade and other receivables	60	125
Prepaid expenses	127	161
	30,632	41,026
Restricted cash	375	375
Capital assets (note 3)	1,123	1,634
Exploration and evaluation assets (note 4)	2,382	2,382
ASSETS	34,512	\$ 45,417

LIABILITIES

Current liabilities		
Trade and other payables	\$ 2,139	\$ 1,525
	2,139	1,525
Provisions	184	164
Total liabilities	2,323	1,689

SHAREHOLDERS' EQUITY

Share capital (note 5)	129,786	129,786
Contributed surplus	9,202	8,499
Deficit	(106,799)	(94,557)
Total shareholders' equity	32,189	43,728

LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 34,512	\$ 45,417
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Commitments (note 7)
See accompanying notes to the unaudited interim financial statements.

Approved on behalf of the Board:

"signed"
President

"signed"
Chairman of the Audit Committee

KARNALYTE RESOURCES INC.

STATEMENTS OF COMPREHENSIVE LOSS

For the three and nine months ended September 30,

(CAD \$ thousands, except per share amounts)		Three months ended		Nine months ended	
		2015	2014	2015	2014
Expenses					
General and administrative		\$ 1,345	\$ 1,234	\$ 7,329	\$ 3,637
Depreciation and amortization	(note 3)	191	202	575	611
Share-based compensation expense	(note 5(c))	735	156	703	340
Restructuring expenses	(note 9)	-	-	3,451	-
Impairment loss	(note 4)	370	-	370	-
Other income and expenses		-	52	(15)	7
		2,641	1,644	12,413	4,595
Finance income		(73)	(165)	(310)	(525)
Finance expense		35	1	139	11
Net finance income		(38)	(164)	(171)	(514)
Comprehensive loss		(2,603)	(1,480)	(12,242)	(4,081)
Loss per share (note 5(b))					
Basic and diluted		(0.09)	(0.05)	\$ (0.45)	(0.15)

See accompanying notes to the unaudited interim financial statements.

KARNALYTE RESOURCES INC.

STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30,
(Expressed in thousands)

(CAD \$ thousands)	2015		2014	
	Number	Amount	Number	Amount
Share Capital				
Balance at January 1,	27,478	\$129,786	27,477	129,774
Common shares issued	-	-	-	-
Vesting of employee share ownership plan	-	-	1	12
Share issue costs	-	-	-	-
Balance, end of period	27,478	129,786	27,478	129,786
Contributed Surplus				
Balance at January 1,		8,499		7,778
Stock-based compensation expense (note 5(c))		703		608
Vesting of employee share ownership plan				(10)
Balance, end of period		9,202		8,376
Deficit				
Balance at January 1,		(94,557)		(26,976)
Loss for the period		(12,242)		(4,081)
Balance, end of period		(106,799)		(31,057)
Total Shareholders' Equity				
Balance, end of period		\$ 32,189		\$107,105

See accompanying notes to the unaudited interim financial statements.

KARNALYTE RESOURCES INC.

STATEMENTS OF CASH FLOWS

For the nine months ended September 30,

(CAD thousands, unaudited)	2015	2014
Cash Flows from (used in) Operating Activities		
Net loss for the period	\$ (12,242)	\$ (4,081)
Add/deduct:		
Depreciation and amortization (note 3)	575	611
Impairment Expenses (note 4)	370	-
Stock-based compensation expense (note 9)	703	340
Net finance income	(171)	(514)
Interest income received	310	515
Changes in non-cash working capital (note 6)	713	455
	(9,742)	(2,674)
Cash Flows from (used in) Investing Activities		
Additions to intangible assets (note 4)	(370)	(219)
Proceeds on sale of intangible assets	-	1,244
Additions to capital assets (note 3)	(64)	(1,544)
Proceeds on sale of capital assets	-	25
Changes in non-cash working capital (note 6)	-	-
	(434)	(494)
Cash Flows from (used in) Financing Activities		
Deferred financing costs	-	(104)
Changes in non-cash working capital (note 6)	-	-
	-	(104)
Effect of foreign exchange on cash	(119)	(4)
Change in cash	(10,295)	(3,276)
Cash, beginning of period	40,740	46,161
Cash and cash equivalents, end of period	\$ 30,445	\$ 42,885

See accompanying notes to the unaudited interim financial statements.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

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 a proposed production facility and 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 at 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 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 Avenue, Saskatoon, SK S7K 8H3.

2. **Basis of preparation**

(a) Statement of compliance

These 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, 2014. These statements do not include all information or disclosures normally provided in annual statements. These interim statements should be read in conjunction with the audited annual financial statements and related notes.

These financial statements were authorized for issue by the Board of Directors on November 9, 2015.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

3. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Total
Cost:					
Balance at January 1, 2014	\$ 641	\$ 142	\$ 3,721	\$ 16,088	\$ 20,592
Additions	-	-	-	1,958	1,958
Dispositions	(144)	(42)	-	-	(186)
Balance at December 31, 2014	497	100	3,721	18,046	22,364
Additions	-	-	-	64	64
Dispositions	-	-	-	-	-
Balance at September 30, 2015	\$ 497	\$ 100	\$ 3,721	\$ 18,110	\$ 22,428
Accumulated depreciation:					
Balance at January 1, 2014	\$ 117	\$ 57	\$ 1,673	\$ -	\$ 1,847
Depreciation for the period	64	35	641	-	740
Dispositions	(64)	(17)	-	-	(81)
Impairment	26	-	152	18,046	18,224
Balance at December 31, 2014	143	75	2,466	18,046	20,730
Depreciation for the period	9	24	542	-	575
Dispositions	-	-	-	-	-
Balance at September 30, 2015	\$ 152	\$ 99	\$ 3,008	\$ 18,046	\$ 21,305
Carrying amounts:					
December 31, 2014	\$ 354	\$ 25	\$ 1,255	\$ -	\$ 1,634
September 30, 2015	\$ 345	\$ 1	\$ 713	\$ 64	\$ 1,123

During the three and nine months ended September 30, 2015 the Company capitalized employee remuneration of \$nil (2014 - \$277,000 and \$865,000, respectively) and stock-based compensation expense of \$nil and \$nil (2014 - \$76,000 and \$254,000, respectively) to capital assets.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

4. Exploration and evaluation assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2014	\$ 42,789	\$ 139	\$ 277	\$ 43,205
Additions	452	16	-	468
Sale of assets	(63)	-	-	(63)
Balance at December 31, 2014	43,178	155	277	43,610
Additions	370	-	-	370
Balance at September 30, 2015	\$ 43,548	\$ 155	\$ 277	\$ 43,980
Amortization and impairment losses:				
Balance at January 1, 2014	\$ -	\$ 23	\$ 231	\$ 254
Amortization for the year	-	3	46	49
Impairment	40,796	129	-	40,925
Balance at December 31, 2014	40,796	155	277	41,228
Amortization for the period	-	-	-	-
Impairment	370	-	-	370
Balance at September 30, 2015	\$ 41,166	\$ 155	\$ 277	\$ 41,598
Carrying amounts:				
December 31, 2014	\$ 2,382	\$ -	\$ -	\$ 2,382
September 30, 2015	\$ 2,382	\$ -	\$ -	\$ 2,382

During the three and nine months ended September 30, 2015 the Company capitalized employee remuneration of \$nil (\$26,000 and \$82,000) and stock-based compensation expense of \$nil and \$nil (2014 - \$6,000 and \$14,000, respectively) to intangible assets. During the three month period ended September 30, 2015, the company capitalized \$370,000 to exploration and evaluation assets related to the Wynyard Carnallite Project. Management has reviewed the potash cash generating unit in accordance with IAS 36 and has concluded that there has been no material change to the recoverable amount of the cash generating unit from December 31, 2014. Therefore, all additions to the exploration and evaluation assets above the December 31, 2014 recoverable amount should be impaired.

5. Share capital

(a) *Authorized*

As at September 30, 2015 and 2014 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.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

5. Share capital (conintued)

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued as at September 30, 2015.

(b) Earnings per share

Basic earnings per share were calculated as follows:

	Three months ended		Nine months ended	
	2015	2014	2015	2014
Loss for the period ending September 30,	\$ (2,603)	\$ (1,480)	\$ (12,242)	\$ (4,081)
Weighted average number of common shares:				
Issued common shares at beginning of period	27,478	27,479	27,478	27,477
Common shares issued	-	-	-	-
Weighted average number of common shares:	27,478	27,479	27,478	27,477
Basic loss per share	\$ (0.09)	\$ (0.05)	\$ (0.45)	\$ (0.15)

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 2,079,000 (2014 –1,895,000) 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 consultants 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.

During the three and nine month periods ended September 30, 2015, 946,000 and 1,554,000 stock options were forfeited by former employees of the company.

On July 14, 2015 the Company granted 1,930,000 stock options to employees, officers and directors in accordance with the Company's Stock Option Plan as approved by shareholders on June 20, 2013. The fair value of the options issued was estimated on the date of grant using the Black-Scholes option-pricing model. The interest rate, volatility, dividend yield and forfeiture rate assumptions used in the calculation were 0.80%, 59%, nil, 0% respectively which resulted in a fair value of \$0.38 per option. All of these options vest

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

5. Share capital (continued)

immediately and expire July 13, 2020. The company recognized \$735,000 of stock-based compensation expense on the date of grant related to these options.

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

	September 30, 2015		December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	1,703	4.92	2,095	8.86
Options issued during the period	1,930	0.75	695	1.27
Expired during the period	-	-	(500)	9.14
Forfeited during the period	(1,554)	4.96	(587)	2.71
Outstanding	2,079	1.03	1,703	4.92
Exercisable	2,039	1.02	714	8.86

Number of Options Outstanding	Exercise Price	Remaining Life (yrs)	Exercisable Options	Exercise Price
80	1.27	2.76	40	1.27
1,930	0.75	2.76	1,930	0.75
45	7.95	2.47	45	7.95
9	8.60	0.22	9	8.60
15	10.05	1.55	15	10.05
2,079	\$ 1.03	2.20	2,039	\$ 1.02

The Company recognized a share based compensation expense of \$735,000 and \$703,000 (2014 - \$156,000 and \$340,000) during the three and nine month period ended September 30, 2015.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

6. Supplemental cash flow information

Changes in non-cash working capital are as follows:

September 30,	2015	2014
Trade and other receivables	\$ 65	\$ 64
Prepaid expenses	34	55
Trade and other payables	614	336
	\$ 713	\$ 455
Relating to:		
Operating activities	\$ 713	\$ 455
Investing activities	-	-
Financing activities	-	-
	\$ 713	\$ 455

7. Commitments

The following are the commitments of the company as at September 30, 2015:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 2,139	\$ 2,139	\$ -	\$ -	\$ -
Office lease	256	146	110	-	-
Permit/lease on mineral property	2,625	74	318	340	1,893
Project contracts	333	333	-	-	-
	\$ 5,353	\$ 2,692	\$ 428	\$ 340	\$ 1,893

8. 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. The fair values of these financial instruments approximate their carrying amounts due to the short term maturity of the instruments.

9. Restructuring Expenses

For the three and nine month period ended September 30, 2015, the Company recognized \$nil and \$3.45 million in restructuring expenses. In addition to the restructuring expenses, all of the former employees have forfeited their stock options totalling 946,500 during the three month period ended and 1,554,000 for the nine month period September 30, 2015.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

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

Three and nine months ended September 30, 2015 and 2014

10. Related Party Transactions

During the quarter, compensation of key management personnel was \$280,000.

A director of the company was paid 26,000 in consulting fees related to research and advisory of potential future financing.

11. Subsequent Event

There are no reportable events after the reporting period.