

# Karnalyte Resources Inc. Announces 2020 Second Quarter Results

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SASKATOON, Aug. 6, 2020 - [Karnalyte Resources Inc.](#) ("Karnalyte" or the "Company") (TSX: KRN) today announced its financial results and corporate highlights for the second quarter ended June 30, 2020.

During the second quarter of 2020, the Company focused on the completion of the pre-feasibility study for the Proteos Nitrogen Project, on the engagement of a strategic consultant and on preparation for well workover development at its Wynyard Potash Project.

As previously announced, the Karnalyte Board of Directors (the "Board") has initiated a strategic review process to evaluate a broad range of potential strategic alternatives available to it including the evaluation of its existing and future projects, and the analysis of potential financing alternatives, with a focus on determining what is in the best interests of Karnalyte and maximizing value for all its shareholders. After thoroughly considering a number of proposals from national and global firms, the Company announced on July 27<sup>th</sup> that it has engaged MNP LLP ("MNP"), a leading Canadian accounting, tax and business consulting firm, as its strategic advisor. MNP has extensive experience in the potash and nitrogen industries, including in-depth knowledge of the Saskatchewan area. In addition to assisting with the evaluation of a range of strategic alternatives, MNP will provide an independent review of the pre-feasibility study Karnalyte recently completed on its Proteos Nitrogen Project.

## POTASH &#8211; WYNYARD POTASH PROJECT

The short-term outlook for potash fertilizer continues to be bearish. More capacity coming onstream worldwide, weather issues in North America and the impact of the African swine flu in Asia have caused the potash market to remain at the bottom of the cycle. This is making the development of the Wynyard Potash Project very challenging. It is part of the reason that the Company is taking a look at its strategic options and considering what other opportunities might be available to it and any potential alternative arrangements that might make the financing of this project feasible.

## NITROGEN &#8211; PROTEOS NITROGEN PROJECT

On July 21, 2020, the Company announced that it completed the prefeasibility study of its Proteos Nitrogen Project. While the results of the study were encouraging, the Company will continue to consider the project with discipline and caution. Some of the study's key conclusions include:

- The preliminary economic viability of the Proteos Nitrogen Project, with an internal rate of return and equity rate of return that approaches Company benchmarks, based on average pricing over the past four years for bulk urea and ammonia;
- Potential market growth in Saskatchewan to approximately 2.64 million tonnes, up from current demand estimates of approximately 1.2 million tonnes, based on Government of Saskatchewan information; and
- The project's implementation is expected to require three years following the preparation of a detailed project report and assuming a positive investment decision and commencement of construction by Karnalyte.

The Company has included the consideration of the Proteos Nitrogen Project in the scope of work required from MNP, Karnalyte's strategic consultant, who in the course of its full review of Karnalyte's strategic options, will independently review the prefeasibility study.

Encouraging for the development of the Proteos Nitrogen project was the Saskatchewan Government's launch on July 27<sup>th</sup>, 2020 of the Saskatchewan Chemical Fertilizer Incentive Program ("SCFI"). The SCFI program's goal is to help attract new capital investments in large-scale chemical fertilizer production facilities

in Saskatchewan, while creating new construction and operational jobs in the province. The SCFI is a non-refundable, non-transferable 15% tax credit on capital expenditures valued at \$10 million or more for newly constructed or expanded eligible chemical fertilizer production facilities in Saskatchewan. The Company is in the process of considering the impact of the SCFI program on the economics of the Proteos Nitrogen Project.

While Karnalyte is encouraged by the results of the prefeasibility study and the SCFI, the Company will continue to take a disciplined approach in its review and consideration of the Proteos Nitrogen project. The Proteos Nitrogen Project is sensitive to capital cost. The recent depression of nitrogen fertilizer prices due to an over supply in the market after wet weather conditions in North America in 2019 resulted in inventory stockpiles. Some analysts are predicting that these price declines will continue throughout the remainder of 2020. While the long-term fundamentals for nitrogen fertilizer may be strong, particularly in the Saskatchewan area where the agriculture industry thrives and there is predicted growth in the production of crops that are dependent on nitrogen fertilizer, Karnalyte will take a careful approach to evaluating this project before committing significant resources to its development.

#### APPOINTMENT OF INTERIM CHIEF FINANCIAL OFFICER

Karnalyte is pleased that effective July 27, 2020 Christie Gradin, CPA, CA has been appointed as Interim CFO. Ms. Gradin brings extensive expertise, business acumen and senior financial management experience and will provide important support as the Company navigates its strategic review process. Danielle Favreau, who until then was Karnalyte's CFO & Interim CEO, will continue in the role of Interim CEO while Christie Gradin will assume the CFO responsibilities. The Board determined that maintaining an Interim CEO position and an Interim CFO position was appropriate at this time until the strategic review process is completed and permanent appointments can be made based on the future needs of the Company.

#### SPECIAL SHAREHOLDER MEETING DATE SET

The Company received a requisition for a special meeting of shareholders from three shareholders together owning not less than 5% of the Company's issued and outstanding common shares. Such shareholders are asking Karnalyte shareholders to increase the Board size to six and appoint four of their nominees and two nominees from Gujarat State Fertilizers and Chemicals Limited ("GSFC"), Karnalyte's largest investor and strategic partner that holds approximately 38% of the Company's shares.

The Board has set the date for a special meeting of shareholders for December 15, 2020. At this time, the Company estimates that the special meeting will result in a minimum additional unexpected cost to the Company of \$50,000. Shareholders should also expect an increase in legal and other costs as the Company addresses the various allegations made by those three shareholders. The Board has fixed November 10, 2020 as the record date to determine which shareholders will be entitled to vote at the meeting.

#### OUTLOOK FOR 2020

During the third quarter of 2020, the Company will continue its work with MNP to evaluate a broad range of potential strategic alternatives including the evaluation of existing and future projects and the analysis of potential financing alternatives.

#### 2020 SECOND QUARTER RESULTS

At June 30, 2020, the Company had cash of \$6.4 million and positive net working capital of \$6.1 million and no debt. The Company has adequate cash to fund any existing commitments in 2020 as well as to meet short term operating and capital requirements. Karnalyte's Second Quarter 2020 Financial Statements and Managements' Discussion and Analysis are available at [www.sedar.com](http://www.sedar.com) and on Karnalyte's website at [www.karnalyte.com](http://www.karnalyte.com).

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

	June 30, 2020	June 30, 2019
Total revenue	-	-
Net and comprehensive loss (742)		(967)
Basic and diluted per share (0.02)		(0.03)
Total current assets	6,944	9,318
Total assets	12,722	15,162
Total liabilities	2,615	2,646
Total shareholders' equity	10,107	12,516

#### ABOUT KARNALYTE RESOURCES INC.

[Karnalyte Resources Inc.](#) is a 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 TPY. 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 million TPY. 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 and obtaining financing.

#### 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 &#8211; 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 &#8211; 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 that was commissioned in the year 2000, and two urea plants that were established in 1969, at its fertilizer production complex in Vadodara, Gujarat State, India.

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.

### 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](http://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.

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