Audited Financial Statements

Years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Karnalyte Resources Inc.

We have audited the accompanying financial statements of Karnalyte Resources Inc., which comprise the statements of financial position as at December 31, 2014 and December 31, 2013, the statements of comprehensive loss, cash flows and changes in equity for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Karnalyte Resources Inc. as at December 31, 2014, and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

April 10, 2015
Calgary, Canada

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KARNALYTE RESOURCES INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

(CAD $ thousands)	December 31, 2014	December 31, 2013
Current assets		
Cash	$ 40,740	$ 46,161
Trade and other receivables	125	1,480
Prepaid expenses	161	139
	41,026	47,780
Restricted cash (note 4)	375	375
Deferred financing costs (note 5)	-	1,606
Capital assets (note 6)	1,634	18,745
Exploration and evaluation and other assets (note 7)	2,382	42,951
ASSETS	$ 45,417	$ 111,457
LIABILITIES		
Current liabilities		
Trade and other payables	$ 1,525	$ 746
	1,525	746
Provisions (note 8)	164	135
Total liabilities	1,689	881
SHAREHOLDERS' EQUITY		
Share capital (note 9)	129,786	129,774
Contributed surplus	8,499	7,778
Deficit	(94,557)	(26,976)
Total shareholders' equity	43,728	110,576
LIABILITIES AND SHAREHOLDERS' EQUITY	$ 45,417	$ 111,457

Commitments (note 9(d), 15(c))
See accompanying notes to the financial statements.

Approved on behalf of the Board:

"signed"
Bruce Townsend, Director

"signed"
Martin Hall, Director

KARNALYTE RESOURCES INC.

STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31,

(CAD $ thousands, except per share amounts)	2014	2013
Expenses		
General and administrative	$ 4,232	$ 4,757
Depreciation and amortization (note 6 and 7)	789	844
Share-based compensation expense (note 9(e))	450	2,057
Restructuring expenses	736	67
Financing expenses (note 5)	2,899	-
Impairment expenses (note 6 and 7)	59,149	-
Other income and expenses	(6)	(21)
	68,249	7,704
Finance income	(674)	(990)
Finance expense	6	28
Net finance income (note 12)	(668)	(962)
Comprehensive loss	(67,581)	(6,742)
Loss per share (note 9(b))		
Basic and diluted	$ (2.46)	$ (0.25)

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31,

(CAD $ thousands)	2014	2013
Cash Flows from (used in) Operating Activities		
Net loss for the period	$ (67,581)	$ (6,742)
Add/deduct:		
Depreciation and amortization	789	844
Stock-based compensation expense	450	2,057
Impairment expense (note 6 and 7)	59,149	-
Deferred finance reclassification (note 5)	2,899	-
Net finance income	(668)	(962)
Interest income received	662	536
Other non-cash expense	105	-
Changes in non-cash working capital (note 14)	308	(709)
Purchase of shares pursuant to compensation plans	-	(12)
	(3,887)	(4,988)
Cash Flows from (used in) Investing Activities		
Additions to intangible assets (note 7)	(470)	(1,007)
Proceeds on sale of intangible assets (note 7)	63	1,182
Additions to capital assets (note 6)	(1,693)	(12,328)
Proceeds on sale of capital assets (note 6)	39	14
Changes in non-cash working capital (note 14)	638	(3,493)
	(1,423)	(15,632)
Cash Flows from (used in) Financing Activities		
Issuance of common shares (note 9(d))	-	44,746
Share issue costs	-	(2,433)
Deferred financing costs	(126)	(1,075)
	(126)	41,238
Effect of foreign exchange on cash	15	428
Change in cash	(5,421)	21,046
Cash, beginning of period	46,161	25,115
Cash and cash equivalents, end of period	$ 40,740	$ 46,161

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31,

(CAD $ thousands)	2014 Number	2014 Amount	2013 Number	2013 Amount
Share Capital				
Balance, beginning of period	27,477	$ 129,774	21,989	$ 87,473
Common shares issued (note 9(d))	-	-	5,490	44,746
Treasury shares purchased (note 9(c))	-	-	(2)	(12)
Vesting of employee share ownership plan	1	12	-	-
Share issue costs	-	-	-	(2,433)
Balance, end of period	27,478	129,786	27,477	129,774
Contributed Surplus				
Balance, beginning of period		7,778		4,906
Stock-based compensation expense (note 9)		735		2,872
Vesting of employee ownership plan		(14)		-
Balance, end of period		8,499		7,778
Deficit				
Balance, beginning of period		(26,976)		(20,234)
Loss for the period		(67,581)		(6,742)
Balance, end of period		(94,557)		(26,976)
Total Shareholders' Equity				
Balance, end of period		$ 43,728		$ 110,576

See accompanying notes to the financial statements.

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 its property and planned construction of a production facility and development of a 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. Subsequent to December 31, 2014, the Company has made a determination to place the Wynyard property on a care and maintenance program. 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 the mine development.

The Company's operating segments have been identified as the individual mineral reserve 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 #14, 11410 – 27th Street SE, Calgary, Alberta T2Z 3R6.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Board of Directors on April 10, 2015.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

(i) *Use of estimates*

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i. Reserve Estimates

The Company's reserves comply with the standards that govern all aspects of reserves as prescribed in National Instrument 43-101, *Standards of Disclosure for Mineral Projects within Canada* ("NI43-101"). Under NI 43-101 standards, proven plus probable reserves are considered a "best estimate" of future recoverable reserves.

The estimation of potash reserves is an inherently complex process. Proven and probable reserves are estimated based on geological data, geophysical data, engineering data, projected future rates of production, estimated commodity prices, costs, discount rates and the timing of future expenditures. Reserves estimates, although not reported as part of the Company's financial statements, can have a significant effect on earnings, assets, as a result of their impact on depletion and impairment, decommissioning provisions and deferred income taxes. Accordingly, the impact to the financial statements of changes to estimates of reserves in future periods could be material.

ii. Decommissioning Provisions

Amounts are recorded for decommissioning provisions that will be incurred by the Company at the end of the operating life of the facilities and properties, and upon retirement of its potash assets. Estimates of these costs are subject to uncertainty associated with the method, timing and extend of future decommissioning activities. The provision and related asset and expense are impacted by estimates with respect to the costs and timing of decommissioning.

iii. Share-Based Compensation

Compensation expense recognized for the Company's share-based compensation plan is accrued over the vesting period based on fair values. Fair values are determined using the Black-Scholes option pricing model while the fair value of restricted and performance awards are valued based on the closing share price on the date immediately prior to the grant date. In assessing the fair value of share based compensation, significant assumptions such as expected volatility, dividend yield, expected term, estimated forfeiture rates and performance multipliers for performance awards are made.

iv. Income Taxes

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are recognized only to the extent that those assets are considered recoverable. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

(ii) *Judgements*

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

i. Cash Generating Unit ("CGU")

For the purpose of impairment testing, potash assets are aggregated in CGU's. The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

ii. Impairment

Judgments are required to assess when impairment indicators exist and impairment testing is required. The recoverable amounts of CGUs are based on the higher of their value-in-use and fair value less costs to sell. These calculations require the use of estimates and assumptions. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Management does not expect a significant difference between value in use and fair value less cost to sell.

iii. Exploration and Evaluation Assets ("E&E")

The decision to transfer assets from E&E to property, plant and equipment requires management to make certain judgments as to future events and is based on whether economic quantities of proven plus probable reserves have been found to determine a project's technical feasibility and commercial viability.

iv. Income Taxes

Judgments are made by management at the end of the reporting period to determine the likelihood that deferred income tax assets will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make judgments related to the expectations of future cash flows from operations and the

application of existing tax laws in each jurisdiction. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in profit or loss in the period in which the change occurs.

(e) Reclassification
Certain amounts have been reclassified to conform to current period presentation.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

(a) Foreign currency
Transactions in foreign currencies are translated to Canadian dollars at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss under finance income and expenses on a net basis.

(b) Financial instruments
Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “other financial liabilities” as defined by the accounting standard. Financial assets and financial liabilities designated at “fair value through profit or loss” are measured at fair value with changes in those fair values recognized in profit or loss. Financial assets classified as loans and receivables or held-to-maturity, or other financial liabilities are measured at amortized cost using the effective interest method. Financial assets classified as available-for-sale are measured at fair value, with changes in fair value recognized in other comprehensive income.

The Company’s cash, trade and other receivables and restricted cash are classified as loans and receivables. Trade and other payables are classified as other financial liabilities.

(c) Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment and intangible exploration assets
(i) Recognition and measurement
i. Exploration and evaluation expenditures
Pre-exploration costs are recognized in profit and loss as incurred. After obtaining a license, mineral exploration and evaluation costs, including the costs of acquiring permits

and directly attributable general and administrative costs, are initially capitalized as exploration and evaluation assets.

ii. Development and production costs
Upon determination of technical feasibility and commercial viability the costs associated with the exploration and evaluation of the associated proven and probable reserves are transferred to development and production assets. The associated costs are assessed for impairment at the time the costs are transferred from exploration and evaluation expenditures to development and production assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized when they increase the future economic benefits embodied in the specific asset to which they relate, such as developing proven and/or probable reserves and bringing in or enhancing production from reserves or resources, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized and the cost of the replacement part is recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Development and production expenditures are recognized as assets under construction until the assets are available for their intended use and not depreciated. When assets are available for their intended use, the asset is depreciated and recognized at its original cost less accumulated depletion and depreciation.

(ii) Depletion and depreciation
When significant parts of an item of property, plant and equipment, including potash interests, have different useful lives, they are accounted for as separate items (major components). Once commercial production begins the accumulated costs of capital assets and exploration and evaluation assets will be amortized to operations on a unit of production basis over economically recoverable proven plus probable reserves or over the estimated useful life if shorter.

Reserves are estimated using independent reserve engineer reports and represent the estimated quantities of potash and magnesium which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known resources and which are considered commercially viable.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon;

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected potash and magnesium production; and

- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if the economic viability of the project is supported by either actual production or probable formation tests. The area of the resource considered proven includes (a) that portion delineated by drilling and defined by potash contacts and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data.

Depreciation is recognized in profit or loss on a straight-line basis or unit of production over the estimated useful lives of each part of an item of capital assets and intangible exploration and evaluation assets. Land is not depreciated.

The estimated useful lives for capital assets for the current and comparative years are as follows:

Buildings	25 years
Land Improvements	20 years
Processing and other equipment	5 - 10 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) *Other intangible assets*

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of other intangible assets from the date they were available for use.

The estimated useful lives for the intangible assets are as follows:

Patents	20 years
Computer Software	1 year

(f) *Leased assets*

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Minimum lease payments made under finance leases are apportioned between finance expenses and the reduction of the outstanding liability using the effective interest method, so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases are not recognized on the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and its fair value, and is recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the same statement where the original loss was recognized.

(ii) Non-financial assets

For the purpose of impairment testing, non-financial assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU's"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Upon the establishment of technical feasibility and at the time sufficient funding becomes available to proceed with plant construction, the related exploration and evaluation assets are transferred to development and production assets and are assessed for impairment at the time of the costs are transferred.

Non-financial assets are assessed for an indication of impairment at each financial reporting period or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. In determining the recoverable amount of the cash generating unit the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Recoverable amount is generally computed by reference to the present value of the future cash flows expected to be derived from

production of proven and probable reserves and therefore is subject to the estimation of mineral reserves or the amount a market participant is willing to pay to acquire the assets of the CGU.

In respect of non-financial assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the fair value has recovered. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(h) Stock-based compensation expense

The grant date fair value of options granted to employees is calculated using the Black-Scholes option pricing model and is recognized as compensation expense, within profit and loss, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(j) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision were established.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the

amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(m) Changes in accounting policies

During the first quarter of 2014, the Company adopted the following standards:

i) IAS 32 – Financial Instruments: Presentation

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts and the unit of account for applying the offsetting requirements. There was no impact to the Company on adoption of this standard.

ii) IFRIC 21 – Levies

The interpretation provided guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Company's current accounting treatment for levies is consistent with the requirements of IFRIC 21, such that the adoption of IFRIC 21 has had no impact on the financial reporting.

(n) New standards and interpretations not yet adopted:

The Company will be required to adopt the following new and revised International Financial Reporting Standards ("IFRS") that were issued by the International Accounting Standards Board ("IASB"):

i) IFRS 9 – Financial Instruments

The standard is the first step in the process to replace IAS 39, Financial instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39, Financial instruments: recognition and measurement, derecognition of financial assets and financial liabilities. The

Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

ii) *IFRS 15 – Revenue*
On May 28, 2014, the IAS board issued IFRS 15 "Revenue", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted. Karnalyte is currently evaluating the impact of adopting IFRS 15 on its financial statements.

4. Restricted cash

The Company was required to submit three separate $125,000 (2014 and 2013 – $375,000) irrevocable letters of credit to Saskatchewan Ministry of Environment towards any future environmental damage that could potentially be caused by the operation of its test facility near Wynyard, Saskatchewan. The letters of credit have been provided by the Company's bank on behalf of the Company and are secured by interest-bearing deposits that are not available to the Company for general use. Funds were renewed in June and August of 2014 and are invested in Guaranteed Investment Certificates which are redeemable on the 15th day of each month and are due for renewal in 2019.

5. Deferred financing

Deferred financing costs were incurred as a result of the Company continuing to pursue debt financing. The costs were deferred until the debt was issued or until the related financing was no longer considered probable. Such financing costs were recognized in profit or loss due to the related debt financing no longer considered probable. During the year ended December 31, 2014 there was $2,899,000, including a provision in the amount of $1,160,000, in debt financing expenditures recognized in the profit and loss statement as a result of the debt financing contracts being cancelled by the Company.

6. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Total
Cost:					
Balance at January 1, 2013	$ 537	$ 142	$ 3,440	$ 3,466	$ 7,585
Additions	181	-	295	12,622	13,098
Dispositions	(77)	-	(14)	-	(91)
Balance at December 31, 2013	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
Accumulated depreciation:					
Balance at January 1, 2013	$ 109	$ 12	$ 1,060	$ -	$ 1,181
Depreciation for the period	77	45	621	-	743
Dispositions	(69)	-	(8)	-	(77)
Balance at December 31, 2013	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

Assets under construction have not been depreciated in the years ended December 31, 2014 or 2013. During the year ended December 31, 2014 the Company capitalized employee remuneration of $1,063,000 (2013 - $1,225,000) and stock-based compensation expense of $265,000 (2013 - $770,000) to capital assets.

The Company determined there was an indication of impairment related to its potash cash generating unit due to the combined effects of the prolonged depression of the Company's market capitalization compared to its net asset value, despite general stabilization in the potash commodity market; the significant uncertainty caused by a proxy contest which has exacerbated the Company's ability to secure adequate financing; and, likelihood these matters will result in a delay to the original expected mine development timeline, each of which have had a negative impact on the Company's expected return on the project. Subsequent to December 31, 2014, the Company has determined to suspend all activity in relation to the Wynyard Project, other than the minimum required to maintain title to the Project, secure the site on a care and maintenance basis, and otherwise preserve intact the Wynyard Project.

The Company performed an impairment assessment as at December 31, 2014. The recoverable amount was determined using the fair value less cost to sell. There can be no assurance that circumstances will change or that the market for potash will improve to the point where the Wynyard Project would have a value in excess of its salvage value; therefore, there were no values ascribed to intangible mineral properties including engineering, drilling, feasibility studies or amounts incurred for site preparation because there is no certainty the

values can be recuperated at this time. As a result, the fair value less cost to sell was determined based on the Company's estimate of the amount it would receive for the resale value of individual assets. The Company's estimates were determined with the assistance of a third party valuator as well as recent transactions in the market place for comparable or similar assets.

The Company determined that capital assets and exploration and evaluation assets (note 7) with a carrying amount of $63,165,000 were no longer recoverable; an impairment loss of $59,149,000 was recognized to impair the assets to their estimated recoverable amount of $4,016,000. Disclosure of sensitivities of the recoverable amount to changes in management estimates are not meaningful given the methodology described above in determining the fair value less cost to sell, however the identification of a buyer of the project in its entirety, or the Company's ability to secure adequate financing for the development of the mine on economic terms, could result in a material difference from the current estimate of the recoverable amount.

7. Exploration and evaluation assets and other assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2013	$ 42,983	$ 117	$ 250	$ 43,350
Additions	987	22	27	1,036
Sale of assets	(1,181)	-	-	(1,181)
Balance at December 31, 2013	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
Amortization and impairment losses:				
Balance at January 1, 2013	$ -	$ 13	$ 140	$ 153
Amortization for the year	-	10	91	101
Balance at December 31, 2013	-	23	231	254
Amortization for the period	-	3	46	49
Impairment	40,796	129	-	40,925
Balance at December 31, 2014	$ 40,796	$ 155	$ 277	$ 41,228
Carrying amounts:				
December 31, 2013	$ 42,789	$ 116	$ 46	$ 42,951
December 31, 2014	$ 2,382	$ -	$ -	$ 2,382

During the year ended December 31, 2014 the Company capitalized employee remuneration of $105,000 (2013 - $110,000) and stock-based compensation expense of $20,000 (2013 - $46,000) to intangible assets.

8. Provisions

December 31,	2014	2013
Beginning balance	$ 135	$ 150
Additions	-	1
Changes in estimate	23	(18)
Accretion	6	2
Ending balance	$ 164	$ 135

The undiscounted amount of estimated costs required to settle the obligations at December 31, 2014 is $212,000 (2013 - $212,000) which are expected to be incurred between 2028 and 2029. The estimated costs have been inflated at 2.0 percent and discounted at a risk free rate of 2.11 percent (2013 – 3.02 percent) for the year ending December 31, 2014.

9. Share capital

(a) Authorized

As at December 31, 2014 and 2013 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. No common shares were issued throughout the year ended December 31, 2014.

The Company is also entitled to issue an unlimited number of preferred shares. There were no preferred shares issued throughout the year ended December 31, 2014.

(b) Earnings per share

Basic earnings per share were calculated as follows:

	2014	2013
Loss for the year ending December 31,	$ (67,581)	$ (6,742)
Weighted average number of common shares:		
Issued common shares at beginning of period	27,477	21,989
Common shares issued	-	4,497
Treasury shares purchased	1	(1)
Weighted average number of common shares:	27,478	26,485
Basic loss per share	$ (2.46)	$ (0.25)

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 1,702,500 (2013 – 2,094,500) options as their effect would have been anti-dilutive.

(c) Employee share ownership plan

The Company implemented an employee share ownership plan on June 1, 2013. Under the terms of the plan, employees contribute up to a maximum of 5% of their gross pay and acquire voting shares of the Company at the current fair market value of such shares and the Company matches every dollar contributed by each employee. The shares purchased by the Company are restricted for one year from the date of acquisition. Shares purchased under the program are recognized as treasury shares and are offset against share capital until they vest. The cost of the shares is recognized over a one year period from the date of acquisition as stock-based compensation expense. The Company's share of the contributions in the year ended December 31, 2014 amounted to $nil (2013 - $12,000) and is recorded as compensation expense within the Statement of Comprehensive Loss. The employee share ownership plan was put on hold effective August 1, 2013, and subsequently the program was cancelled.

(d) Private placement

On March 7, 2013 the Company closed a non-brokered private placement financing with Gujarat State Fertilizers & Chemicals ("GSFC") for $44,745,994 in exchange for 5,490,306 common shares which represents a 19.98% ownership stake in the Company. Along with the financing, GSFC has also committed to an off-take agreement for the purchase of approximately 350,000 tonnes per year of potash increasing to 600,000 tonnes per year for a period of 20 years from the commencement of commercial production.

The Company is obligated to issue an additional 555,555 common shares to GSFC if commercial production has not commenced on or before October 1, 2016. The Company does not anticipate that commercial production will commence by October 1, 2016.

(e) <u>Stock-based compensation expense</u>

The Company has a stock option plan under which directors, officers and non-employees 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.

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

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	2,095	8.86	1,288	9.72
Issued during the year	695	1.27	1,029	7.93
Expired during the year	(500)	9.14	(78)	11.61
Forfeited during the year	(587)	2.71	(144)	8.44
Outstanding at December 31,	1,703	4.92	2,095	8.86
Exercisable at December 31,	714	8.86	1,215	9.20

Number of Options Outstanding		Exercise Price	Remaining Life (yrs)	Exercisable Options		Exercisable Price
157,500		8.60	0.97	157,500		8.60
260,000		10.05	2.30	260,000		10.05
395,000		7.95	3.22	296,250		7.95
657,500		1.27	3.51	-		-
232,500		1.90	3.51	-		-
1,702,500	$	4.92	3.02	713,750	$	8.86

On July 4, 2014 the Company granted 695,000 stock options and repriced 651,000 options. The fair value of the options issued and repriced 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 1.47%, 59%, nil, 11% respectively. The repriced options were accounted for as a modification. The incremental fair value associated with the modifications was $268,000, of which $120,000 was expensed over the third and fourth quarter of 2014 and $99,000 will be recognized over the remaining vesting period. In addition, $49,000 of the incremental fair value was forfeited in the year ended December 31, 2014. Simultaneous with the repricing of options, a term of service condition was included for both the repriced and granted instruments. The options vest over two years, have a life of five years and range in strike price from $1.27 to $1.90.

Share based compensation of $450,000 (2013 - $2,057,000) was expensed during the year ended December 31, 2014.

10. Nature of general and administrative expenses

We are required to present our financial performance by nature or by function. We have presented our financial performance by the underlying nature of the expense with the exception of general and administrative expenses. Had the general and administrative expenses been presented by their nature, the Company would disclose

payroll expense and employee benefits of $1,455,000 (2013 – $1,595,000) and office and sundry expense of $2,807,000 (2013 - $3,162,000) for the years ending December 31, 2014 and 2013.

11. Key management personnel

The aggregate payroll expense of key management personnel and directors was as follows:

December 31,	2014	2013
Salaries and benefits	$ 1,181	$ 1,270
Severance payments	684	-
Share-based payments	656	2,103
	$ 2,521	$ 3,373

12. Finance income and expenses

December 31,	2014	2013
Finance income:		
Interest income on bank deposits	$ (662)	$ (536)
Foreign exchange gain	(12)	(454)
	(674)	(990)
Financial expenses:		
Accretion of provisions	6	2
Foreign exchange loss	-	26
	6	28
Net finance income recognized in profit and loss	$ (668)	$ (962)

13. Income tax expense

The provision for income taxes in the statement of loss reflects an effective tax rate which differs from the expected statutory rate. Differences are as follows:

	2014	2013
Loss before tax	$ (67,581)	$ (6,742)
Expected tax rate	25.0%	25.0%
Expected income tax	(16,895)	(1,685)
Non-deductible expenses	11	7
Stock-based compensation	183	514
Other	(409)	63
Change in unrecognized deferred tax assets	17,110	1,101
Total income tax expense	-	-

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

		2014		2013
Deferred tax liabilities:				
Intangible assets (including E&E assets)	$	-	$	(1,885)
Assets under construction		-		(192)
		-		(2,077)
Deferred tax assets:				
Non-capital losses		-		2,077
Net deferred tax assets (liabilities)	$	-	$	-

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

		2014		2013
Capital assets	$	855	$	558
Share issue costs		561		988
Intangible assets (including E&E)		8,776		-
Assets under construction		4,254		-
Non-capital losses		8,001		3,791
Net deferred tax assets (liabilities)	$	22,447	$	5,337

The deferred tax assets have not been recognized at this time because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

The Company has Canadian non-capital losses for which no benefit has been recognized in the financial statements of approximately $32,003,000 (2013 - $23,291,000) which commence expiry in 2026.

14. Supplemental cash flow information

Changes in non-cash working capital are as follows:

December 31,		2014		2013
Accounts receivable	$	1,355	$	(1,254)
Prepaid expenses		(22)		(773)
Accounts payable and accrued liabilities		(387)		(3,250)
	$	946	$	(5,277)
Relating to:				
Operating activities	$	308	$	(709)
Investing activities		638		(3,493)
Financing activities		-		(1,075)
	$	946	$	(5,277)

15. Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

- credit risk;
- liquidity risk;
- market risk;
- currency risk; and
- interest rate risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. To date, no specific risk management tools have been put in place to mitigate these risks.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligation.

Cash consists of bank balances and short-term deposits that are redeemable at any time at the option of the Company. The Company manages the credit exposure related to short-term investments by depositing only with large Canadian financial institutions which management believes the risk of loss to be remote. The majority of the cash is currently held by one financial institution.

The carrying amounts of trade and other receivables, cash and restricted cash represent the maximum credit exposure.

(c) Liquidity risk and commitments

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company has adequate cash available to discharge all current liabilities.

If it were to ever proceed with mine development, the Company would need to obtain a substantial amount of funding in order to achieve commercial production. In those circumstances, the Company would seek to raise these funds through debt and equity financings. However the Company has determined to suspend all activity in relation to the Wynyard Project, other than the minimum required to maintain title to the Project, secure the site on a care and maintenance basis, and otherwise preserve intact the Wynyard Project. The Company has adequate cash reserves to continue to satisfy the required permit and licensing fees to maintain the Wynyard lease in good standing for the foreseeable future.

The following are the commitments of the company as at December 31, 2014:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	$ 1,525	$ 1,525	$ -	$ -	$ -
Office lease	403	183	220	-	-
Permit/lease on mineral property	2,653	70	222	341	2,020
Project contracts	355	355	-	-	-
	$ 4,936	$ 2,133	$ 442	$ 341	$ 2,020

The Company's exploration permit is in its second of three one year extension terms which will expire in March of 2015. At that time the Company will have enter the final one year extension period which will expire in March of 2016. At that time the Company will convert then entire 68,301 acres to a lease. The conversion from a permit to a lease is granted if the company has met all obligation required for the permit. The change in status will require the Company to pay an annual rental fee of $2.00 per acre as compared to $0.50 per acre when the rights are held as a permit. To date, the Company has met and expects to meet all of these related commitments.

The Company has entered into contracts for various engineering and consulting services.

(d) *Market risk*

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company may use both financial derivatives and physical delivery sales contracts in the future to manage market risks. Should the Company reach commercial production a sales off-take contract exists where GSFC has committed to purchase of approximately 350,000 tonnes per year of potash increasing to 600,000 tonnes per year for a period of 20 years from the commencement of commercial production. Pricing will be based on USD India cfr plus shipping costs.

(e) *Currency risk*

The following financial instruments were denominated in U.S. dollars:

December 31,	2014	2013
	USD	USD
Cash	$ 321	$ 49
Trade and other payables	1,010	-

The exchange rate on the period ending date December 31, 2014 was 1 Canadian dollar equals $0.8620 USD (December 31, 2013 – $1 Canadian: $0.9402 USD). As of December 31, 2014, if the exchange rate would change by 1% it would have an impact of $11,000 on the reported comprehensive loss.

The USD cash balances throughout the year fluctuated depending on the amount of funds available and the prevailing foreign exchange rates at the time of the transactions and transfers between the USD and CAD accounts. The exchange rate fluctuated between $0.8495 USD to $0.9383 USD equalled to 1 Canadian dollar. The net foreign exchange differences are presented as finance income in the Statement of Comprehensive Loss.

(f) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest income is generated through funds invested in regular and high interest savings accounts. Had the interest rate been 100 basis point higher (or lower) throughout the year ended December 31, 2014, comprehensive loss would have been lower (or higher) by approximately $429,000 (2013 - $420,000).

(g) Capital management

The Company's capital is its working capital. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying potash assets. In order to maintain or adjust the capital structure, the Company may issue shares and adjust its capital spending based on available funding in the capital markets. To advance the Wynyard project, the Company will need to secure a significant amount of additional capital. The Company is 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.

The Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

16. Subsequent Event

Subsequent to December 31, 2014 a severance payment in the amount of $899,000 has been paid to an officer of the Company.

As a consequence of the decision to suspend activity at the Wynyard Project, subsequent to December 31, 2014, the Company has determined to close its project office in Saskatchewan. The employment of a number of employees there and in Calgary has also been terminated. The Company estimates costs associated with the termination of such employees is approximately $1,500,000.