

Audited Financial Statements of



Years ended December 31, 2013 and 2012



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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, 2013 and 2012, the statements of comprehensive loss, changes in cash flows and 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 17, 2014
Calgary, Canada

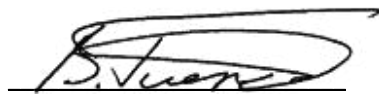
KARNALYTE RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

As at	December 31, 2013	December 31, 2012
Current assets		
Cash	\$ 46,160,972	\$ 25,114,959
Trade and other receivables	1,479,544	225,363
Prepaid expenses	139,235	128,927
	<hr/> 47,779,751	<hr/> 25,469,249
Restricted cash (note 5)	375,000	375,000
Deferred financing costs (note 4)	1,606,534	843,897
Capital assets (note 6)	18,745,166	6,404,557
Intangible exploration and evaluation and other assets (note 7)	42,950,858	43,197,551
	<hr/> \$ 111,457,309	<hr/> \$ 76,290,254
ASSETS		
LIABILITIES		
Current liabilities		
Trade and other payables	\$ 745,870	\$ 3,996,019
	<hr/> 745,870	<hr/> 3,996,019
Provisions (note 8)	135,319	149,956
Total liabilities	<hr/> 881,189	<hr/> 4,145,975
SHAREHOLDERS' EQUITY		
Share capital (note 9)	129,774,229	87,473,052
Contributed surplus	7,777,894	4,905,686
Deficit	(26,976,003)	(20,234,459)
Total shareholders' equity	<hr/> 110,576,120	<hr/> 72,144,279
LIABILITIES AND SHAREHOLDERS' EQUITY	<hr/> \$ 111,457,309	<hr/> \$ 76,290,254

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

Approved on behalf of the Board:



Bruce Townsend, Director



Ian Brown, Director

KARNALYTE RESOURCES INC.

STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31,

	2013	2012
Expenses		
General and administrative	\$ 4,756,775	\$ 4,156,447
Depreciation and amortization	843,574	747,590
Stock-based compensation expense (note 9(c))	2,057,052	1,919,477
Restructuring expenditures	67,628	895,645
Transaction costs	-	108,984
Other income and expenses	(21,317)	(178,458)
	<u>7,703,712</u>	<u>7,649,685</u>
Finance income	(990,185)	(448,237)
Finance expense	28,017	4,398
Net finance income (note 12)	<u>(962,168)</u>	<u>(443,839)</u>
	<u>(6,741,544)</u>	<u>(7,205,846)</u>
Comprehensive loss	<u>(6,741,544)</u>	<u>(7,205,846)</u>
Loss per share (note 9(b))		
Basic and diluted	<u>\$ (0.25)</u>	<u>\$ (0.33)</u>

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2013</u>	<u>2012</u>
Cash Flows from (used in) Operating Activities		
Net loss for the period	\$ (6,741,544)	\$ (7,205,846)
Add/deduct:		
Depreciation and amortization	843,574	747,590
Stock-based compensation expense	2,057,052	1,919,477
Net finance income	(962,168)	(443,839)
Interest income received	536,333	448,237
Changes in non-cash working capital:		
Trade and other receivables	(69,911)	98,393
Trade and other payables	(601,980)	(438,270)
Prepaid expenses	(37,028)	(29,120)
Purchase of shares pursuant to compensation plans	(12,325)	-
	<u>(4,987,997)</u>	<u>(4,903,378)</u>
Cash Flows from (used in) Investing Activities		
Additions to intangible assets	(2,792,860)	(5,637,613)
Proceeds on sale of intangible assets	1,181,733	-
Additions to capital assets	(14,034,962)	(1,677,353)
Proceeds on sale of capital assets	14,140	-
	<u>(15,631,949)</u>	<u>(7,314,966)</u>
Cash Flows from (used in) Financing Activities		
Issuance of common shares	44,745,994	-
Exercise of options and warrants	-	3,613,731
Share issue costs	(2,432,492)	-
Deferred financing costs	(1,075,243)	(539,786)
	<u>41,238,259</u>	<u>3,073,945</u>
Effect of foreign exchange on cash	427,700	7,829
Change in cash	21,046,013	(9,136,570)
Cash, beginning of period	25,114,959	34,251,529
Cash and cash equivalents, end of period	<u>\$ 46,160,972</u>	<u>\$ 25,114,959</u>

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31,

	2013		2012	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Share Capital				
Balance, beginning of period	21,988,704	\$ 87,473,052	21,418,536	\$ 82,105,674
Common shares issued (note 9(d))	5,490,306	44,745,994	-	-
Common shares issued on exercise of share options	-	-	261,115	735,874
Common shares issued on exercise of broker warrants	-	-	309,053	2,657,856
Treasury shares purchased	(2,049)	(12,325)	-	-
Transfer from contributed surplus on options exercised	-	-	-	1,188,128
Transfer from contributed surplus on broker warrants	-	-	-	785,520
Share issue costs	-	(2,432,492)	-	-
Balance, end of period	27,476,961	129,774,229	21,988,704	87,473,052
Warrants and Rights				
Balance, beginning of period	-	-	368,528	934,950
Broker warrants and rights exercised	-	-	(309,053)	(785,520)
Broker warrants and rights expired	-	-	(59,475)	(149,430)
Balance, end of period	-	-	-	-
Contributed Surplus				
Balance, beginning of period		4,905,686		3,276,698
Stock-based compensation expense (note 9)		2,872,208		2,804,663
Transfer to share capital on exercise		-		(1,188,128)
Option adjustments		-		(136,977)
Broker warrants expired		-		149,430
Balance, end of period		7,777,894		4,905,686
Deficit				
Balance, beginning of period		(20,234,459)		(13,028,613)
Loss for the period		(6,741,544)		(7,205,846)
Balance, end of period		(26,976,003)		(20,234,459)
Total Shareholders' Equity				
Balance, end of period		\$ 110,576,120		\$ 72,144,279

See accompanying notes to the financial statements.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

Years ended December 31, 2013 and 2012

1. **Reporting entity**

Karnalyte Resources Inc. (the “Company” or “Karnalyte”) is incorporated under the laws of the province of Alberta. The business of Karnalyte consists 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.

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 has sufficient cash to meet its short-term corporate operating and capital requirements. The Company’s operating segments have been identified as the individual mineral reserve streams. The Company has currently 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 403 – 235 Milligan Drive, Okotoks, Alberta T1S 0B8.

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 March 17, 2014.

(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 relates to the assessment for impairment indicators and determination of recoverable amounts of capital assets and exploration and evaluation assets.

KARNALYTE RESOURCES INC.

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Mineral exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. A decision to abandon, reduce or expand activity is based upon many factors including general and specific assessments of exploration results, anticipated future mineral prices, discount rates, anticipated costs of developing and operating a producing mine and the general likelihood that the Company will continue exploration on the properties. Mineral exploration and evaluation costs may be allocated to CGU's with production and development assets if the cash flows are considered interdependent.

The determination of the CGU's to which exploration properties and their related costs are allocated for the purposes of assessing impairment, and the related estimation of the future events that could result in impairment are inherently subject to uncertainty. The estimated recoverable amount could be impacted by changes in these estimates in the future.

(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.

KARNALYTE RESOURCES INC.

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(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

KARNALYTE RESOURCES INC.

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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.

KARNALYTE RESOURCES INC.

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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.

KARNALYTE RESOURCES INC.

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Years ended December 31, 2013 and 2012

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and probable reserves are determined to exist. The amounts recorded as intangible exploration and evaluation costs represent unamortized costs to date and do not necessarily reflect present or future values of exploration and evaluation assets.

Upon the establishment of technical feasibility and funding becomes available to proceed with plant construction the related exploration and evaluation assets which are transferred to development and production assets 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 value in use of the cash generating unit 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 and therefore is subject to the estimation of mineral reserves.

In determining the fair value less cost to sell, the Company identifies the principal market for the assets and estimates the fair value using assumptions that a third-party market participant would use.

In respect of non-financial assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

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Notes to Financial Statements

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i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation 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.

(j) 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.

(k) 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.

KARNALYTE RESOURCES INC.

Notes to Financial Statements

Years ended December 31, 2013 and 2012

(l) *Changes in accounting policies*

During the first quarter of 2013, the Company adopted the following standards:

i) *IFRS 11 – Joint Arrangements*

Joint arrangements outline the accounting treatment for joint arrangements, notably joint operations and joint ventures, to be applied retrospectively. This new standard became effective on January 1, 2013. There was no impact to the Company on adoption of this standard.

ii) *IFRS 13 – Fair Value Measurement*

Fair value measurement defines fair value, provides guidance on measuring fair value and outlines disclosure requirements for fair value measurements. This standard applies when another IFRS standard requires fair value measurements or disclosures, with some exceptions including IFRS 2 “Share based payments” and IAS 17 “Leases”. This new standard became effective and was applied prospectively on January 1, 2013. There was no measurement impact to the Company on adoption of this standard. Refer to note 9 for the additional disclosure required.

(m) *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”), effective for the Company’s fiscal period beginning January 1, 2014:

i) *IFRS 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. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

ii) *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 extent of the impact of adoption of these standards has not yet been determined.

4. **Deferred financing**

Deferred financing costs were incurred as a result of the Company continuing to pursue debt financing. These costs will be deferred until the debt has been issued. Such financing costs will be recognized in profit or loss if the financing is no longer considered probable.

5. **Restricted cash**

The Company was required to submit three separate \$125,000 (2012 – \$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 Wynyrd, Saskatchewan. The Company has completed the initial test program with no environmental issues encountered. However, the potential exists for additional

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Notes to Financial Statements

Years ended December 31, 2013 and 2012

testing on site and the irrevocable letter of credit will remain in place as a condition precedent to any additional operation of this test facility. The Company believes that the limited future operation of this testing facility will not result in any environmental issues. 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 are invested in Guaranteed Investment Certificates which are redeemable on the 15th day of each month and are due for renewal in 2014.

6. Capital assets

	Land and Buildings	Vehicles	Processing and other Equipment	Assets Under Construction	Total
Cost:					
Balance at January 1, 2012	\$ 455,785	\$ -	\$ 3,302,972	\$ -	\$ 3,758,757
Additions	81,388	141,898	137,229	3,466,078	3,826,593
Balance at December 31, 2012	537,173	141,898	3,440,201	3,466,078	7,585,350
Additions	181,123	-	294,888	12,621,564	13,097,575
Dispositions	(77,158)	-	(14,507)	-	(91,665)
Balance at December 31, 2013	\$ 641,138	\$ 141,898	\$ 3,720,582	\$ 16,087,642	\$ 20,591,260
Accumulated depreciation:					
Balance at January 1, 2012	\$ 65,356	\$ -	\$ 469,480	\$ -	\$ 534,836
Depreciation for the period	43,311	11,825	590,821	-	645,957
Balance at December 31, 2012	108,667	11,825	1,060,301	-	1,180,793
Depreciation for the period	77,309	44,630	620,887	-	742,826
Dispositions	(69,200)	-	(8,325)	-	(77,525)
Balance at December 31, 2013	\$ 116,776	\$ 56,455	\$ 1,672,863	\$ -	\$ 1,846,094
Carrying amounts:					
December 31, 2012	\$ 428,506	\$ 130,073	\$ 2,379,900	\$ 3,466,078	\$ 6,404,557
December 31, 2013	\$ 524,362	\$ 85,443	\$ 2,047,719	\$ 16,087,642	\$ 18,745,166

Assets under construction will not be depreciated until construction is complete and the asset is placed in service. During the year ended December 31, 2013 the Company capitalized employee remuneration of \$1,224,649 (2012 - \$nil) and stock-based compensation expense of \$769,552 (2012 - \$nil) to capital assets.

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Notes to Financial Statements

Years ended December 31, 2013 and 2012

7. Intangible exploration and evaluation assets and other intangible assets

	Mineral Properties	Process Patents	Computer Software	Total
Cost:				
Balance at January 1, 2012	\$ 36,973,796	\$ 89,026	\$ 92,086	\$ 37,154,908
Additions	6,009,602	27,729	157,789	6,195,120
Balance at December 31, 2012	42,983,398	116,755	249,875	43,350,028
Additions	987,291	21,587	26,910	1,035,788
Sale of Assets	(1,181,733)	-	-	(1,181,733)
Balance at December 31, 2013	\$ 42,788,956	\$ 138,342	\$ 276,785	\$ 43,204,083
Amortization and impairment losses:				
Balance at January 1, 2012	\$ -	\$ 13,304	\$ 59,403	\$ 72,707
Amortization for the year	-	(693)	80,463	79,770
Balance at December 31, 2012	-	12,611	139,866	152,477
Amortization for the period	-	9,906	90,842	100,748
Balance at December 31, 2013	\$ -	\$ 22,517	\$ 230,708	\$ 253,225
Carrying amounts:				
December 31, 2012	\$ 42,983,398	\$ 104,144	\$ 110,009	\$ 43,197,551
December 31, 2013	\$ 42,788,956	\$ 115,825	\$ 46,077	\$ 42,950,858

During the year ended December 31, 2013 the Company capitalized employee remuneration of \$109,765 (2012 - \$1,247,195) and stock-based compensation expense of \$45,605 (2012 - \$748,209) to intangible assets.

8. Provisions

December 31,	2013	2012
Beginning balance	\$ 149,956	\$ 185,617
Additions	1,324	-
Deductions	-	(33,101)
Changes in estimate	(19,721)	(4,320)
Accretion	3,760	1,760
Ending balance	\$ 135,319	\$ 149,956

The undiscounted amount of estimated costs required to settle the obligations at December 31, 2013 is \$212,000 (2012 - \$212,000). The estimated costs have been inflated at 2.0 percent and discounted at a risk free rate of 3.02 percent (2012 – 2.18 percent) for the year ending December 31, 2013.

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9. Share capital

(a) *Authorized*

As at December 31, 2013 and 2012 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. No dividends were declared in any of the periods presented.

The Company is also entitled to issue an unlimited number of preferred shares. There are no preferred shares issued as at December 31, 2013 or 2012.

(b) *Earnings per share*

Basic earnings per share were calculated as follows:

	2013	2012
<u>Loss for the year ending December 31,</u>	<u>\$ (6,741,544)</u>	<u>\$ (7,205,846)</u>
Weighted average number of common shares:		
Issued common shares at beginning of period	21,988,704	21,418,536
Share options exercised	-	131,841
Broker warrants exercised	-	178,058
Common shares issued	4,497,538	-
Treasury shares purchased	(963)	-
Weighted average number of common shares:	26,485,279	21,728,435
<u>Basic loss per share</u>	<u>\$ (0.25)</u>	<u>\$ (0.33)</u>

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 2,094,500 (2012 – 1,287,500) 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 may 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 three and nine months ended September 30, 2013 amounted to \$6,378 and \$12,319 (2012 - \$nil) 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.

(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

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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.

(e) Stock-based compensation expense

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:

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1,	1,287,500	9.72	1,213,700	6.91
Issued during the year	1,029,000	7.93	945,000	10.05
Exercised during the year	-	-	(617,325)	5.05
Expired during the year	(78,250)	11.61	(85,500)	7.34
Forfeited during the year	(143,750)	8.44	(168,375)	9.63
Outstanding at December 31,	2,094,500	8.86	1,287,500	9.72
Exercisable at December 31,	1,215,250	9.20	668,750	9.42

The weighted average share price on the dates of exercise was \$nil per share during the year ended December 31, 2013 (2012 - \$7.46).

Number of Options		Remaining Life (yrs)	Grant Date Fair Value	Exercisable	
Outstanding	Exercise Price			Options	Exercise Price
390,500	8.60	1.97	4.24	390,500	8.60
25,000	10.99	2.98	5.32	25,000	10.99
760,000	10.05	3.30	4.62	570,000	10.05
904,000	7.95	4.22	3.05	226,000	7.95
15,000	6.73	4.48	1.35	3,750	6.73
2,094,500	\$ 8.86	3.45	\$ 3.86	1,215,250	\$ 9.20

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There were 1,014,000 options granted on March 21, 2013 and 15,000 options granted on June 24, 2013. The fair value of the options was estimated on the date of grant using the Black-Scholes option-pricing model. The options granted in 2013 vest over two years and have a life of five years. The interest rate, volatility, dividend yield and forfeiture rate assumptions used in the calculation were 1.02% - 1.25%, 42% - 49%, nil and 4% - 6% respectively (2012 - 1.47%, 52%, nil and nil).

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 \$1,594,731 (2012 - \$1,825,780) and office and sundry expense of \$3,162,044 (2012 - \$2,330,667) for the years ending December 31, 2013 and 2012.

11. Key management personnel

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

December 31,	2013	2012
Salaries and benefits	\$ 1,270,320	\$ 1,798,195
Severance payments	-	517,721
Share-based payments	2,102,911	1,678,163
	\$ 3,373,231	\$ 3,994,079

12. Finance income and expenses

December 31,	2013	2012
Finance income:		
Interest income on bank deposits	\$ (536,333)	\$ (448,237)
Foreign exchange gain	(453,852)	-
	(990,185)	(448,237)
Financial expenses:		
Accretion of provisions	1,865	3,915
Foreign exchange loss	26,152	483
	28,017	4,398
Net finance income recognized in profit and loss	\$ (962,168)	\$ (443,839)

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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:

	2013	2012
Loss before tax	\$ (6,741,547)	\$ (7,205,846)
Expected tax rate	25.0%	25.0%
Expected income tax	(1,685,387)	(1,801,462)
Non-deductible expenses	6,910	6,695
Stock-based compensation	514,263	479,869
Other	62,761	(12,253)
Change in valuation allowance	1,101,453	1,327,151
Total income tax expense	-	-

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2013	2012
Deferred tax liabilities:		
Intangible assets (including E&E assets)	\$ (1,885,231)	\$ (1,400,847)
Assets under construction	(192,388)	-
	(2,077,619)	(1,400,847)
Deferred tax assets:		
Non-capital losses	2,077,619	1,400,847
Net deferred tax assets (liabilities)	\$ -	\$ -

Unrecognized deferred tax assets

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

	2013	2012
Capital assets	\$ 557,677	\$ 385,807
Share issue costs	987,946	885,520
Non-capital losses	3,790,929	2,963,772
Net deferred tax assets (liabilities)	\$ 5,336,552	\$ 4,235,099

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 \$23,290,786 (2012 - \$17,458,477) which commence expiry in 2026.

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14. Cash flows from (used in) Investing Activities

	Intangible Exploration and Evaluation and Other Intangible Assets		Capital Assets	
	2013	2012	2013	2012
Cash Flows from (used in) Investing Activities				
Additions	\$ (1,035,788)	\$ (6,195,121)	\$ (13,097,575)	\$ (3,847,304)
Changes in non-cash working capital				
Trade and other receivables	(1,182,233)	156,515	-	-
Trade and other payables	(630,924)	(309,678)	(1,704,639)	2,169,951
Prepaid expenses	29,020	-	(2,300)	-
Stock based compensation capitalized	45,605	748,210	769,552	-
Asset retirement obligations	(18,540)	(37,539)	-	-
	(2,792,860)	(5,637,613)	(14,034,962)	(1,677,353)
Sale/dispositions	1,181,733	-	91,665	-
Accumulated amortization reversal on disposition	-	-	(77,525)	-
Net sale/disposition of assets	1,181,733	-	14,140	-
Net change in cash flows used in investing activities	\$ (1,611,127)	\$ (5,637,613)	\$ (14,020,822)	\$ (1,677,353)

The following is a reconciliation of the capital and intangible exploration and evaluation and other assets recorded in the statement of cash flows as compared to the statement of financial position:

	Intangible Exploration and Evaluation and Other Intangible Assets		Capital Assets	
	2013	2012	2013	2012
Balance January 1	\$ 43,197,551	\$ 37,082,201	\$ 6,404,557	\$ 3,223,921
Additions	1,035,788	6,195,120	13,097,575	3,826,593
Depreciation	(100,748)	(79,770)	(742,826)	(645,957)
Net sale/disposal of assets	(1,181,733)	-	(14,140)	-
Balance December 31	\$ 42,950,858	\$ 43,197,551	\$ 18,745,166	\$ 6,404,557

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.

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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 (Bank of Montreal).

Trade and other receivables relate to proceeds on the sale of assets, GST and interest receivable from the Government of Canada as well a limited number of customers who rent mats on a short-term basis from the Company, the credit risk of which is considered low. All amounts related to trade and other receivables have been received subsequent to year end.

The carrying amounts of trade and other receivables, cash and restricted cash represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at December 31, 2013 (2012 - nil) and considers none of its receivables to be past due.

(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.

The Company will need to obtain a substantial amount of funding in order to continue mine development and achieve commercial production. It is the intent of the Company to raise these funds through debt and equity financings.

The following are the commitments of the company as at December 31, 2013:

	Contractual cash flows	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	\$ 745,870	\$ 745,870	\$ -	\$ -	\$ -
Office lease	811,792	265,238	461,154	85,400	-
Permit/lease on mineral property	2,705,165	51,983	156,167	340,502	2,156,513
Project contracts	1,658,981	1,658,981	-	-	-
	\$ 5,921,808	\$ 2,722,072	\$ 617,321	\$ 425,902	\$ 2,156,513

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The Company's exploration permit is for a term of five years, which can be extended for a term of 3 years. The permit contains 68,301 acres. For its permit, the Company is required to expend \$40,000 in each of the second and third years of the term, and \$80,000 in the fourth and fifth years of the term on work for the purpose of exploring for, developing or mining subsurface minerals. To date, the Company has met and expects to meet all of these related commitments.

The Company has entered into contracts for various drilling, engineering, consulting and debt financing 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. Currently the only delivery sales contract in existence for the Company is related to the off-take agreement 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.

All such transactions will continue to be conducted within risk management tolerances that will be reviewed by the Board of Directors.

(e) *Currency risk*

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

December 31,	2013	2012
	USD	USD
Cash	\$ 48,936	\$ 354,026
Trade and other payables	-	6,825

The exchange rate on the period ending date December 31, 2013 was 1 Canadian dollar equals \$0.9402 USD (December 31, 2012 – \$1 Canadian: \$1.0051 USD). As of December 31, 2013, if the exchange rate would change by 1% it would have an insignificant effect 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 \$0.9367 USD to \$1.0163 USD equalled to 1 Canadian dollar. The net foreign exchange differences are presented as finance income in the Statement of Comprehensive Loss.

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(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, 2013, comprehensive loss would have been lower (or higher) by approximately \$420,000 (2012 - \$280,000).

(g) *Capital management*

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. 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. The Company considers its capital structure to include shareholders' equity and working capital. 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.

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.