Karnalyte
RESOURCES

3150B, Faithfull Avenue
Saskatoon, SK S7K 8H3

ANNUAL INFORMATION FORM

For the year ended December 31, 2015
Dated March 30, 2016

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GLOSSARY OF TERMS

The following are defined terms used in this Annual Information Form:

"**$**" and "**dollars**" means Canadian dollars.

"**2012 Technical Report**" means the technical report entitled "KCl and $MgCl_2$ Reserve and Resource Estimate for the Wynyard Carnallite Project, Subsurface Mineral Permit KP 360A and Subsurface Mineral Lease KLSA 010, Saskatchewan, Canada" prepared by ERCOSPLAN, North Rim, Foster Wheeler Canada Limited and Lyntek with an effective date of June 27, 2012.

"**2013 Private Placement**" means the non-brokered private placement to GSFC whereby the Corporation issued GSFC approximately 5,490,000 Common Shares at a price of $8.15 per Common Share for total gross proceeds of approximately $44.7 million.

"**ABCA**" means the *Business Corporations Act* (Alberta) together with any amendments thereto and where applicable, includes all regulations promulgated thereunder.

"**Agreement in Principle**" means the non-binding agreement in principle (and associated documentation) between the Corporation and GSFC which contemplates a transaction to finance construction of Phase I and to spin-out Karnalyte's secondary mineral assets and unexplored lands into one or more separate entities, as further described under the heading "General Development of the Business – Agreement in Principle".

"**AIF**" means this annual information form dated March 30, 2016.

"**Board of Directors**" or "**Board**" means the board of directors of the Corporation.

"**brackish water**" means water that has more salinity than fresh water, but not as much as seawater.

"**carnallite**" means a highly deliquescent evaporite mineral, being hydrated potassium magnesium chloride, with the chemical formula of $KCl \bullet MgCl_2 \bullet 6(H_2O)$.

"**carnallitite**" means rock material consisting primarily of carnallite, along with sylvite, halite and insoluble materials such as clays, anhydrite, and dolomite.

"**Common Shares**" means common shares in the share capital of the Corporation.

"**Corporation**" or "**Karnalyte**" means Karnalyte Resources Inc., a corporation incorporated under the ABCA.

"**Corporation Action**" means the legal action taken by the Corporation against Robin Phinney, Jean Phinney, and associated entities, alleging improper proxy solicitation and breach by Robin Phinney of his past employment and termination contracts with the Corporation.

"**crystallizer**" means a processing vessel in which potash is precipitated out of a saturated brine.

"**Deadwood Formation**" means a succession of sandstones, shales, siltstones and limestones formed during the Cambrian Period when a shallow sea existed in what is now central western North America. It is now a "porous rock sea" situated about 1500 metres below the surface at Wynyard, Saskatchewan and which is approximately 50 metres thick in the Wynyard area.

"**deliquescent**" means the property of chemical compound, such as zinc chloride, calcium chloride, potassium hydroxide and sodium hydroxide, with a strong affinity for water, whereby it will absorb water from the atmosphere around it.

"**DH10**" means a drill hole drilled by Dominion Potash Canada in 1952 on the Karnalyte Property.

"**DH11**" means a drill hole drilled by Mobil Oil Canada in 1967 on the Karnalyte Property.

"**EIS**" means an Environmental Impact Statement, which is a description and evaluation of the impacts of a development on the environment and includes a discussion of a company's commitment regarding the development which statement is required to be submitted to the MOE pursuant to *The Environmental Assessment Act* (Saskatchewan).

"**ERCOSPLAN**" means ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH, an independent engineering company based in Erfurt, Germany that provides consulting services for potash exploration, mining and processing.

"**evaporite**" means any of a variety of individual minerals found in the sedimentary deposit of soluble salts that result from the evaporation of water.

"**Framework Agreement**" means the agreement dated March 14, 2016 and made effective February 24, 2016 by and among the Corporation, GSFC, and Mr. Robin Phinney, as further described under the heading "General Development of the Business – Framework Agreement".

"**GSFC**" means Gujarat State Fertilizers & Chemicals Limited, a publicly-traded Indian agribusiness company focused on the production and sale of fertilizers and industrial products.

"**halite**" means the natural mineral form of sodium chloride, or NaCl.

"**high quality**" means, when used in relation to potash and fertilizer, low sodium content.

"**Indicated Mineral Resource**" means that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

"**Initial Facility**" means the planned solution mining facility of the Corporation which will initially produce 625,000 tonnes of potash per year.

"**K_2O**" is a chemical term used in the analysis and marketing of fertilizers that contain different potassium compounds, as a comparison of their relative potassium content when compared to equivalent potassium oxide (K_2O). Pure KCl is equivalent to 63.178% K_2O.

"**Karnalyte Property**" means the approximately 85,126 acres (or 344.5 km^2) of land located in south central Saskatchewan that is the subject of Permit KP 360A and the Lease.

"**KCl**" is a chemical formula for potassium chloride, or potash.

"**Lease**" means Subsurface Mineral Lease KLSA-010 issued by the Saskatchewan Ministry to the Corporation on February 14, 2011, which lease has an initial term that expires on August 26, 2031, as such lease may be amended or replaced from time to time.

"**Lyntek**" means Lyntek Incorporated, an engineering and construction services company located in Lakewood, Colorado.

"**MD&A**" means management discussion and analysis.

"**$MgCl_2$**" is a chemical formula for magnesium chloride.

"**Mineral Reserve**" means the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

"**Mineral Resource**" means a concentration or occurrence of natural solid inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

"**MOE**" means Saskatchewan Ministry of Environment.

"**NaCl**" means sodium chloride (Halite).

"**NI 43-101**" means National Instrument 43-101 **-** *Standards of Disclosure for Mineral Projects*.

"**North Rim**" means North Rim Exploration Ltd., an engineering, technical and consulting services company located in Saskatoon, Saskatchewan.

"**Offtake Agreement**" means the offtake agreement dated January 10, 2013 and entered into between the Corporation and GSFC.

"**Options**" means incentive stock options of the Corporation currently issued or to be issued under its stock option plan.

"**Permit Area**" means the area covered by Permit KP 360 or Permit KP 360A, as the case may be.

"**Permit KP 360**" means the subsurface mineral permit issued on March 13, 2008 by the Saskatchewan Ministry and held by the Corporation for rights to explore and prospect for subsurface minerals on the portions of Karnalyte Property, which permit was replaced with Permit KP 360A by the Saskatchewan Ministry on February 14, 2011.

"**Permit KP 360A**" means the subsurface mineral permit issued by the Saskatchewan Ministry on February 14, 2011 to the Corporation, which permit replaced Permit KP 360 and provided the Corporation with exclusive rights to explore and prospect for subsurface minerals located within the Permit Area.

"**Phase I**" means the Corporation's proposed development of the Wynyard Carnallite Project with an expected design capability and production capacity of 625,000 TPY of potash.

"**Phase II**" means the proposed development of the Wynyard Carnallite Project with an expected design capability and production capacity of 1,375,000 TPY of potash.

"**Phase III**" means the proposed development of the Wynyard Carnallite Project with an expected design capability and production capacity of 2,125,000 TPY of potash.

"**Phinney Action**" means the legal action taken by Robin Phinney against the Corporation and certain of its directors alleging the Board's continuing disregard for the interests of the Corporation's shareholders.

"**Phinney Shareholder Group**" means a group of shareholders, including Robin Phinney, holding approximately 22.16% of the Common Shares as at December 10, 2014.

"**potash**" means the commercial name for potassium chloride, used as a fertilizer and as an industrial feedstock.

"**potassium chloride**" is the chemical compound that is a metal halite salt composed of potassium and chlorine.

"**Prairie Evaporite Formation**" means an underground sedimentary formation containing many layers of salts and insoluble material, formed by evaporation of water from ancient seas.

"**Preferred Shares**" means preferred shares in the share capital of the Corporation.

"**preliminary feasibility study**" or "**pre-feasibility study**" means a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social and environmental factors and the evaluation of other relevant factors which are sufficient for a Qualified Person, acting reasonably, to determine if all or a part of the mineral resource may be classified as a mineral reserve.

"**Proposed Financing**" means the financing transactions contemplated by the Agreement in Principle, as further described under the heading "General Development of the Business – Agreement in Principle".

"**Proposed Spin-out Transactions**" means the one or more proposed spin-out transactions contemplated by the Agreement in Principle, as further described under the heading "General Development of the Business – Agreement in Principle".

"**Qualified Person**" means an individual who: (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project; and (c) is a member in good standing of a professional association as defined by NI 43-101.

"**Saskatchewan Ministry**" means the Saskatchewan Ministry of Energy and Resources (and its predecessors and successors).

"**SBI**" means SBI Capital Markets Ltd.

"**Settlement Agreement**" means the settlement agreement between the Corporation, GSFC, Robin Phinney, Vishvesh Nanavaty, Henry Kerkhoven, Sokuen Sue Ng, Sanjeev Varma, Mukund Purohit, Stephen Goodman, Bruce Townsend, Jay Sujir, Gerald Offet and Thomas Pressello dated May 21, 2015 related to the settlement of the Corporation Action and Phinney Action.

"**Side Letter**" means the side letter agreement dated January 10, 2013 and entered into between the Corporation and GSFC.

"**Subscription Agreement**" means the subscription agreement dated January 10, 2013 and entered into between the Corporation and GSFC.

"**sylvinite**" means a rock containing sylvite, in varying mixtures with halite and insoluble material.

"**sylvite**" means the natural mineral form of potassium chloride.

"**tonne**" means a metric ton, equal to 1,000 kilograms.

"**Township**" means the principal unit of the rectangular survey system. A township is a square with six-mile (9.66 km) sides consisting of 36 sections with an area of 36 square miles (93.24 km^2).

"**TPY**" means tonnes per year.

"**TSX**" or "**Exchange**" means the Toronto Stock Exchange.

"**US Patent Office**" means United States Patent and Trademark office.

"**US**" or "**United States**" means the United States of America, its territories or possessions, any state of the United States and the District of Columbia.

"**USGS**" means United States Geological Survey.

"**Wynyard Carnallite Project**" means the potash exploration and development project of the Corporation on the Karnalyte Property.

FORWARD LOOKING INFORMATION

Certain statements in this AIF may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "plan", "intend", "forecast", "future", "guidance", "may", "predict", "project", "should", "strategy", "target", "will" or the negative or similar words or phrases suggesting future outcomes or language suggesting an outlook.

Forward-looking statements may include, but are not limited to, management's expectations, intentions, and beliefs concerning:

- development of the Wynyard Carnallite Project;
- future extraction and exploitation of mineral deposits;
- capital expenditure requirements;
- future commodity prices;
- expectations regarding prices and costs;
- the completion of the Proposed Financing and the Proposed Spin-out Transactions and the anticipated benefits to be derived therefrom;
- the terms of the Proposed Financing, including the anticipated senior debt to equity financing ratio;
- expectations regarding the Corporation's ability to obtain additional financing;
- expenditures to be made by the Corporation to meet certain work commitments;
- work plans to be conducted by the Corporation;
- reclamation and rehabilitation obligation and liabilities;
- treatment under governmental regulatory regimes with respect to environmental matters;
- treatment under governmental taxation regimes;
- impact of foreign governments and regulation on the Corporation's operations;
- future development of infrastructure;
- government regulation of mining operations;
- dependence on key personnel; and
- competitive conditions.

Forward-looking statements in this AIF include statements regarding:

- the Corporation's ability to commence and ramp up production from 625,000 TPY, to 1.375 million TPY, and thereafter to 2.125 million TPY of potash;
- the Corporation's expectation that the Saskatchewan Ministry will convert the lands subject to Permit KP 360A into one or more new leases and amend the Lease, as described herein;
- the production of potash;
- the costs related to the operation of the plant and facilities will be consistent with other solution mining operations subject to differences in the Corporation's mineral body and processing;

- the use of solution mining process;
- further seismic exploration and drilling;
- future increases in global fertilizer demand and consumption;
- anticipated results of development and extraction activities and estimated future development;
- the Corporation's ability to produce sufficient potash to meet its obligations under the Offtake Agreement;
- the Corporation's ability to obtain additional financing on satisfactory terms;
- the market prices for potash;
- the Corporation's ability to pump the waste underground as brine to eliminate surface salt tail piles;
- the Corporation's ability to economically extract and process mineralized material into potash; and
- the improvements that the Corporation has developed for the solution mining process are as effective as expected by the Corporation.

Such forward-looking statements are based on a number of material factors and assumptions, including, that:

- the Corporation's ability to successfully negotiate definitive documentation with respect to the Proposed Financing;
- the Corporation's ability to receive, in a timely manner, the necessary regulatory approvals, Board of Directors approval, shareholder approval and other third party approvals;
- the Corporation's ability to obtain the proposed senior secured debt, mezzanine debenture and equity financings on terms favourable to it;
- the Corporation's ability to successfully spin-out its secondary mineral rights and unexplored lands;
- the Corporation continues to have title to the Karnalyte Property, and such title is not challenged or impacted in any material manner;
- the Corporation is able to obtain required approvals, licenses and permits, in a timely manner;
- the Corporation's key senior management continue in their respective roles with the Corporation;
- the Corporation's intellectual property is not challenged;
- the Corporation does not become subject to litigation;
- the Corporation's ability to meet its obligations under the Offtake Agreement;
- environmental and other applicable law and other regulations are not amended, repealed or applied in a manner that impacts the development and operation of the Wynyard Carnallite Project as currently anticipated;
- there are no adverse changes to price of potash that would adversely affect the prospects for developing and operating the Wynyard Carnallite Project, or making it inadvisable or uneconomic to proceed with development;
- the future mining operations operate in the normal course;
- the Corporation's ability to maintain and develop positive relationships with foreign governments and future business partners;

- the Corporation is able to maintain and develop the infrastructure required to export, store and transport its potash production;
- there are no comparable mining companies targeting carnallite in North America; and
- the continued existence and operation of the primary potash production facility.

Forward-looking statements involve significant risks and uncertainties. Such statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to the following factors, which are discussed in greater detail under the "Risk Factors" section of the AIF.

- exploration, development and operation risks related to the Wynyard Carnallite Project;
- the risks associated with the Proposed Financing and the Proposed Spin-out Transactions;
- additional funding requirements;
- the risks associated with the limited operating history of the Corporation;
- no assurance of titles, leases, or maintenance of existing permits;
- permit and licensing requirements related to exploration and development activities;
- the Corporation's ability to satisfy its material agreements, including the Offtake Agreement;
- the risks associated with the enforcement of the Corporation's material agreements, including the Offtake Agreement;
- the potential loss of key employees, technical experts or key suppliers;
- the potential for a volatile market for the Common Shares;
- the potential dilution of shareholders through future financings;
- failure to protect the Corporation's intellectual property rights;
- litigation and tax matters;
- adequacy of the Corporation's insurance coverage;
- adequacy of the Corporation's internal controls over financial reporting;
- environmental and regulatory risks;
- the volatility of potash prices;
- the cyclical nature of the potash industry;
- competition; and
- currency exchange rate fluctuations.

Although the forward-looking statements contained in this AIF are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this AIF and are expressly qualified in their entirety by this cautionary statement. Subject to applicable securities laws, the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

All forward-looking statements contained in this AIF are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in Karnalyte's MD&A and audited annual financial statements for the year ended December 31, 2015 which have been filed with Canadian provincial securities commissions and are available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

KARNALYTE RESOURCES INC.

Name, Address and Incorporation

The Corporation was incorporated pursuant to the ABCA on November 16, 2007. Effective April 9, 2008, Karnalyte's articles were amended by a Certificate of Amendment to increase the minimum number of directors from one to three, and to remove the restrictions on share transfers.

The Corporation's head office is located at 3150B Faithfull Avenue, Saskatoon SK, S7K 8H3. The Corporation's registered office is located at 1600, 520 – 3rd Avenue S.W., Calgary, Alberta, T2P 0R3.

The Corporation has no subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

2013

On January 10, 2013, the Corporation announced that it had reached an agreement with GSFC, whereby GSFC would make a strategic investment of approximately $45 million in the Corporation at a price of $8.15 per Common Share, which will result in GSFC holding a 19.98% ownership interest in the Corporation. GSFC and the Corporation also entered into the Offtake Agreement for the purchase of approximately 350,000 TPY of potash from Phase I of the Wynyard Carnallite Project, increasing to 600,000 TPY with the commencement of Phase II of the Wynyard Carnallite Project. Pursuant to the terms of the Subscription Agreement entered into between GSFC and the Corporation, GSFC had the right to appoint one nominee to the Board of Directors. Additionally, pursuant to the Side Letter entered into between the Corporation and GSFC, GSFC agreed to commit approximately $15 million in the next rounds of public equity financing by the Corporation to finance the construction of Phase I of the Wynyard Carnallite Project.

On February 11, 2013, the Corporation announced that MOE approved the EIS submitted by the Corporation in September 2012 for the Corporation's Wynyard Carnallite Project in accordance with the *Environmental Assessment Act* (Saskatchewan).

On March 7, 2013, the Corporation announced the closing of its previously announced 2013 Private Placement to GSFC. In connection with the closing, Mr. Vishvesh Nanavaty, the General Manager of Finance of GSFC, was appointed to the Board of Directors of the Corporation.

On June 14, 2013, the Corporation entered into an engagement letter pursuant to which BNP Paribas and Natixis, New York Branch, were engaged on an exclusive basis, to act as lead arrangers for a senior secured project finance facility of up to US$300 million, intended to fund the construction and commissioning of the Wynyard Carnallite Project.

On June 17, 2013, the Corporation announced that it had entered into an agreement with Whiting Equipment Canada Inc. for the engineering and design of evaporators, potash crystallizers and auxiliary equipment at the planned Wynyard Carnallite Project.

On June 18, 2013, the Corporation was awarded patent number 2,638,521 by the Canadian Patent Office, in respect of its patent application number 2,638,521.

On August 9, 2013, the Corporation announced that the MOE was satisfied with the brine disposal injectivity test, which was one of the conditions of the EIS approval dated February 7, 2013. In addition, on September 19, 2013, the Corporation announced that it had received notice from the MOE that it had met an additional condition of the EIS approval which enables the Corporation to proceed to the construction permitting process in respect of the project.

On September 16, 2013, the Corporation received the permit "Construct a Pollutant Control Facility" based on meeting all EIS conditions for the Project from the MOE.

On December 12, 2013, the Corporation announced that it had received the Water Rights Licence to Use Ground Water and Approval to Operate Works from the Wynyard Carnallite Project's source water well from the Saskatchewan Water Security Agency. The license allows the Corporation the right to withdraw brackish water from the Blairmore formation to support the solution mining process for the Wynyard Carnallite Project.

2014

On January 10, 2014, the Side Letter expired.

On April 1, 2014, the Corporation was awarded patent number 8,685,135 by the US Patent Office, in respect of its patent application number 13/692,470. On April 8, 2014, the Corporation was awarded patent number 2,638,704 by the Canadian Patent Office.

On May 13, 2014, Thomas Drolet was appointed as the interim President and Chief Executive Officer of the Corporation, replacing Robin Phinney, whose employment was terminated. Mr. Drolet was appointed as a director of the Corporation on May 12, 2014.

On June 27, 2014, Robin Phinney resigned as a director of the Corporation.

On August 14, 2014, the Corporation announced that Thomas Drolet was appointed as the permanent President and Chief Executive Officer of the Corporation.

On September 23, 2014, Bruce Townsend, Chairman of the Board, replaced Mr. Drolet as the President and Chief Executive Officer on an interim basis. Mr. Drolet also resigned from the Board and Jay Sujir was appointed as a director of the Corporation to fill the resulting vacancy.

On November 12, 2014, Stephen Goodman was appointed as the President and Chief Executive Officer of the Corporation. On November 14, 2014, Mr. Goodman and Gerald Offet were appointed as directors of the Corporation.

On December 16, 2014, Robin Phinney announced that he had requisitioned a shareholders meeting on behalf of the Phinney Shareholder Group to remove four incumbent directors of the Corporation and elect four new directors of the Corporation.

2015

On January 2, 2015, the Corporation announced that it was in discussions in connection with obtaining financing of a targeted amount of approximately USD $700,000,000 for the development of the Wynyard Carnallite Project.

On January 31, 2015, the Corporation changed its transfer agent to CST Trust Company.

On February 11, 2015, the Corporation provided a cautionary update on the magnesium project.

On April 1, 2015, the Alberta Securities Commission granted the application filed by the Corporation on March 23, 2015 for a management cease trade order in respect of a delay in filing the Corporation's annual financial statements, management's discussion and analysis and annual information form for the year ended December 31, 2014.

On April 9, 2015, Ronald Love resigned as the Executive Vice-President and Chief Financial Officer of the Corporation.

On April 13, 2015, the Corporation announced the Board's determination that in the current price environment for potash and magnesium, it is not possible to finance and profitably construct and operate a potash and magnesium production facility at the Wynyard Carnallite Project, and that the Corporation suspended all activity in relation to the project, other than the minimum required to maintain Permit KP 360A and the Lease, secure the site on a care and maintenance basis and otherwise preserve intact the Wynyard Carnallite Project. The Board further determined that the Corporation should recognize a non-cash impairment loss of $59,149,000 related to the Wynyard Carnallite Project resulting in it being carried on the Corporation's balance sheet at $4,016,000, which reflects its salvage value. The Corporation further announced that it no longer considered the Wynyard Carnallite Project to have a Mineral Reserve and that the Mineral Reserve previously reported by the Corporation should not be relied upon given the significant negative change in potash prices since the effective date of the 2012 Technical Report.

On April 13, 2015, the Corporation announced the closure of its project office in Saskatchewan. The Corporation also announced that it recognized a non-cash impairment loss of $59,149,000 related to the Wynyard Carnallite Project resulting in it being carried on the Corporation's balance sheet at $4,016,000 which reflects its salvage value.

Effective April 14, 2015, the Corporation appointed Mr. Thomas Pressello as Executive Vice-President and Chief Financial Officer.

On April 14, 2015, the Corporation announced that it commenced the Corporation Action against Robin Phinney, Jean Phinney, and associated entities.

On April 15, 2015, Robin Phinney and the Phinney Shareholder Group announced that GSFC had agreed to support the immediate reconstitution of the Board of Directors, and had entered into an agreement which provides a proposed framework for raising funds required by the Corporation to implement the Wynyard Carnallite Project.

On April 20, 2015, the Corporation announced the resignation of Mr. Martin Hall as a director of the Corporation and the appointment as director of Mr. Thomas Pressello, the Chief Financial Officer of the Corporation.

On April 27, 2015, Mr. Phinney announced that he commenced the Phinney Action against the Corporation and certain of its directors.

On May 1, 2015, the Corporation announced that, to avoid further unnecessary legal costs, the Corporation provided an undertaking to Mr. Phinney in return for an agreement by Mr. Phinney not to pursue an injunction application on an urgent basis. The Corporation undertook not to sell its Wynyard Carnallite Project and related mineral assets prior to the Meeting without first seeking shareholder approval.

On May 21, 2015, in recognition of the number of shareholders who support the Phinney Shareholder Group and to avoid the time and expense of further litigation, the Corporation announced the resignations of all of its directors other than Mr. Vishvesh Nanavaty, of its President and Chief Executive Officer, Mr. Stephen Goodman, and of its Chief Financial Officer, Mr. Tom Pressello. Mr. Robin Phinney was appointed director and President. Mr. Henry Kerkhoven, Ms. Sokuen Sue Ng., Mr. Sanjeev Varma, and Mr. Mukund Purohit were appointed directors. The Corporation further announced that the Corporation Action and the Phinney Action were being withdrawn or discontinued.

On June 3, 2015, the Corporation, Mr. Robin Phinney, and GSFC disclosed the Settlement Agreement governing the settlement of the Corporation Action and the Phinney Action.

On June 4, 2015 the Corporation announced that it had re-hired its engineering and technical teams to carry out the planned pilot program to optimize KCl concentration and confirm the design parameters.

On July 14, 2015, the Corporation announced that it was restarting its operations at its Wynyard, Carnallite Project and the details of the Corporation's 2015/2016 development program designed to optimize production from the underground caverns, increase KCl concentration, and confirm equipment design parameters. The Corporation further announced that it was in continuous discussions with GSFC and was in receipt of an indicative term sheet containing broad terms for debt financing from the investment arm of one of India's largest banks.

On August 12, 2015, the Corporation announced the appointment of Mr. Christopher Morris as Interim Chief Financial Officer.

On September 21, 2015, the Corporation was awarded trademark registration numbers TMA914,701, TMA914,702, and TMA914,703 by the Canadian Intellectual Property Office for the trademark applications serial numbers. 1,544,400, 1,544,401, and 1,544,406, respectively.

On November 13, 2015, the Corporation announced that it had made significant progress on the Corporation's two key areas of focus: 1) securing financing to construct Phase I, and 2) completing the first phase of the previously announced development program to optimize production from the underground caverns.

On November 17, 2015, the Corporation was awarded patent number 2,703,276 by the Canadian Patent Office.

On December 31, 2015, the Corporation announced the appointment of Ms. Danielle Favreau as Controller and Interim Chief Financial Officer, replacing Mr. Christopher Morris.

In December, 2015, the three pending United States trademark applications, originally filed the US Patent Office in March 2012, were abandoned for failure to meet the statement of use requirements necessary to obtain the official registration certificates. Prior to formal abandonment of the three trademark applications, subsequent re-filings of identical trademark applications were made on November 18, 2015 in order to maintain the good standing of the Corporation's pending trademark rights within the United States of America.

Subsequent to December 31, 2015

On February 19, 2016, the Canadian Patent Office allowed patent application 2,720,371.

On March 8, 2016, the Corporation applied to the Saskatchewan Ministry to convert the lands subject to Permit KP 360A to one or more leases. The Corporation applied to have certain of such lands become subject to a new lease to be issued to the Corporation, and for certain of such lands to be added to the Lease. On March 12, 2016, Permit KP 360A expired.

On March 14, 2016, the Corporation announced that it had entered into an Agreement in Principle with GSFC to finance the construction of Phase I. The Corporation also announced that it entered into the Framework Agreement with GSFC and Mr. Robin Phinney. A description of each of the Agreement in Principle (including the Proposed Financing and the Proposed Spin-out Transactions contemplated thereunder) and of the Framework Agreement is set out below.

Agreement in Principle with GSFC

Proposed Financing

The Agreement in Principle contemplates a Proposed Financing transaction that includes senior secured debt, subordinated unsecured debt, and an equity infusion to be backstopped by GSFC. Key attributes of the Proposed Financing include:

- senior secured debt in excess of $500 million USD over a 20-year term;
- a total equity requirement equal to one-third of the amount of the senior secured debt, with up to 50% to be raised through subordinated unsecured debt and the remainder to be raised through the issuance of Common Shares;

- backstop guarantees by GSFC for any shortfalls of equity in the event that the Corporation is unable to raise sufficient amounts through the issuance of Common Shares; and
- backstop guarantees by GSFC in the event of project cost overruns.

Senior Secured Debt

The senior secured debt will be comprised of a two-part structure. A subsidiary of GSFC will secure a non-fund based facility in the form of an unconditional and irrevocable standby letter of credit ("**SBLC**") to be provided by a syndicate of banks and financial institutions with SBI acting as lead arranger. The SBLC will be used to secure a foreign currency loan made to Karnalyte by a syndicate of Indian banks and financial institutions. GSFC has undertaken to arrange any shortfall in funds for the equity required upon closing and to fund cost overruns for Phase I, if any, in the form of additional equity.

Mezzanine Debt

Up to 50% of the total equity requirement in the Proposed Financing may be satisfied by the issuance of subordinated unsecured debt which will be considered equity by the project lenders for the purposes of the debt-equity ratio calculation. Upon maturity of the subordinated unsecured debt, which is anticipated to be seven years, the Corporation will raise the funds required to payout the subordinated unsecured debt by way of an equity financing. To the extent that the Corporation is unable to do so on satisfactory terms, GSFC or any affiliate thereof will purchase from Karnalyte such number of Common Shares as necessary to satisfy these obligations.

Equity Issuance

The Corporation will also issue Common Shares to the extent necessary to satisfy the senior and subordinated debt covenants relating to the required debt to equity ratio. If the Corporation is unable to raise the required equity on satisfactory terms, GSFC or any affiliate thereof will purchase from Karnalyte such number of Common Shares at an issue price per share equal to the lesser of: (a) the issue price of the equity financing; and (b) an agreed upon floor price based on the then fair value of such Common Shares, prior to closing of the Financing Transaction.

Special Voting Share

As a condition to obtaining the project financing, GSFC is required to have and maintain at least a 51% voting interest in Karnalyte while the senior secured debt is outstanding. A special voting share ("SVS") will be issued to a subsidiary of GSFC to satisfy this condition. The SVS will carry a 51% voting right in Karnalyte, and no issuance of Common Shares by Karnalyte will affect such 51% voting right. The SVS will carry no economic interest in Karnalyte. Upon repayment of the SBLC, the SVS will be retracted. The issuance of the SVS will not result in any economic dilution to the shareholders of Karnalyte.

Proposed Spin-out Transactions

The Agreement in Principle also contemplates one or more newly created corporations to be initially held by current Karnalyte shareholders in proportion to their shareholdings as at the closing date of the

Proposed Spin-out Transactions. The Agreement in Principle contemplates that Karnalyte's secondary minerals, including magnesium, will be developed in a separate entity. The Agreement in Principle also contemplates the assignment to a separate entity of a part of the Karnalyte Property comprising approximately 241 km^2 (or approximately 70% of the Karnalyte Property), which part of the Karnalyte Property the Corporation does not intend to explore or develop.

There can be no assurance that Karnalyte will be able to complete the Proposed Financing or the Proposed Spin-out Transactions on the terms described herein or at all. See "Risk Factors".

Framework Agreement

In order to facilitate the completion of the Proposed Financing and the Proposed Spin-out Transactions, Karnalyte, GSFC and Mr. Robin Phinney have entered into the Framework Agreement, which contains, among other things, an agreement with respect to the composition of the Board of Directors, voting support and solicitation.

The parties to the Framework Agreement have agreed that:

- they will use commercially reasonable efforts to provide that the Board of Directors will continue unchanged until the transactions contemplated in the Agreement in Principle have been completed;
- Robin Phinney, Henry Kerkhoven and Sokuen Sue Ng are director nominees of Mr. Phinney and in the event that any such nominee ceases to be a director of Karnalyte, Mr. Phinney has the right to nominate a replacement director;
- Vishvesh D. Nanavaty, Sanjeev V. Varma and Mukund Purohit are director nominees of GSFC and in the event any such nominee ceases to be a director of Karnalyte, GSFC has the right to nominate a replacement director;
- a permanent Chief Executive Officer or Chief Financial Officer will not be appointed during the term of the Framework Agreement;
- each party will vote all Common Shares owned or controlled by them in favour of the current Board of Directors and the Proposed Spin-out Transactions;
- during the term of the Framework Agreement, Robin Phinney will not dispose of any of the 1,671,750 Common Shares owned by him; and
- during the term of the Framework Agreement, GSFC will not dispose of any of the 5,490,000 Common Shares owned by it.

The Framework Agreement will terminate on the earlier of the date that the transactions contemplated in the Agreement in Principle are entered into and September 30, 2016. If the Framework Agreement terminates without the consummation of the transactions contemplated in the Agreement in Principle, the parties have agreed that:

- GSFC will cause one of its nominee directors to resign from the Board of Directors;
- Karnalyte and GSFC will use commercially reasonable efforts to cause the Board of Directors to consist of not more than seven members;

- GSFC will be entitled to require that Karnalyte nominate at any annual or special meeting of the shareholders of Karnalyte held for the purpose of electing the directors of the Corporation (i) three duly qualified nominees of GSFC for election to the Board of Directors if there are seven members of the Board of Directors; (ii) two duly qualified nominees of GSFC for election to the Board of Directors if there are five or six members of the Board of Directors; and (iii) one duly qualified nominee of GSFC for election to the Board of Directors if there are fewer than five members of the Board of Directors; and
- Karnalyte will use commercially reasonable efforts to cause GSFC's nominees to be elected by the shareholders of Karnalyte at any annual or special meeting of the shareholders of Karnalyte held for the purpose of electing the directors of the Corporation; provided that if at any such meeting none of the individuals nominated by GSFC are elected by the shareholders of Karnalyte, the nomination rights of GSFC set forth under the Framework Agreement will terminate and GSFC and Karnalyte will then be subject to the terms and conditions set forth in the Subscription Agreement that had been previously entered into by such parties, which (i) based on GSFC's current ownership interest entitles GSFC to designate one nominee for election or appointment to the Board of Directors as long as GSFC holds 10% or more of the outstanding Common Shares; and (ii) entitles GSFC the right to nominate an observer to attend all meetings and committee meetings of the Board of Directors if GSFC owns less than 10% of the outstanding Common Shares.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

General

The Corporation is engaged in the business of exploration and development of high quality agricultural and industrial potash. The Corporation intends to develop and extract carnallite-sylvite mineral deposits through a solution mining process, at competitive cost and with minimal environmental impact. Using a staged approach to potash plant construction, the Corporation plans to operate the Initial Facility to produce 625,000 TPY of potash, increasing to 1,375,000 and 2,125,000 TPY of potash by the completion of Phase II and Phase III respectively.

The Corporation's potash exploration and development project on the Wynyard Carnallite Project is within a dominant zone of carnallitite and sylvinite mineralization. In 2011, the Corporation drilled two geotechnical drill holes and seven new exploration drill holes on the Wynyard Carnallite Project. These are in addition to the two previous exploration drill holes drilled by the Corporation in 2009 and the two historical drill holes located on the Karnalyte Property. To date, the Corporation has conducted advanced exploration on approximately 17,544 acres or 20% of the Karnalyte Property.

Development Activities

The Corporation completed the first phase of the previously announced development program to optimize production from the underground caverns which will assist in developing a full-scale production facility. The design and construction of the mechanical equipment for the Phase I cavern preparation system is now complete. Design work on non-commercial cavern production equipment for Phase II is on schedule for completion during the winter of 2015/2016. Water injection for cavern preparation and development is scheduled to commence in the spring of 2016, with non-commercial cavern production projected to follow immediately thereafter. Completion of the optimization program is expected sometime in the fall of 2016.

The Corporation is currently in the process of updating its estimated capital and operating expenditures, after which it expects it will be in a better position to anticipate timing and costs to take the Wynyard Carnallite Project to the next stage of development. The Corporation has engaged consultants to review the validity of the 2012 Technical Report and the Technical Report of the Corporation titled "Amended and Restated Reserve and Resource Estimate for the Wynyard Carnallite Project, Subsurface Mineral Permit KP 360A and Subsurface Mineral Lease KLSA 010, Saskatchewan, Canada" dated March 30, 2012.

Offtake Agreement with GSFC

Karnalyte and GSFC have entered into an Offtake Agreement for GSFC's purchase of approximately 350,000 TPY from Phase I. The Corporation and GSFC intend to commence the offtake with commercial production from Phase I with the result that the Corporation will secure sales for approximately 56% of its intended potash production from Phase I for approximately 20 years. The Offtake Agreement also provides GSFC with the option to increase its offtake by 250,000 TPY to 600,000 TPY (representing approximately 44% of the planned total of 1,375,000 TPY) from the date of commencement of Phase II commercial production. The Offtake Agreement provides GSFC the potential to increase its offtake by up to 400,000 TPY from Phase III such that the total annual quantity of potash to be sold pursuant to the Offtake Agreement shall be up to 1,000,000 TPY.

Proposed Reorganization

The Proposed Spin-out Transactions under the Agreement in Principle contemplate the spinning-out of the Corporation's secondary mineral assets, including magnesium, into a separate entity.

Karnalyte owned a 100% interest in Subsurface Permit KP 360A and currently owns 100% interest in the Lease, which are located near Wynyard, Saskatchewan, and comprise a total of approximately 85,126 acres, or approximately 344.5 km^2 of land. The lands which have been explored, and which the Corporation intends to mine in connection with which Phases I, II and III, comprise approximately 106 km^2 and represent approximately 30% of Karnalyte's total lands. Karnalyte's unexplored lands include approximately 241 km^2, or approximately 70% of the Corporation's total lands. The Agreement in Principle contemplates an assignment of such unexplored lands to a separate entity which will have the benefit of a license for associated intellectual property to allow such entity to further explore and develop these currently untapped assets and allow current Karnalyte shareholders to benefit from such development.

Description of the Karnalyte Property

Location and Property Description

The Karnalyte Property is located in central Saskatchewan approximately 175 km east of Saskatoon and some 65 km east of the Potash Corporation of Saskatchewan Inc.'s Lanigan mine. The historic Permit

KP 360 was transferred by Mr. Robin Phinney to Karnalyte on October 24, 2008. On February 14, 2011, certain of the lands subject to Permit KP 360 and located within the western portion of the Permit Area were converted to one or more leases. Thereafter, the Saskatchewan Ministry replaced KP 360 with KP 360A. The Crown mineral lands subject to the Lease and Permit KP 360A cover an aggregate area of approximately 85,126 acres (or 344.5 km^2) in portions of Townships 31 and 32 and Ranges 14 to 17 over Sections 1 to 36. The dimensions of the project area are approximately 18 miles (29 km) east to west and 8 miles (12.8 km) north to south.

The term of Permit KP 360A ended on March 12, 2016. On March 8, 2016, the Corporation applied to the Saskatchewan Ministry to convert the lands subject to Permit KP 360A to one or more leases. As part of its application, the Corporation requested that the Saskatchewan Ministry add 15,363.20 of such lands to the Lease. The Corporation also requested that the Saskatchewan Ministry convert the remaining permit acreage to one or more new leases to be issued to the Corporation. The Corporation expects that the Saskatchewan Ministry will make certain acreage adjustments as it considers the Corporation's applications, including to address the addition of contiguous road allowance lands. As part of its applications to the Saskatchewan Ministry, the Corporation submitted application fees, deposits, and the estimated first year's rent payments for the leases. While the Corporation expects that the Saskatchewan Ministry will amend the Lease and issue one or more new leases, as requested, there is no assurance in that regard. See "Risk Factors".

Accessibility, Climate, Local Resources and Physiography

The Karnalyte Property is located 3.2 km to the south of Highway 16 near the town of Wynyard, Saskatchewan. Overall, the Karnalyte Property consists of flat to gently rolling predominantly cleared farmland with local mixed poplar/aspen bluffs.

The Karnalyte Property is accessible and serviced by a network of "grid" section gravel and paved roads, including a major paved highway (Highway 16 connects the urban centers of Saskatoon and Yorkton, Saskatchewan) bounding the northern portion of the Karnalyte Property. Although there is currently no rail access to the Karnalyte Property, a major line of Canadian Pacific Railway Limited runs parallel to Highway 16 at Wynyard, Saskatchewan, a divisional point in their system. In addition, the Canadian National Railway Company has a line within 38 km of the Corporation's load-out facility, which could be used as a supplementary rail connection.

Exploration operations, such as seismic acquisition and exploratory drilling, are limited by weather conditions during the spring and fall periods when soft ground conditions due to thawing or precipitation create difficulties in moving heavy machinery. Access during the winter and summer months is largely restricted only by local conditions, periodic rains or snowfalls, or environmentally sensitive ground conditions such as the nesting grounds for endangered bird species. Rural municipalities routinely impose heavy vehicle restrictions (road bans) during spring thaw which may restrict exploration activities during the spring.

The region is well served by an electrical distribution network. The Karnalyte Property is relatively close to the main electrical supply grid. As with electrical power, natural gas distribution lines are in the vicinity of the Karnalyte Property but would require upgrades. The Corporation's Water Rights Licence to

Use Ground Water and Approval to Operate Works from the Wynyard Carnallite Project's source water well allows the Corporation to withdraw brackish water from the Blairmore formation to support the solution mining process for the Wynyard Carnallite Project. The Deadwood Formation, some 1,500 meters below surface, consists of sandstone beds that could potentially be used as a storage reservoir for spent process brines from the Corporation's processing facility.

History of the Karnalyte Property

Previous mineral exploration of the lands encompassed by Permit KP 360 consisted of exploratory drilling and surface reflection seismic surveys. Within the Lease area and the Permit Area, collectively, two historical drill holes, DH10 and DH11, penetrated the Prairie Evaporite Formation.

The southern portion of the Permit Area was held by William C. Lagos during the 1960s; however, no work was done on the Karnalyte Property under his ownership. Permits were held north of the Karnalyte Property by King Resources Ltd.

On March 13, 2008, Permit KP 360 was granted to Robin Phinney, the current President of the Corporation by the Saskatchewan Ministry. Mr. Phinney subsequently transferred Permit KP 360 to the Corporation on October 24, 2008 for no consideration. On February 14, 2011, Permit KP 360 was replaced by the Saskatchewan Ministry with Permit KP 360A, subsequent to the conversion of certain acres of the Permit Area to the Lease. Before the expiry of KP 360A on March 12, 2016, the Corporation applied on March 8, 2016 to convert the permit lands to one or more leases and to have certain of such lands added to the Lease.

Geological Setting

The regional geology may be subdivided into three broad intervals with approximate depths taken from examination of wells within the Karnalyte Property: (i) an uppermost sequence extending from surface to an approximate depth of some 125 m to 175 m; (ii) a medial sequence extending from the base of the glacial sediments to an approximate depth of some 550 m below surface; and (iii) a lowermost sequence extending from the Palaeozoic/Mesozoic Unconformity at approximately 550 m to greater than 1,900 m below surface.

Bedded and laterally extensive evaporite beds containing deposits of halite, sylvite and carnallite are found within the medial sequence, specifically within Middle Devonian strata commonly called the "Elk Point Group" and ranging from some 2,500 m below surface in the south of the Province to surface outcrop in north-western Manitoba. Overlying the Elk Point Group is a sequence of rocks commonly referred to as the "Manitoba Group" and consisting of the Dawson Bay Formation and the overlying Souris River Formations. Within this sequence are two halite beds: (1) the "Hubbard Salt," which is the uppermost bed of the Dawson Bay Formation, and (2) the "Davidson Evaporite" consisting of two halite beds separated by an anhydrite bed. These are important from a conventional underground mining viewpoint as they form a flood protection zone separating the Prairie Evaporite mining horizon from the water and brine aquifers present within the Mesozoic sands.

The Karnalyte Property is situated on the northern edge of what is commonly termed the "Commercial Potash Mining Belt". Within this "belt", the potash-bearing beds of the uppermost Prairie Evaporite

Formation range between 950 m to 1,075 m below surface. The top of the Prairie Evaporite Formation in the Karnalyte Property is at an approximate depth of 960 m (3150 ft).

Proprietary Protection

The Corporation relies upon various intellectual property rights to maintain proprietary control over its improvements to the industry standard solution mining process and the formulation of the Corporation's anticipated products. The Corporation also maintains proprietary concepts, inventions and technology as confidential information and generally only discloses them to third parties under the protection of confidentiality agreements.

The Corporation filed four Canadian trademark applications in respect of certain logos and branding of the Corporation with the Canadian Intellectual Property Office in September 2011 and three trademark applications with the United States Patent and Trademark Office in March 2012.

The Corporation has been granted allowances for three of the Canadian trademarks (with the final allowance granted in January 2014) from the Canadian trademark authorities for the filed applications. The Corporation was awarded trademark registrations for these trademarks on September 21, 2015.

In December, 2015, the three pending United States trademark applications were abandoned for failure to meet the Statement of Use requirements necessary to obtain the official registration certificates. The Corporation re-filed three United States trademark applications in respect of certain logos and branding of the Corporation with the United States Patent and Trademark Office in November, 2015. The re-filed trademark applications are currently in examination with the United States Patent and Trademark Office, with the anticipation of acceptance for publication to be received within the next four to six months.

The Corporation also relies on common law trademark rights to protect its corporate identity. The Corporation uses the name Karnalyte for its business in the jurisdictions where it operates. The Corporation has also registered the following domain name which it uses in connection with its business: www.karnalyte.com.

Patent applications have been filed by the Corporation in Canada and the United States for improvements on various portions of the industry standard solution mining process and for the formulation of anticipated products. See "Forward-Looking Statements". The following table summarizes the patent applications that have been filed by the Corporation.

The Corporation has been granted the following patents for the following inventions:

Jurisdiction	Patent Application Number	Patent Number	Filing Date/ Issue Date	Proposed Patent Name	Description
USA	12/539,688	8,232,371	August 12, 2009/ December 4, 2012	Process for synthesizing a compacted product	A method forming a potassium chloride particle from potassium chloride powder having resistance to moisture absorption and shrinkage is set forth. The original feedstock comprises potassium chloride in a size distribution of 30 mesh to 100 mesh as well as a gluten based binder. The technology incorporates granulation processing.
USA		8,685,135	December 3, 2012/ April 1, 2014	Process for synthesizing a compacted product	A method forming a potassium chloride particle from potassium chloride powder having resistance to moisture absorption and shrinkage. The original feedstock comprises potassium chloride in a size distribution of 30 mesh to 100 mesh as well as a gluten based binder.
USA	12/623,636	8,282,898	November 23, 2009/ October 9, 2012	Process for the formulation of potassium chloride from a carnallite source	A process for formulating high purity potassium chloride from a carnallite source. The process takes advantage of solubility differences and saturation levels in a multiple salt system generated upon dissolution of carnallite. In the system, the sodium chloride is kept in solution and the MgCl2 present in the system is controlled to be in a concentration range of between 12% and 25% by weight. This avoids co-precipitation of sodium chloride with the potassium chloride during crystallization and therefore prevents the sodium chloride from contaminating the potassium chloride. The result is high grade potassium chloride.

Jurisdiction	Patent Application Number	Patent Number	Filing Date/ Issue Date	Proposed Patent Name	Description
Canada	2,638,521	2,638,521	August 1, 2008/ June 18, 2013	Method of selectively dissolving minerals from a carnallite or sylvinite source	A method for producing high grade potassium chloride from a source of carnallite. The method solubilizes and purifies the carnallite to produce potassium chloride having low levels of contaminants and resistance to hygroscopic behaviour.
Canada	2,638,704	2,638,704	August 13, 2008/ April 8, 2014	Process for Producing Potassium Chloride Granulars	A method forming a potassium chloride particle form potassium chloride powder having resistance to moisture absorption and shrinkage. The original feedstock comprises potassium chloride in a size distribution of 30 mesh to 100 mesh as well as a gluten based binder.
Canada	2,703,276	2,703,276	May 5, 2010/ November 17, 2015	Method for improving ore extraction	The patent application teaches a method of augmenting ore extraction from a solution mine having caverns. The method provides at least a pair of opposed caverns containing ore to be extracted. Ore is extracted from one cavern of the cavern pair to exhaust the one cavern. The tailings from the ore exhausted cavern are deposited in the exhausted cavern. This allows for more efficient solution mining

The Corporation has pending patent applications for the following inventions:

Jurisdiction	Patent Number	Filing Date	Proposed Patent Name	Description
Canada	2,720,371	August 12, 2009 Allowed on February 19, 2016	Process for the formulation of potassium chloride from a carnallite source	A process for formulating high purity potassium chloride from a carnallite source. The process takes advantage of solubility differences and saturation levels in a multiple salt system generated upon dissolution of

Jurisdiction	Patent Number	Filing Date	Proposed Patent Name	Description
				carnallite. In the system, the sodium chloride is kept in solution and the MgCl2 present in the system is controlled to be in a concentration range of between 12% and 25% by weight. This avoids co- precipitation of sodium chloride with the potassium chloride during crystallization and therefore prevents the sodium chloride from contaminating the potassium chloride. The result is high grade potassium chloride.
PCT	PCT/CA201 5/050301	April 10, 2015	Process for Producing High Grade Hydromagnesite and Magnesium Oxide	The present invention provides a process for producing high purity hydromagnesite from a source of magnesium chloride. The process involves preparation of a magnesium chloride brine of a specific concentration, which is ammoniated at a specific temperature range, followed by carbonation, while maintaining the reaction at a specific temperature range to form a hydromagnesite precipitate. The product can be calcined to generate high purity magnesium oxide compounds.
PCT	PCT/CA2015/ 050298	April 10, 2015	Process for Producing High Grade Hydromagnesite and Magnesium Oxide	The present invention provides a process for producing high purity hydromagnesite from a source of magnesium chloride. The process involves preparation of a magnesium chloride brine of a specific concentration and reacting with sodium carbonate, while maintaining the reaction at a specific temperature range to form a hydromagnesite precipitate. The product can be calcined to generate high purity magnesium oxide compounds.

Competitive Conditions

The Potash Industry

Overview

Potash is the common name given to a group of potassium-bearing minerals such as potassium carbonate and various mined and manufactured salts that contain the element potassium. While there are a number of such minerals, only those that are water-soluble are of significant commercial interest. The most common commercial product is potassium chloride (KCl), also known as muriate of potash (MOP) or sylvite, a naturally occurring pink, salty mineral of which Canada is the leading producer and exporter. Since the amount of potassium contained in potash varies, the industry has established a common standard of measurement by defining a product's potassium content in terms of equivalent percentages of potassium oxide (K_2O). For example, carnallite typically contains approximately 17% K_2O equivalent and sylvite contains approximately 63% K_2O equivalent.

According to the USGS 2013 Minerals Yearbook (August 2015 Advance Release), more than 90% of potash production is used for agricultural fertilizer. Plants deficient in potassium are less resistant to pests and disease, and have poor size, shape, colour, taste and shelf life. Most virgin soils contain adequate potassium to allow farmers to produce average crops. The agricultural cycle of growing and harvesting crops depletes the soil of potassium, nitrogen and phosphate, which need to be replenished in consistent ratios if the soil is to remain fertile (hence the historical agricultural practice of leaving land fallow for a number of years in order to replenish itself). Fertilizers replace the nutrients that crops remove from the soil, thereby sustaining or enhancing the yield of crops. Farmers determine the types, quantities and proportions of fertilizer to apply depending on crop, soil quality, weather conditions, regional farming practices and fertilizer and crop prices. The functions potassium performs cannot be carried out by other nutrients and potash has no commercially viable substitute as a potassium fertilizer source. The remaining potash consumption is made up of the manufacture of potassium bearing chemicals, detergents, ceramics and pharmaceuticals, as well as water conditioner and de-icing salt.

Potash demand depends on the demand for fertilizer, which is based on the total planted acreage, crop mix, fertilizer application rates and farmer economics. Each of these factors is affected by current and projected grain stocks and prices, governmental agricultural policies, improvements in efficiency and fertilizer application and weather.

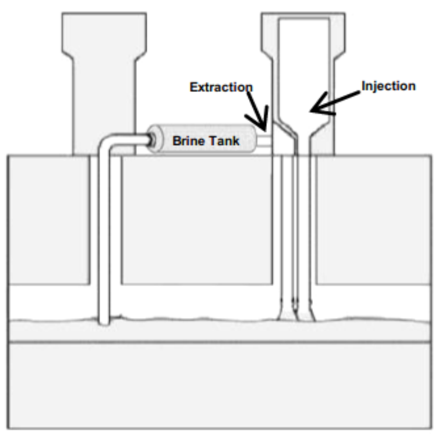
There are a number of factors that have led to the steady increase in fertilizer consumption over the past 50 years and that some industry observers expect to continue, and possibly accelerate, this trend. The root of these factors is the need to produce increasing amounts of food from shrinking amounts of arable land per capita due to development. These factors include (i) world population growth, (ii) shrinking arable land per capita, (iii) changes in diet worldwide (such as increased protein consumption resulting in increased demand for grain and other animal feed), and (iv) the growth in alternative fuels that use crops as feedstock.

Global population has been rising in recent years and diet has been improving, while arable land per capita has been decreasing. The United Nations estimates that the world population will reach 8.9 billion by 2050. From 1990 to 2009, arable land per person decreased by an average of approximately 1.4% per year. The decline in arable land per capita is expected to continue, as a result there will be less land per person in the future from which food can potentially be produced. As agricultural yields increase to address the declining arable land per capita, expanded use of potash may be one of the drivers of growth in agriculture production.

Mining Method Illustrative Comparison

Solution Mining

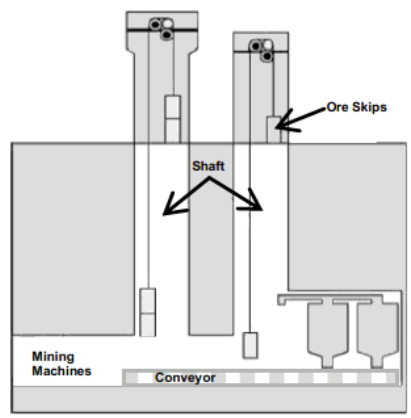
- **Extraction Summary:** Heated brine (salt and water solution) is injected into the mine and salt from the walls
- **Deposit Features:** Deeper deposits / irregular shaped
- **Mine Depth:** Up to ~3,000 metres
- **Typical Mining Method:** Salt dissolution and brine pumping (solution is brought to the surface to be processed)



- ✓ Relatively low capex
- ✓ Relatively shorter time to production
- ✓ Low environmental impact
- ✓ Lower demand for labour
- ✓ Allows for more flexible operations
- ✓ Enables the mining of deep or irregularly shaped deposits
- ✗ Few solution mines in operation

Conventional Mining

- **Extraction Summary:** Miners travel down the shaft to the mining level to break up and retrieve the ore
- **Deposit Features:** Shallow to deep
- **Mine Depth:** Up to ~1,000 metres
- **Typical Mining Method:** 1) room and pillar; 2) drill and blast



- ✓ Low operating costs
- ✓ Well known and well understood
  - most prevalent form of potash mining in Canada
  - supplies significant majority of current potash production
- ✗ Greater capital costs

Source: Equity Research

Mining Methods

Potash ore is extracted from two major ore deposit types:

1. Deeply buried marine evaporite deposits that typically range from 400 metres to greater than 1,000 metres below the surface such as those typically found in Canada and Russia. Most potash is sourced from buried deposits using conventional mechanized underground mining methods, although solution mining methods also are employed. The land area affected is typically confined to the immediate area of the shaft, plant and waste disposal but may be up to several square kilometres.

2. Surface brine deposits are associated with saline water bodies such as the Dead Sea in the Middle East and the Great Salt Lake in the US. These types of ore deposits are exploited using solar evaporation ponds to concentrate and precipitate the potash. The evaporation ponds are extensive, with some operations covering in excess of 90 square kilometres of land area.

A conventional mechanized underground mining operation is the most widely used method for the extraction of potash ore. A variety of mining techniques and equipment may be employed depending on factors such as ore body depth, geometry, thickness and consistency, the geological and geotechnical conditions of the ore and surrounding rock, and the presence of overlying aquifers. Methods in widespread use include variations of room-and-pillar, longwall, cut and fill, and open stope techniques. At great depths, conventional room-and-pillar mining for potash faces technical challenges and can be cost prohibitive primarily due to the significant costs associated with sinking deep shafts and the increasing likelihood of water infiltration.

An alternative mining method is solution mining. The principle of solution mining involves drilling large-diameter boreholes to the bottom of the lowest mineralized layer. Heated water is then introduced into the well. A small volume of oil is injected to control upward vertical dissolution and the layers of rock salt assist in creating a connection between two wells to form a dual well cavern as well as lateral dissolution of the highly soluble carnallite salt layer. Once a diameter of approximately 100 metres is achieved, the leaching tubes are retracted or perforated thereby developing a working solution mining cavern. For the Wynyard Carnallite Project, it is planned to mine multiple production zones. Zones may be mined in one or two separate cuts, depending on the local geology, each with a preparation phase and a single mining cut production phase.

Each cavern is anticipated to be served by two wells drilled from centralized well pads. Production wells and waste brine injection will be completely cased and continuously grouted from the top of the deep carnallite beds to the ground surface.

The Corporation expects that potassium rich brine will be pumped from the production wells to the processing plant. The first step of the potash production process is the removal of "insolubles" from the production brine. This is accomplished by using flocculants and an inclined plate separator. Once insolubles removal is completed, the production brine flows into the evaporation and crystallization process. In this process, the water is evaporated and the concentration of $MgCl_2$ in the brine increases and super saturates the KCl and NaCl causing them to precipitate out. The residual co-product $MgCl_2$ brine is pumped to a disposal tank which is anticipated to be eventually disposed of in the Deadwood Formation or spent caverns.

Industry Outlook

The Corporation's management believes that the long term prospects for the potash industry are promising. Historically, potash markets have been supported by a growing global economy. In the short term, the Corporation's management believes that both demand and pricing may continue to trade in a narrow, but stable, range. For the long term, however, investment in potash projects looks promising. According to an Integer Research White Paper (2015) titled "Analyzing Market Trends and Addressing the Key Questions Facing Fertilizer Markets", global potash demand is expected to increase to almost 89 million tonnes in 2025, equating to growth at an average rate of approximately 2.9% per year. This is underpinned by rising incomes in developing countries stimulating a change to more varied and meat-based diets. The Corporation expects that investment in new potash capacity will continue to accelerate given current producers' and strategic partners' goals of securing future supply.

The Corporation recognizes that the timing in which it constructs its potash mine is critical to the Corporation's success. If the Corporation is able to capitalize on prevailing reduced costs for constructing infrastructure, drilling, and labour, the capital cost of Phase I may be significantly reduced. Further, the Corporation expects that by the time financing is secured and Phase I is constructed and operational, the price environment for potash will have strengthened and Karnalyte will be well positioned to take advantage of anticipated shortages in market supply with a premium, high-grade granular potash product.

Of particular importance to Karnalyte is the distinction between standard-grade potash and high-grade granular potash. Prices for high-grade granular potash continue to trade at a premium to standard-grade potash, and management believes that demand for high-grade granular potash continues to grow at a faster rate than does standard-grade potash. The Corporation believes that the industry outlook for its project, which is expected to have significantly lower capital expenditures compared to a conventional underground mine and to produce a premium high-grade granular product, is favoured over standard-grade potash producers.

Capital Market Outlook

Access to the capital markets is crucial for all developing companies. Many junior resource companies in the exploration phase continue to face challenges in accessing the capital markets. There has been a five-year bear market in the mining sector as equity issuances have trended lower with declining prices and limited institutional interest in investment in the sector.

The Corporation entered into the Agreement in Principle with GSFC to finance construction of Phase I. The Proposed Financing includes backstop guarantees by GSFC for any shortfalls of equity in the event that the Corporation is unable to raise sufficient amounts through the issuance of Common Shares. A more detailed description of the Agreement in Principle is provided above under the heading "General Development of the Business – Agreement in Principle".

While access to the capital markets is important for Karnalyte in connection with the Proposed Financing, GSFC's backstop guarantees should significantly mitigate the risk to the Corporation in its efforts to secure the funding required to construct its full scale production facility. Management believes that GSFC's financial strength and relationships with Indian banking institutions give the Corporation a competitive advantage in otherwise difficult capital markets. However, there can be no assurance that the Corporation will be able to complete the Proposed Financing on the terms described herein or at all. See "Risk Factors".

Company Outlook

In 2016, the Corporation intends to continue its focus on the two key areas necessary to move the Wynyard Carnallite Project forward: (1) securing complete financing to construct Phase I; and (2) completing the second phase of the Corporation's optimization program designed to improve production from the underground caverns, increase KCl concentration, and confirm equipment design parameters in preparation for construction of the full-scale production facility.

Over the course of 2016, the Corporation plans to negotiate the definitive terms of the Proposed Financing and Proposed Spin-out Transactions, which, if approved, could be transformative for the Corporation. There can be no assurance that the Corporation will be able to complete the Proposed Financing and the Proposed Spin-out Transactions on the terms described herein or at all. See "Risk Factors".

The Magnesium Industry

Overview

Magnesium is the eighth most abundant element in the Earth's crust and the third most plentiful element dissolved in seawater. Magnesium and magnesium compounds are recovered from seawater, wells and lake brines, and bitterns, as well as from minerals such as magnesite, dolomite, and olivine.

In contrast to potash, the uses for magnesium products are varied and the sources for magnesium compounds range from Mg bearing salts such as carnallite, bischofite and magnesium sulfates, natural occurring magnesite ($MgCO_3$), serpentinite, sea water and lake and well brines.

Magnesium Chloride Brine

According to the USGS Mineral Commodity Summaries (January 2013), resources from which magnesium compounds can be recovered range from large to virtually unlimited and are globally widespread. Identified world resources of magnesite total 12 billion tons, and of brucite, several million tons. Resources of dolomite, forsterite, magnesium-bearing evaporite minerals, and magnesia-bearing brines are estimated to constitute a resource in billions of tons. Magnesium hydroxide can be recovered from seawater.

Magnesium Chloride Brine Market

Uses for magnesium chloride brine include, dust control for gravel roads (summer), de-icing agent for roads (winter), sewage treatment, textiles and paper, components in cements, and drilling mud / completion fluid. Potential customers for magnesium chloride brine include road service contractors, municipalities and counties, mining industry participants, mineral supplement producers for salt blocks, and drilling contractors.

Magnesium Carbonate

Magnesite ($MgCO_3$) is a naturally occurring mineral used in a wide range of applications, the most significant of which is as feedstock for magnesia production. Synthetic magnesium carbonate is used to produce high purity magnesium compounds for the paint and printing industries as well as in fireproofing, fire-extinguishing, flooring, polishing compounds, and as fillers and smoke suppressants in the paper, plastics and rubber industries. High purity magnesium carbonate is also used as an anti-caking agent in salt, as a bulking compound in powder formulations and as an antacid.

Employees

As at December 31, 2015, Karnalyte had a total of nine full-time employees and one part-time employee. In addition, as at December 31, 2015, Karnalyte engaged the services of two consultants.

RISK FACTORS

The Corporation's business in mineral exploration and development is inherently risky in nature due to its formative stage of development, its current financial position and its lack of an earnings record. As a result, the securities of the Corporation must be considered speculative. A prospective investor in Karnalyte should carefully consider the following risk factors.

The Corporation cannot guarantee that the Wynyard Carnallite Project will become a commercially viable mine, or that it will discover any commercially viable potash deposits.

Potash exploration, development, and operations are highly speculative and are characterized by a number of significant inherent risks, which even a combination of careful evaluation, experience and knowledge may not eliminate and may result in the inability to develop a project. These risks include, among other things, unprofitable efforts resulting from the failure to discover profitable or commercial quantities or grades of potash. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, flooding, fires, power outages, labour disruptions and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in mining operations and the conduct of exploration and development programs, as well as the inability to obtain required capital. There is no assurance that the foregoing risks will not occur and inhibit, delay or cease the development of the Wynyard Carnallite Project or other exploration or development activities, all of which could have an adverse impact on the Corporation's business, results of operations and financial condition.

Substantial expenditures are required to establish a viable mine, to develop processes to extract potash and to investigate the economic feasibility of construction of extraction and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that the Corporation's potash will be of sufficient quantities or grades or in appropriate geological structures, to justify commercial operations or that the funds required for exploration and development can be obtained on a timely basis.

There can be no assurance that the Corporation will be able to complete development of the Wynyard Carnallite Project on time, on budget or at all due to, among other things, and in addition to those factors described above, a decline in potash prices; changes in the economics of the Wynyard Carnallite Project;

delays in receiving required consents, permits and licenses; the delivery and installation of plant and equipment; changes in magnesium co-product prices, cost overruns; governmental and bank regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of commodities and environmental protection; or that the Corporation's personnel, systems, procedures and controls will be adequate to support operations. Should any of these events occur, it would have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation may not successfully execute its project plans

Project delays may delay the expected commencement of commercial production and expected revenues from operations. Significant project cost over-runs could make the Wynyard Carnallite Project uneconomic. The Corporation's ability to execute projects and market its products will depend upon numerous factors beyond the Corporation's control, including the availability of processing capacity, the availability of storage capacity, the supply of and demand for its products, the availability of alternative fertilizer products, the effects of inclement weather, the availability of drilling and related equipment, unexpected cost increases, accidental events, currency fluctuations, changes in regulations, the availability and productivity of skilled labour, and the regulation of the mining industry by various levels of government and governmental agencies.

As a result of the foregoing factors, the Corporation may be unable to develop the Wynyard Carnallite Project on time, on budget or at all, and may not be able to effectively market its products.

The Corporation currently has no production revenues and future revenues may be uncertain

To date, the Corporation has not recorded any revenues from operations nor has the Corporation commenced commercial production at the Wynyard Carnallite Project. The Corporation does not expect to generate revenues from operations in the foreseeable future. The Corporation expects to continue to incur losses until such time as Wynyard Carnallite Project enters into commercial production and generates sufficient revenues to fund its continuing operations. The exploration and development of the Karnalyte Property will require the commitment of substantial resources to conduct time-consuming development programs. There can be no assurance that the Corporation will generate any revenues or achieve profitability. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners and other factors, many of which are beyond the Corporation's control.

The Corporation will need additional financing in the future, and cannot assure that such financing will be available

The Corporation will need additional financing through the issuance of equity or debt to continue and complete the development of its Karnalyte Property and there can be no assurance that such financing will be available through the Proposed Financing (or otherwise) or, if available, will be on reasonable terms. Any future funding that is obtained by issuing Common Shares from treasury may result in a change of control of the Corporation and owners of Common Shares may suffer additional dilution. The failure of the Corporation to raise additional funds and complete the construction of the Initial Facility would have material adverse consequences on the business, financial condition and results of operations of the Corporation.

The Corporation has limited financial resources, has not earned any revenue since commencing operations, has no source of operating cash flow and there is no assurance that additional funding will be available to it for further exploration and development of the Karnalyte Property and the Wynyard Carnallite Project or to fulfill its obligations under any applicable agreements. Failure to obtain such additional financing through the Proposed Financing (or otherwise) could result in delay or indefinite postponement of further exploration and development of the Karnalyte Property and the Wynyard Carnallite Project.

To the extent financing is not available, lease expiry dates, work commitments, rental payments and option payments, if any, may not be satisfied and could result in a delay or indefinite postponement of development or production on the Karnalyte Property and the Wynyard Carnallite Project, or in a loss of property ownership or earning opportunities by the Corporation.

The continued operation of the Corporation will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained. The Corporation currently has no source of funding for the financing of the capital needs of its business and future activities, other than by the issuance of additional securities of the Corporation. If the Corporation is unable to generate revenues or obtain additional financing, any investment in the Corporation may be lost.

There is no assurance the Corporation will complete the Proposed Financing or Proposed Spin-out Transactions

There are many risks and uncertainties inherent in the nature of the Proposed Financing and the Proposed Spin-out Transactions. Those risks and uncertainties include the failure of Karnalyte and GSFC to successfully negotiate definitive documentation on terms acceptable to the Corporation or at all; the failure of Karnalyte to obtain the necessary regulatory approvals, Board of Directors approval, shareholder approval and other third party approvals; the failure of Karnalyte to otherwise satisfy the conditions to the Proposed Financing or the Proposed Spin-out Transactions in a timely manner, or at all. As a result, there can be no assurance that Karnalyte will be able to complete the Proposed Financing or the Proposed Spin-out Transactions on the terms as previously disclosed, as described herein, or at all. The failure of the Corporation to complete the Proposed Financing and the Proposed Spin-out Transactions could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation has a limited operating history on which to base future performance

The Corporation has a very limited history of operations and the Wynyard Carnallite Project is still in the exploration and development stage. As such, the Corporation is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Corporation's business will be successful or profitable and the likelihood of success must be considered in light of its early stage of operations.

Solution mining of carnallite deposits has not been proven in Saskatchewan

Although the process of solution mining of carnallite deposits has been undertaken outside North America, the scale of those projects are not as large as the solution mining process planned for the Wynyard Carnallite Project. Solution mining of carnallite deposits in Saskatchewan has not been previously undertaken and there can be no assurance that the Corporation's process will be economically viable. The failure of the Corporation's process of solution mining of carnallite deposits to be economically viable will have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation will require approvals, licenses and permits, that it currently does not have, in order to commence operations, and for its current exploration and development activities

The future mining operations of the Corporation will require approvals, licenses and permits from various governmental authorities that the Corporation does not currently have. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out future mining operations, as well as exploration and development at the Wynyard Carnallite Project or otherwise on the Karnalyte Property.

To the extent such approvals, licenses and permits are required and not obtained, the Corporation may be curtailed or prohibited from proceeding with planned exploration, development or operation of the Karnalyte Property and the Wynyard Carnallite Project. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, and parties that were engaged in operations in the past, may be required to compensate those suffering loss or damage by reason of such mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or the more stringent implementation thereof, could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation does not have all necessary permits to commercially develop the Wynyard Carnallite Project on the Karnalyte Property

Although Permit KP 360A allowed the Corporation to conduct certain exploration activities within the Permit Area, it did not allow for the development of the Wynyard Carnallite Project. The Corporation must obtain additional leasehold rights from the Saskatchewan Ministry before it may extract minerals and conduct development activities pertaining the Karnalyte Lands not currently subject to the Lease. On March 8, 2016, the Corporation applied for the leasehold rights that it requires. However, there is no assurance that a lease will be granted by the Government of Saskatchewan for the area of the Karnalyte Property that is not currently subject to the Lease.

The initial term of the existing Lease expires on August 26, 2031. Subject to the Corporation's compliance with the terms of the Lease and applicable regulations, the Lease may be renewed for successive terms of 21 years each. Failure by the Corporation to secure any necessary extensions to the terms of the existing Lease, or to have all of its lands within the Permit Area converted to lease, could result in a delay or indefinite postponement of the development of the Wynyard Carnallite Project, or could result in a loss of the Wynyard Carnallite Project and termination of its operations.

No Assurance of Titles

Title to, and the area of, mineral rights, whether under the current Lease or the leases for which the Corporation has applied, may be disputed and additional amounts may have to be paid to surface rights owners in connection with any development of mining activity. The properties may also be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects. Although the Corporation believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to its properties will not be challenged or impaired.

Under Saskatchewan law, the Corporation is required to make certain payments, take certain actions and meet certain required expenditures in order to keep subsurface mineral leases in good standing. If the Corporation defaults with respect to making payments or completing assessment and expenditure work as required, the Corporation may lose its rights to such leases, or the Wynyard Carnallite Project could be lost and its operations terminated.

The Corporation has purchased land to build a plant above its Lease area, and intends to continue to expand development of its properties beyond what it has already purchased. The Corporation would have to make arrangements with all free-hold property owners if it were to explore further within its Permit Area.

India's regulatory regime may affect the Corporation's risks and expenses in doing business

The Corporation has entered into the Offtake Agreement with GSFC, which is an Indian state government controlled company. Therefore, certain matters relating to the implementation and conduct of operations under the Offtake Agreement may be subject, under certain circumstances, to government of India consent. Shifts in political conditions in India could adversely affect our business in India and the ability to obtain requisite government approvals in a timely fashion or at all. Karnalyte must maintain satisfactory working relationships with the Indian government. There is no guarantee that Karnalyte will be able to satisfy its obligation under the Offtake Agreement, nor that it will be able to successfully enforce its rights under the Offtake Agreement to negotiate additional offtake contracts on economically viable terms, all of which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation relies on key personnel

The development of the Karnalyte Property and the Wynyard Carnallite Project will require specialized skills with respect to the exploration and project management. There is no assurance that the Corporation will be able to retain the required specialized skills and knowledge to meet its business objectives relating to the Karnalyte Property.

The Corporation's success will depend in large measure on the performance of its management and other key personnel. The loss of the services of any of such persons could have a material adverse effect on the Corporation's business, financial condition and results of operations. The Corporation does not have key person insurance in effect for management, and has no current plans to do so. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the mining industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

The Corporation relies on technical experts

Exploration and development involves securing the services of and reliance on technical experts particularly in areas of drilling, assay testing and analysis, metallurgy, geology, resource analysis and reporting. The Corporation's inability to obtain or maintain the services of such technical experts may have a material adverse effect on the Corporation's ability to proceed with its exploration and development plans.

The Corporation may rely on a limited number of suppliers

The Corporation will be able to purchase all of its mining and production equipment only from a limited number of contractors and/or suppliers. Any interruption in the operations of its suppliers and/or the inability to obtain timely delivery of key equipment of acceptable quality or any significant increases in the prices of such equipment could result in material production delays, increased costs and reductions in shipments of the Corporation's products, any of which could increase the Corporation's operating costs or could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation depends on adequate infrastructure

The Corporation's activities will depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, government or other interference in the maintenance or provision of such infrastructure, or sabotage could adversely affect the Corporation's operations, financial condition and result of operations. Adequate infrastructure development will also be required in any country in which the Corporation operates or transacts. The limited infrastructure available, the need for future development of infrastructure and the cost associated with such development may affect the Corporation's ability to explore and develop its property and to export, store and transport its products. There can be no assurance that future instability in one or more of the countries in which Karnalyte operates or intends to operate in the future, actions by government or by companies doing business there, or actions taken by the international community will not have a material adverse effect on the countries in question and in turn on the Corporation's business, financial condition and results of operations.

The future trading price of the Common Shares will be subject to the price volatility associated with publicly traded securities

Securities of mining companies have experienced, and continue to experience, substantial volatility often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. As a result of any of these factors, the market price of the securities of the Corporation at any given point in time may be subject to market trends and macroeconomic conditions generally, notwithstanding any potential success of the Corporation in developing the Karnalyte Property and the Wynyard Carnallite Project, creating revenues, cash flows or earnings and may not accurately reflect the long-term value of the Corporation. There can be no assurance that the continual fluctuations in the trading price of the Common Shares will not occur. This may have a material adverse effect on the market price or value of the Common Shares.

Shareholders may suffer dilution in the future

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive to existing security holders. In connection with the Subscription Agreement, GSFC will be issued an additional 555,555 Common Shares pursuant to a purchase price adjustment mechanism, if commercial production has not commenced on or before October 1, 2016 which will be dilutive to existing shareholders.

In connection with the Proposed Financing, Karnalyte anticipates that it will issue Common Shares to the extent necessary to satisfy the senior and subordinated debt covenants relating to the required debt to equity ratio. If Karnalyte is unable to raise the required equity on satisfactory terms, subject to applicable regulatory and legal approvals, GSFC or any affiliate thereof shall purchase from Karnalyte such number of Common Shares at an issue price per share equal to the lesser of: (a) the issue price of the equity financing; and (b) an agreed upon floor price based on the then fair value of such Common Shares, prior to closing of the Proposed Financing. Any such issuance of Common Shares may be dilutive to existing security holders.

The Corporation has significant shareholders

As of the date hereof, Robin Phinney, Karnalyte's President and director, owns or controls approximately 4,012,409 common shares of Karnalyte, representing approximately 14.60% of the current issued and outstanding Common Shares.

As of the date hereof, GSFC owns and controls an aggregate of 5,490,306 Common Shares, representing approximately 19.98% of the current issued and outstanding Common Shares. Pursuant to the terms of the Subscription Agreement, GSFC may be issued an additional 555,555 Common Shares pursuant to a purchase price adjustment mechanism if commercial production has not commenced on or before October 1, 2016.

In addition, pursuant to the terms of the Proposed Financing, as a condition to obtaining the project financing, GSFC is required to have and maintain at least a 51% voting interest in Karnalyte while the senior secured debt is outstanding and a special voting share ("SVS") will be issued to a subsidiary of

GSFC to satisfy this condition. The SVS will carry a 51% voting right in Karnalyte, and no issuance of Common Shares by Karnalyte will affect such 51% voting right. Accordingly, subject to applicable law and the fiduciary duty of the Corporation's directors and officers, GSFC may be able to exercise influence over matters requiring shareholder approval. Market reaction to the foregoing may limit the demand for Common Shares and adversely affect the liquidity and market value of the Common Shares.

The senior and subordinated debt may restrict the Corporation's ability to finance operations and capital needs.

The senior and subordinated debt contemplated under the Proposed Financing are expected to contain restrictive financial and other covenants which affect and, in some cases, limit or prohibit the manner in which Karnalyte may structure or operate its business, including by limiting the Corporation's ability to incur indebtedness, create liens, sell assets, pay dividends, make capital expenditures, be subject to a change of control and engage in acquisitions, mergers or restructurings. Future financings and other major agreements may also be subject to similar covenants which limit the Corporation's operating and financial flexibility, which could have a material adverse effect on the Corporation's business, results of operations and financial condition.

The Corporation has no intention to pay dividends in the near future

The Corporation has not paid dividends in the past and has no plans to pay dividends for the foreseeable future. The future dividend policy of the Corporation will be determined by the Board.

Protection of intellectual property may be necessary for maintaining the Corporation's competitive advantage, but cannot be assured

The Corporation relies on various intellectual property rights to maintain proprietary control over its improvements to the industry standard solution mining process and the formulation of the Corporation's anticipated products.

The success of Karnalyte may depend, in part, on its ability to maintain trade secret protection and operate without infringing the proprietary rights of third parties. In certain cases where management considers that a patent will be an effective means of maintaining the Corporation's competitive advantage, Karnalyte has made or may make application for patents in the appropriate jurisdictions. Karnalyte has also made applications to Canadian and United States trademark offices for the protection of its logos and branding.

There can be no assurance that the Corporation's patent applications will be valid, or that patents will issue from the patent applications that Karnalyte has filed or may file. Additionally, there can be no assurance that the scope of any claims granted in any patent will provide the Corporation with adequate protection for its improvements to the industry standard solution mining process and the formulation of the Corporation's anticipated products currently or in the future. Karnalyte cannot be certain that the creators of its technology were the first inventors of the improvements covered by patent applications or that they were the first to file. Accordingly, there can be no assurance that the patent applications will be valid or will afford Karnalyte with protection against competitors with similar improvements.

The products developed by Karnalyte may also incorporate technology and processes that will not be protected by any patent and are capable of being duplicated or improved upon by competitors. Accordingly, the Corporation may be vulnerable to competitors which develop competing technology, whether independently or as a result of acquiring access to the proprietary information of Karnalyte and trade secrets. In addition, effective patent protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. Policing unauthorized use of Karnalyte's improvements could prove to be difficult, and there can be no assurance that the steps taken by the Corporation will prevent misappropriation of its improvements. In addition, litigation may be necessary in the future to enforce Karnalyte's intellectual property rights, to protect its patents, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Corporation's business, operating results and financial condition.

Although the Corporation does not believe that its improvements infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against Karnalyte or that any such assertions or prosecutions will not materially adversely affect Karnalyte's business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, Karnalyte could incur significant costs and diversion of resources with respect to the defence thereof which could have a material adverse effect on Karnalyte's business, financial condition and results of operations.

The Corporation may become subject to litigation, the results of which may have a material and adverse impact on the Corporation's business, financial position and prospects

The Corporation may become involved in, named as a party to, or the subject of, various legal proceedings, as well as contract disputes, regulatory proceedings, tax proceedings and legal actions relating to intellectual property, product liability, property damage, property taxes, land rights, and the environment. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to Karnalyte and as a result, could have a material adverse effect on Karnalyte's business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from Karnalyte's business operations, which could have a material adverse effect on Karnalyte's business, financial condition and results of operations.

The Corporation does not insure against all possible risks

Although the Corporation may obtain liability insurance in an amount which management considers adequate, the nature of the risks for mining companies is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Corporation might not elect to insure itself against such liabilities due to high premium costs or other reasons. Should such liabilities occur, the Corporation could incur significant costs that could have a material adverse effect on Karnalyte's business, financial condition and results of operations.

The Corporation has negative operating cash flow

For the year ended December 31, 2015, the Corporation had negative operating cash flow. The Corporation's ability to generate positive operating cash flow will depend upon a number of factors, including, among others, its ability to successfully construct and operate at the Wynyard Carnallite Project, the quantity of potash product that will be produced and the price at which the Corporation can sell the potash product produced from the Wynyard Carnallite Project. If positive operating cash flow is not achieved in a timely fashion, the Corporation may be required to raise additional funds through the issuance of additional equity or debt securities. There is no assurance such financing will be available or, if available, that it will be on terms favourable to the Corporation.

Future operational and marketing risks may affect the Corporation

There is a risk that the Initial Facility, when constructed, may not be or continue to be profitable or successful. There can be no assurance that the Initial Facility will commence commercial operation on schedule or at all, or that the Initial Facility will operate at planned production capacity. The delay or cancellation of any of the planned expansion may affect the Corporation's ability to satisfy customer orders.

There are also many risks associated with the operating facilities, including the ability to secure materials and components, utility prices, the failure or substandard performance of equipment, hiring and maintaining a productive and reliable workforce, labour disputes, natural disasters, suspension of operations and compliance with existing and new governmental statutes, regulations, and policies. The occurrence of material operational problems, including but not limited to any of the events described above, could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers and third party distributors of the distinctive characteristics and benefits of Karnalyte's products. The Corporation's long-term success may also depend, to a significant extent, on its ability to develop its marketing function. The Corporation will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that the Corporation will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

Other than the Offtake Agreement with GSFC, the Corporation does not currently have any contracts in place for the sale of any future production. To the extent that future customers or third parties delay, reduce or cancel orders or are unable or refuse to pay for products and services purchased in a timely fashion or at all, the Corporation's business, financial condition, and results of operations may be adversely affected.

Environmental regulations may adversely impact the Corporation

All phases of the Corporation's operations are subject to environmental regulation. Environmental legislation is becoming stricter, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that environmental regulation will not adversely affect the Corporation's business, financial condition and results of operations. Environmental hazards may exist on the Karnalyte Property which are unknown to the Corporation at present which have been caused by previous or existing owners or operators of the property. Reclamation costs are uncertain and planned expenditures estimated by management may differ from the actual expenditures required.

Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent.

Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's business, financial condition and results of operations.

Governmental and regulatory requirements could adversely impact the Corporation

The current exploration and development activities, and future operations of the Corporation are and will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, water use, environmental protection, aboriginal land claims, mine safety and other matters. Companies engaged in exploration activities and in the development and operation of mines and related facilities may experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there can be no assurance that the Corporation will be successful in obtaining all required permits. Amendments to current laws and regulations governing the operations and activities of the Corporation or more stringent implementation thereof could have a material adverse effect on the Corporation's business, financial condition and results of operations. Further, there can be no assurance that all permits which the Corporation may require for future exploration, construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project which the Corporation may undertake.

Failure to comply with applicable laws, regulations and permits may result in enforcement actions thereunder, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. The Corporation may be required to compensate those suffering loss or damage by reason of its mineral exploration and development activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits. Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse effect on Karnalyte's business, financial condition and results of operations. Changes to tax laws may also have an adverse effect on the Corporation's future earning potential.

Adverse changes in the price of potash would adversely affect the future revenues of the Corporation and its ability to develop and operate the Wynyard Carnallite Project

The potential economic viability of the Corporation's operations, and the corresponding value of the Common Shares, will be significantly affected by changes in potash prices. The economics of the Wynyard Carnallite Project are highly sensitive to a decrease in potash prices. Potash prices can fluctuate widely and are affected by numerous factors beyond the Corporation's control. The market prices for potash are affected by rates of production of potash from mining to availability of supply, and may be affected by a variety of unpredictable international economic, monetary and political considerations. Macroeconomic considerations include: expectations of future rates of inflation; the strength of, and confidence in, the US dollar, the currency in which the price of potash is generally quoted, and other currencies; interest rates; global or regional economic events; and competition from other types of fertilizers.

The Corporation's future mining operations are subject to the normal risks associated with mine operations

The Corporation's future mining operations are subject to the risks normally incident to extraction of minerals, including explosions and other accidents, fires, flooding, discharge of toxic chemicals and other hazards, all of which could result in personal injuries, loss of life, damage to the property of the Corporation and others, environmental damage, delayed production, increased production costs, unexpected capital costs, and possible legal liability for any and all damages. The occurrence of any such risks or such liabilities may have a material adverse effect on Karnalyte's business, financial condition and results of operations.

The cyclical nature of the potash markets may adversely affect the Corporations financial position

The market for potash tends to move in cycles. Periods of high demand, increasing profits and high capacity utilization lead to additional capacity through expansion of existing mines and investment in new mines which results in increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilization until the cycle repeats. This cyclicality in prices can result in supply/demand imbalances and pressures on potash prices and profit margins which may impact Karnalyte's business, financial condition and results of operations and price for the Common Shares. The potash industry is dependent on conditions in the economy generally and the agriculture sector, both in North America and offshore. The agricultural sector can be affected by adverse weather conditions, cost of inputs, commodity prices, animal diseases, the availability of government support programs and other uncertainties that may affect sales of fertilizer products. The Corporation is not currently producing and selling any products; however, a decrease in the interest of investors in potash (which may be caused by decreased commodity prices) could have a material adverse effect on the Corporation's ability to obtain ongoing financing and future additional offtake partners.

Competition in the mining industry may adversely affect the Corporation

The potash mining industry is highly competitive. The Corporation competes with other mining companies, most of which have greater resources and experience. Competition in the potash and magnesium product industry is primarily for properties which can be developed and can produce economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; the capital for the purpose of funding such properties; and the marketing of potash to foreign and domestic markets. Many competitors not only explore for and mine potash, but conduct refining and marketing operations on a worldwide basis. Such competition may result in the Corporation being unable to acquire desired properties, to develop and integrate new technologies, to recruit or retain qualified employees, to acquire the capital necessary to fund its operations and develop its properties or to successfully market its products. The Corporation's inability to compete with other mining companies would have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation may be subject to risks associated with foreign operations

International operations are subject to political, economic and other uncertainties including, among others, risk of war, risk of terrorist activities, border disputes, expropriation, renegotiations or modification of existing contracts, restrictions on repatriation of funds, import, export and transportation regulations and tariffs, taxation policies including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes, sudden changes in laws, government control over potash and magnesium pricing and other uncertainties arising out of foreign government impact over the Corporation's future international operations. The governments and other regulatory agencies in the foreign jurisdictions in which Karnalyte intends to operate in the future may make sudden changes in laws relating to taxation or impose higher tax rates which may affect Karnalyte's operations in any significant manner. Furthermore, in the event of a dispute arising from international operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. There can be no assurances that Karnalyte will be successful in protecting itself from the impact of such risks.

Currency fluctuations may adversely impact the financial position of the Corporation

Karnalyte has entered into the Offtake Agreement with GSFC for the sale of certain of its potash production. Sales under the Offtake Agreement are denominated in US dollars. Karnalyte may sell additional potash to the US or other foreign markets in the future. Net income from sales into the US and other foreign markets may be denominated in US dollars, and resulting fluctuations in the currency exchange rate between the Canadian dollar and the US dollar may have an impact on the Canadian dollar amount of net income realized from future potential sales to foreign markets.

Global financial conditions may adversely affect the Corporation's financial position

Current financial conditions globally continue to be subject to increased volatility with increasing global market concerns. Access to financing continues to be negatively impacted by the liquidity crisis and economic uncertainties resulting from the ability of certain governments to meet their debt payment obligations. These factors may impact the ability of the Corporation to obtain equity and/or debt financing in the future and, if obtained, on terms favourable to the Corporation. If these increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and/or the Corporation may not be able to secure appropriate debt or equity financing, any of which could affect the trading price of the Corporation's securities in an adverse manner.

Weather patterns may affect future demand

Anomalies in regional weather patterns can have a significant and unpredictable impact on the demand for the Corporation's products and services, and may also have an impact on prices, and, as a result, may impact future revenue. The Corporation's future customers have limited windows of opportunity to complete required tasks at each stage of crop cultivation. Should adverse weather occur during these seasonal windows, the Corporation could face the possibility of reduced revenue in the season without the opportunity to recover until the following season.

The Corporation's internal controls over financial reporting and disclosure controls may prove ineffective

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of the Corporation. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance to management and the Board regarding achievement of intended results. The Corporation's current system of internal and disclosure controls places reliance on a limited number of personnel to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could have a material adverse effect on our business, results of operations and financial condition. The Corporation has previously disclosed material weaknesses in the Corporation's internal controls over financial reporting, as described in the restated MD&A for the three and nine months ended September 30, 2015. These material weaknesses may increase the risk of material misstatements in the financial statements.

Forward-looking information may prove inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

DIVIDEND POLICY

The Corporation has not declared or paid a dividend. Other than pursuant to the TSX's policies and the requirements of the ABCA, there are currently no restrictions on the Corporation that would prevent it from paying a dividend. However, the Board of Directors intends to retain future earnings for reinvestment in the Corporation's business, and therefore, has no current intention to declare or pay dividends on the Common Shares in the foreseeable future. The Corporation's dividend policy will be reviewed from time to time in the context of its earnings, financial condition and other relevant factors.

GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to each class of shares of Karnalyte.

Common Shares

The holders of Common Shares are entitled to receive notice of, and to vote at every meeting of the Karnalyte shareholders and have one vote for each Common Share held. Subject to the rights, privileges, restrictions and conditions attaching to any Preferred Shares of the Corporation, the holders of Common Shares are entitled to receive such dividends as the directors of Karnalyte from time to time, by resolution, declare. Subject to the rights, privileges, restrictions and conditions attached to any Preferred Shares of the Corporation, in the event of the liquidation, dissolution or winding-up of the Corporation or upon any distribution of the assets of Karnalyte among Karnalyte shareholders being made (other than by way of dividend out of monies properly applicable to the payment of dividends), the holders of Common Shares are entitled to share in the proceeds pro rata.

Preferred Shares

The Corporation is also authorized to issue an unlimited number of Preferred Shares without nominal or par value, of which, as at the date hereof, none have been issued. The Preferred Shares of Karnalyte may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series. The Preferred Shares of Karnalyte rank on a parity with the Preferred Shares of every other series and are entitled to a priority over the Common Shares, and any other class of shares ranking junior to the Preferred Shares of the Corporation with respect to the payment of dividends and the distribution of assets upon the liquidation of the Corporation.

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSX under the trading symbol "KRN". The following table sets forth certain trading information in respect of the Common Shares on the TSX for the periods indicated.

Common Shares

2015	Trading Price ($) Close (Average)	Price Range ($) High	Low	Trading Volume
January	0.8705	0.99	0.80	804,419

February	0.8244	0.85	0.80	319,566
March	0.7971	0.87	0.72	419,564
April	0.7695	0.80	0.68	1,174,949
May	0.7535	0.83	0.71	1,044,119
June	0.7452	0.79	0.71	501,094
July	0.7248	0.80	0.67	381,107
August	0.6568	0.69	0.63	255,057
September	0.6048	0.68	0.52	410,851
October	0.8605	1.25	0.71	2,672,074
November	0.7955	0.86	0.73	338,449
December	0.7700	0.86	0.67	312,460

DIRECTORS AND OFFICERS

The term of office of the directors expires annually at the time of the Corporation's annual shareholder meeting or when or until their successor is duly appointed or elected. The term of office of the Corporation's executive officers expires at the discretion of the Corporation's directors. As at December 31, 2015, the Corporation's directors and executive officers as a group beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 4,747,102 of the issued and outstanding Common Shares representing approximately 17.28% of the Common Shares outstanding at December 31, 2015. As of the date of this AIF, the Corporation's directors and executive officers as a group beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 4,747,102 of the issued and outstanding Common Shares representing approximately 17.28% of the Common Shares outstanding. This amount does not include Common Shares held by GSFC.

Including the 5,490,306 Common Shares held by GSFC, the Corporation's directors and executive officers as a group beneficially own, directly or indirectly, or exercise control or direction over 10,237,408 Common Shares or 37.26% of the issued and outstanding Common Shares.

The following table sets out the names and municipalities of residence of the directors and executive officers of the Corporation, their present position(s) and offices with the Corporation, their principal occupations during the last five years and their holdings of Common Shares as at the date hereof.

Name and Municipality of Residence	Office held and Date became a Director (as applicable)	Present and Principal Occupation for the Past Five Years	Number of Common Shares Beneficially Owned Directly or Indirectly
Robin L. Phinney Okotoks, Alberta, Canada	President and Director of the Corporation since May 21, 2015.	President of the Corporation since May 21, 2015. Prior thereto, President and Chief Executive Officer of the Corporation from November 2007 to May 2014. Co-founder and Vice-President of Engineering of Whitemud Resources Inc. from 2003 to 2007.	4,012,409[(1)]

Henry Kerkhoven[3][4][5] Calgary, Alberta, Canada	Director since May 21, 2015.	Vice-President VP Administration and Chief Financial Officer of Karnalyte, as well as a former Karnalyte director, holding executive positions at Karnalyte from 2008 until 2012.	295,525
Vishvesh D. Nanavaty[3][4] Vadodara, Gujarat State, India	Director since March 7, 2013.	Senior Vice President (Finance) & CFO of GSFC. Prior thereto, General Manager of Finance of GSFC since 2002.	Nil[2]
Sokuen Sue Ng[5][6] Toronto, Ontario, Canada	Director since May 21, 2015.	Retired. Prior thereto, consulting actuary at Tam Financial Consulting Inc. during the five preceding years.	235,610
Sanjeev V. Varma[3][4] Vadodara, Gujarat State, India	Director since May 21, 2015.	Sr. Vice President (Finance & Projects) of GSFC. Prior thereto, Working in GSFC at various positions since 1990.	Nil[2]
Mukund B. Purohit Toronto, Ontario, Canada	Director since May 21, 2015.	Vice-President (International Development) of the Corporation from April 2013 to April 2015. Prior thereto, individual entrepreneur.	Nil
Siu Ma Edmonton, Alberta, Canada	Officer since May 27, 2015.	Executive Vice-President and Chief Operations Officer of the Corporation from May 2015 to present. Prior thereto, VP Engineering and Research and Development from April 2010 to April 2015.	188,433
Quentin Plester Black Diamond, Alberta, Canada	Officer since May 27, 2015.	Executive Vice-President and Corporate Counsel of the Corporation since May 2015. Prior thereto, Chief Executive Officer, Q4 Enterprises Inc. since 2001.	125
Julius Brinkman Calgary, Alberta, Canada	Officer since July 20, 2015.	Vice-President, Capital Markets of the Corporation from April 2013 to April 2015. Prior thereto, CEO, Holmes Development Group from date to date, and President, Brinkman Capital since date.	15,000
Danielle Favreau Saskatoon, Saskatchewan, Canada	Officer since December 25, 2015.	Interim Chief Financial Officer since December, 2015. Prior thereto, from 2009 to 2015 audit manager, then human resources manager at Virtus Group LLP.	Nil

Notes:

(1) This amount includes 3,250,000 Common Shares held by 1385659 Alberta Ltd., a private company which Mr. Phinney controls and 313,814 Common Shares held by Mr. Phinney's spouse.

(2) This amount does not include the 5,490,306 Common Shares held by GSFC.

(3) Member of the Compensation and Corporate Governance Committee.

(4) Member of the Audit Committee.

(5) Member of Finance Committee.

(6) This amount includes 110,410 Common Shares held by immediate family members and over which Sokuen Sue Ng has trading authority.

Cease Trade Orders

To the knowledge of Karnalyte, no director or executive officer is, as of the date of this AIF, or was within 10 years prior to the date of this AIF, a director, chief executive officer or chief financial officer of any company (including Karnalyte) that: (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation and which order was in effect for a period of more than 30 consecutive days while he was acting in the capacity as director, chief executive officer or chief financial officer of such company; or (ii) was subject to any of the foregoing orders for a period of more than 30 consecutive days after he ceased to be a director, chief executive officer or chief financial officer of such company and which resulted from an event that occurred while he was acting in such capacity.

Bankruptcies

To the knowledge of Karnalyte, no director, executive officer or shareholder holding a sufficient number of securities to materially affect the control of Karnalyte, is, as of the date of this AIF, or was within 10 years prior to the date of this AIF, a director or executive officer of any company that, while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold its assets.

To the knowledge of Karnalyte, no director or executive officer of Karnalyte, or shareholder holding a sufficient number of securities to materially affect the control of Karnalyte has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver-manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

To the knowledge of Karnalyte, no director or executive officer of Karnalyte, or shareholder holding a sufficient number of securities to materially affect the control of Karnalyte has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of the Corporation will be subject in connection with the operations of the Corporation. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

PROMOTER

Robin L. Phinney, the President, Chief Executive Officer and a director may be considered to be the promoter of the Corporation because he took the initiative in founding and organizing the business of the Corporation. As of December 31, 2015, Mr. Phinney owned or controlled 4,012,409 Common Shares representing approximately 14.60% of the issued and outstanding Common Shares (on a non-diluted basis), of which 3,250,000 Common Shares are held by 1385659 Alberta Ltd., a private company which Mr. Phinney controls and 313,814 Common Shares held by Mr. Phinney's spouse. In addition, as at December 31, 2015, Mr. Phinney had 600,000 Options.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the fourth quarter of 2015, Karnalyte was made aware of an action filed against Karnalyte, its directors and certain of its officers by Ishan Holdings and Development Corporation and Betty Hayer-Dusange in the Supreme Court of British Columbia, New Westminster Registry claiming damages in an unspecified amount (the "**British Columbia Proceeding**"). Subsequent thereto Karnalyte was made aware of an action based on similar allegations filed by the same persons against Karnalyte, its directors and certain its officers in the United States District Court for the District of South Carolina claiming damages in the amount of $9.5 million (the “**South Carolina Proceeding**”, collectively with the British Columbia Proceeding, the "**Proceedings**"). The Proceedings allege, among other things, breaches of contracts, fraud and deceit, civil conspiracy, racketeering and unfair business practices. Karnalyte denies the allegations raised in the Proceedings and considers the Proceedings to be without merit. Karnalyte has filed responses in connection with the British Columbia Proceeding, as have the directors and officers named in the British Columbia Proceeding. Karnalyte has filed a Motion to Dismiss in connection with the South Carolina Proceeding.

In the second quarter of 2015, Mr. Robin Phinney took legal action against the Corporation and certain of its directors. Further, the Corporation took legal action against Robin Phinney, Jean Phinney, and associated entities. All such litigation and complaints to regulators, whether initiated by Mr. Robin Phinney against the Corporation or by the Corporation against Mr. Robin Phinney, Jean Phinney, or associated entities, were withdrawn or discontinued in accordance with the terms of the Settlement Agreement.

Karnalyte is not aware of any other legal proceedings to which the Corporation is or was a party to, or of which any of its property is or was the subject of, during the financial year ended December 31, 2015, nor are any other such proceedings known to the Corporation to be contemplated.

During the financial year ended December 31, 2015, management is not aware of any penalties or sanctions imposed against the Corporation by a court relating to provincial and territorial securities legislation or by a securities regulatory authority, nor any other penalties or sanctions imposed by a court or regulatory body against the Corporation. During the financial year ended December 31, 2015 the Corporation did not enter into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than the Offtake Agreement, the Subscription Agreement, and the Framework Agreement, each as disclosed herein, there were no material interests, direct or indirect, of any director or executive officer of the Corporation, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of such persons or companies, in any transaction within the three years most recently completed financial years that has materially affected or is reasonably expected to materially affect the Corporation or a subsidiary of the Corporation.

The Corporation and Mr. Mukund Purohit have entered into a finder's agreement with effect as of October 6, 2014 (the "**Finder's Agreement**"), in connection with securing financing for the Wynyard Carnallite Project. Pursuant to the terms of the Finder's Agreement, a finder's fee in the amount of 2.5% on the first $1 billion, and 2% on amounts exceeding $1 billion, will be paid by the Corporation to Mr. Purohit in the event that IDBI Capital Market Services Ltd. or SBI provide an equity investment in, or financing for, the Wynyard Carnallite Project.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are KPMG LLP, Chartered Professional Accountants, at their principal office in Calgary, Alberta.

The transfer agent and registrar for the Common Shares is CST Trust Company at its principal office in Calgary, Alberta and its office in Toronto, Ontario.

MATERIAL CONTRACTS

The following is a list of the material contracts, other than those contracts entered into in the ordinary course of business, of the Corporation required to be filed on SEDAR under National Instrument 51-102 -

Continuous Disclosure Obligations, and that were entered into within the most recently completed financial year or prior to the most recently completed financial year and that are still in effect:

1. The Offtake Agreement;

2. The Subscription Agreement;

3. The Settlement Agreement; and

4. Framework Agreement.

Further particulars of each of the foregoing agreements can be found under the heading "General Development of the Business". Copies of these agreements are available on SEDAR at www.sedar.com.

AUDIT COMMITTEE

Pursuant to the provisions of National Instrument 52-110 - *Audit Committees* ("**NI 52-110**"), the Corporation is required to disclose certain information concerning its audit committee including the audit committee's charter, the composition of the audit committee and its relationship with its independent auditors. Such information is set forth below. The charter of the Corporation's audit committee is attached as Appendix "A" to this AIF.

Composition of Audit Committee

The audit committee is comprised of Henry Kerkhoven (Chairman), Sanjeev Varma, and Vishvesh Nanavaty. Each of Henry Kerkhoven, Sanjeev Varma, and Vishvesh Nanavaty are financially literate and independent within the meaning of NI 52-110. The relevant education and experience of each audit committee member is outlined below.

Henry Kerkhoven

Henry Kerkhoven (B. Sc., B.Comm, MBA) was the former VP Administration and Chief Financial Officer of Karnalyte, as well as a former Karnalyte director, holding executive positions at Karnalyte from 2008 until 2012. Mr. Kerkhoven has acted as an independent Project Management consultant for more than 10 years and, prior thereto for more than 20 years at CP Railway. Mr. Kerkhoven holds a Bachelor of Science (1971), Bachelor of Commerce (1972) and Masters of Business Administration (1984) from Concordia University in Quebec and is a certified Project Management Professional by the Project Management Institute (1999).

Vishvesh Nanavaty

Mr. Nanavaty has been the General Manager of Finance of GSFC since 2002. Prior to joining GSFC, Mr. Nanavaty was Senior Finance Manager and Company Secretary at Johnson Pump (India) Ltd. from 1992 to 2002. Mr. Nanavaty is a chartered accountant and has a First Class Commerce degree from the Gujarat University. Mr. Nanavaty has also received designations from the Institute of Cost and Works Accountants of India and the Institute of Company Securities of India.

Sanjeev Varma

Mr. Varma is Sr. Vice President (Finance & Projects) at GSFC. Mr. Varma did his Bachelor of Engineering at Sardar Patel University, Gujarat, India in 1990 and joined GSFC as a Trainee Engineer. While serving at GSFC, he did his Master of Business Administration (Finance) in 2002 at MS University Baroda securing Gold Medals for his academic achievements. Since then, he has been working in the Finance Department of GSFC. He presently heads the Budget & Project Financing Sections and Project Monitoring & Development Cell of GSFC. He has rich experience of about 25 years as a techno-commercial executive in a large petrochemical & fertilizer complex which includes project implementation right from the stage of conceiving to commissioning, maintenance, budgeting, project financing and strategic decision making.

Audit Committee Oversight

At no time since incorporation was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the Board of Directors of the Corporation.

Reliance on Certain Exemptions

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemptions in Section 2.4 of NI 52-110 in relation to "De Minimus Non-Audit Services" or any exemption provided by Part 8 of NI 52-110.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy in relation to the engagement of non-audit services whereby the Audit Committee pre-approved certain services from its auditors of up to $50,000 in aggregate. Any services by the auditor above these thresholds must be brought to the Audit Committee for approval.

External Auditor Service Fees

The following table provides information about the fees billed to the Corporation, respectively, for professional services rendered by KPMG LLP, Chartered Professional Accountants, during the years ended 2014 and 2015.

KPMG LLP	2015 ($)	2014 ($)
Audit Fees(1)	$129,500	$125,000
Audit Related Fees(2)	$50,000	Nil
Tax Fees(3)	$9,400	$11,884
Total(4)	$198,900	$136,884

Notes:

(1) Audit fees were for professional services rendered by the auditors for the audit of the Corporation's annual financial statements and review of the interim financial statements.

(2) Audit-related fees are for services performed by the Corporation's auditors related to and in connection with regulatory filings.

(3) Tax fees are for tax compliance, tax advice and tax planning.

(4) These fees only represent professional services rendered and do not include any out-of-pocket disbursements or fees associated with filings made on the Corporation's behalf.

INTERESTS OF EXPERTS

The Corporation's auditors are KPMG LLP, Chartered Professional Accountants, who have prepared an independent audit report dated March 28, 2016 in respect of Karnalyte's audited annual financial statements with accompanying notes thereto for the year ended December 31, 2015. KPMG LLP advises that they are independent of Karnalyte within the meaning of the relevant rules and related interpretations prescribed by the professional bodies in Canada and any applicable legislation or regulations.

ADDITIONAL INFORMATION

Additional information relating to Karnalyte may be found on SEDAR at www.sedar.com. Additional information regarding directors' and officers' remuneration and indebtedness, principal holders of Karnalyte's securities and securities authorized for issuance under equity compensation plans is contained in Karnalyte's management information circular prepared in respect of its annual general meeting held on June 23, 2015. Additional financial information is provided in Karnalyte's audited annual financial statements, together with the accompanying report of the auditor and MD&A for the year ended December 31, 2015.

Effective Date

Unless otherwise specifically herein provided, the information contained in this AIF is stated as at March 30, 2016.

APPENDIX "A"
KARNALYTE RESOURCES INC.
AUDIT COMMITTEE CHARTER

OVERALL ROLE AND RESPONSIBILITY

The primary role and responsibilities of the Audit Committee shall be to:

(a) assist the Board of Directors in its oversight role with respect to:

  (i) the quality and integrity of financial reporting and information;

  (ii) the independent auditor's performance, qualifications and independence;

  (iii) the performance of the Corporation's internal audit function, if applicable; and

  (iv) the Corporation's compliance with legal and regulatory requirements and

(b) prepare such reports of the Audit Committee required to be included in any documents in accordance with applicable laws or the rules of applicable securities regulatory authorities;

(c) assess the processes related to the determination and mitigation of risks and the maintenance of an effective control environment; and

(d) strengthen the role of the outside directors by facilitating in depth discussions between the directors on the Audit Committee, management and independent auditors.

MEMBERSHIP AND MEETINGS

The Audit Committee shall consist of three or more Directors of the Corporation appointed by the Board of Directors, all of whom in the opinion of the Board shall be independent to the Corporation and as such shall not be officers (other than a non-executive Chairman or Corporate Secretary who is not an employee of the Corporation) or employees of or have a meaningful business relationship with the Corporation or any of the Corporation's affiliates or be an immediate family member of any of the foregoing, to the extent required by applicable laws governing the Corporation. Each of the members of the Audit Committee shall satisfy the applicable independence and financial literacy of the laws governing the Corporation, the applicable stock exchanges on which the Corporation's securities are listed and applicable securities regulatory authorities.

The Board of Directors shall designate one member of the Audit Committee as the Committee Chair. Each member of the Audit Committee shall be financially literate as such qualification is interpreted by the Board of Directors in its business judgment.

Any members of the Audit Committee may be removed or replaced at any time by the Board of Directors and will cease to be a member of the Audit Committee as soon as such member ceases to be a director.

The Board may fill vacancies on the Audit Committee by appointment from among its members. If and whenever a vacancy exists on the Audit Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following the appointment as a member of the Audit Committee, each member will hold such office until the Audit Committee is reconstituted.

STRUCTURE AND OPERATIONS

The affirmative vote of a majority of the members of the Audit Committee participating in any meeting of the Audit Committee is necessary for the adoption of any resolution. In case of an equality of votes, the Chairman of the meeting shall be entitled to a second or casting vote.

The Chair will preside at all meetings of the Audit Committee, unless the Chair is not present, in which case the members of the Audit Committee that are present will designate from among such members the Chair for the purposes of the meeting.

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. A quorum for meetings of the Audit Committee will be a majority of its members and the rules for calling, holding, conducting and adjourning meetings of the Audit Committee will be the same as those governing the Board of Directors unless otherwise determined by the Audit Committee or the Board of Directors.

The Chief Financial Officer will attend meetings of the Audit Committee where matters relating to the functions of the Audit Committee are dealt with, unless otherwise excused from all or part of any such meeting by the Chairman. The Audit Committee may invite such officers, directors and employees of the Corporation as it sees fit from time to time to attend at meetings of the Audit Committee and assist in the discussion and consideration of the matters being considered by the Audit Committee.

The Audit Committee will meet with the external auditor at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Audit Committee consider appropriate. The Audit Committee is expected to establish and maintain free and open communication with management and the independent auditor and shall periodically meet separately with each of them.

Agendas, approved by the Chairman, will be circulated to the Audit Committee members along with background information on a timely basis prior to the Audit Committee meetings. Minutes of all meetings of the Audit Committee will be taken. The minutes of the Audit Committee will be recorded and maintained and the Audit Committee shall report to the Board of Directors on its activities after each of its meetings at which time minutes of the prior Audit Committee meeting shall be tabled for the Board.

Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chairman of the Board by the Audit Committee Chair.

SPECIFIC DUTIES

Oversight of the Independent Auditor

- Make recommendations to the Board for the appointment and replacement of the independent auditor.

- Responsibility for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

- Authority to pre-approve all audit services and permitted non-audit services (including the fees, terms and conditions for the performance of such services) to be performed by the independent auditor.

- Evaluate the qualifications, performance and independence of the independent auditor, including (i) reviewing and evaluating the lead partner on the independent auditor's engagement with the Corporation, and (ii) considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence.

- Obtain from the independent auditor and review the independent auditor's report regarding the management internal control report of the Corporation to be included in any documents as required by the laws governing the Corporation, the applicable stock exchanges on which the Corporation's securities are listed and applicable securities regulatory authorities.

- Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law (currently at least every 5 years).

- When there is to be a change in the auditor, review all issues relating to the change, including any reportable events, and all information to be included in the required notice to securities regulators of such change.

Financial Reporting

- Review and discuss with management and the independent auditor, as applicable:

    - prior to the annual audit the scope, planning and staffing of the annual audit,

    - the annual audited financial statements,

    - the Corporation's annual and quarterly disclosures made in management's discussion and analysis,

- approve any reports for inclusion in the Corporation's Annual Report, as required by applicable legislation,
    - the Corporation's quarterly financial statements, including the results of the independent auditor's review of the quarterly financial statements and any matters required to be communicated by the independent auditor under applicable review standards,
    - significant accruals, reserves or other estimates such as the ceiling test calculation,
    - accounting treatment of unusual or non-recurring transactions,
    - compliance with covenants under loan agreements,
    - disclosure requirements for commitments and contingencies,
    - adjustments raised by the external auditors, whether or not included in the financial statements,
    - significant variances with comparative reporting periods.
    - significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, any significant changes in the Corporation's selection or application of accounting principles,
    - any major issues as to the adequacy of the Corporation's internal controls and any special steps adopted in light of material control deficiencies, and
    - other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

- Discuss with the independent auditor matters relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information and any significant disagreements with management.

- Review the financial statements, prospectuses, management's discussion and analysis, annual information form and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Audit Committee must be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of all other financial information and will periodically access the accuracy of those procedures.

- Conduct an investigation sufficient to provide reasonable grounds for believing that the financial statements, management's discussion and analysis and any public disclosure documents containing financial information are complete in all material respects and consistent with the information known to Audit Committee members, and assess whether the financial statements reflect appropriate accounting principles.

Risk Assessment and Risk Management

- Discuss with Corporation management guidelines and policies governing the risk assessment and risk management processes.

- Review with Corporation's management and the independent auditors, significant risks and exposures, including management's plans and processes to minimize these risks such as insurance coverage.

- Evaluate whether Corporation's management is adequately communicating the importance of internal control to all relevant personnel.

- Periodically privately consult with the independent auditor about internal controls and the completeness and accuracy of the Corporation's financial statements.

- Review whether the internal control recommendations made by the independent auditor are being implemented by the Corporation's management and, if not, why not.

Other Responsibilities

- Periodically, as the Audit Committee deems appropriate, review the President, Chief Executive Officer and Chief Financial Officers' expenses and perquisites.

- Review all consulting fees paid by the Corporation to any organization where such fees exceed $25,000 annually.

- Institute special investigations, if necessary, and hire special counsel or experts to assist, if appropriate.

- Establish, and review annually, a procedure for:

    - the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters;

    - and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters and resolution of such concerns, if any.

- To comply with the procedure above, the Audit Committee shall ensure that the Corporation advises all employees, by way of a written code of business conduct and ethics (the "Code"), or if such Code has not yet been adopted by the Board of Directors, by way of written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have been employed by the Corporation or their external auditors is strongly encouraged to report such concerns by way of communication directly to the Chair of the Corporation Governance Committee of the Corporation.

- Review with the Board, any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements and the performance and independence of the Corporation's independent auditors.

- Perform other oversight functions as requested by the Board.

AUDIT COMMITTEE'S ROLE

The Audit Committee has the oversight role set out in this Charter. The Audit Committee shall review and assess the adequacy of this Charter periodically and, where necessary, will recommend changes to the Board of Directors for its approval.

Management, the Board of Directors, the independent auditor and the internal auditor (if any) all play important roles in respect of compliance and the preparation and presentation of financial information. Management is responsible for compliance and the preparation of financial statements and periodic reports. Management is responsible for ensuring the Corporation's financial statements and disclosures are complete, accurate, in accordance with generally accepted accounting principles and applicable laws. The Board of Directors in its oversight role is responsible for ensuring that management fulfills its responsibilities. The independent auditor, following the completion of its annual audit, opines on the presentation, in all material respects, of the financial position and results of operations of the Corporation in accordance with Canadian generally accepted accounting principles.

FUNDING FOR THE INDEPENDENT AUDITOR AND RETENTION OF OTHER

Independent Advisors

The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of issuing an audit report and to any advisors retained by the Audit Committee. The Audit Committee shall also have the authority to retain such other independent advisors as it may from time to time deem necessary or advisable for its purposes and the payment of compensation therefore shall also be funded by the Corporation.

APPROVAL OF AUDIT AND REMITTED NON-AUDIT SERVICES PROVIDED BY

External Auditors

Over the course of any year there will be two levels of approvals that will be provided. The first is the existing annual Audit Committee approval of the audit engagement and identifiable permitted non-audit services for the coming year. The second is in-year Audit Committee pre-approvals of proposed audit and permitted non-audit services as they arise.

Any proposed audit and permitted non-audit services to be provided by an external auditor to the Corporation or its subsidiaries must receive prior approval from the Audit Committee, in accordance with this protocol. The Chief Financial Officer shall act as the primary contact to receive and assess any proposed engagements from an external auditor.

Following receipt and initial review for eligibility by the primary contacts, a proposal would then be forwarded to the Audit Committee for review and confirmation that a proposed engagement is permitted.

In the majority of such instances, proposals may be received and considered by the Chair of the Audit Committee (or such other member of the Audit Committee who may be delegated authority to approve audit and permitted non-audit services), for approval of the proposal on behalf of the Audit Committee. The Audit Committee Chair will then inform the Audit Committee of any approvals granted at the next scheduled meeting.

Procedure Governing Errors or Misstatements in Financial Statements

In the event a director or an officer of the Corporation has reason to believe, after discussion with management, that a material error or misstatement exists in financial statements of the Corporation, that director or officer shall forthwith notify the Audit Committee and the auditor of the error or misstatement of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on.

If the auditor or a former auditor of the Corporation is notified or becomes aware of an error or misstatement in a financial statement on which the auditor or former auditor has reported, and if in the auditor's or former auditor's opinion the error or misstatement is material, the auditor or former auditor shall inform each director accordingly.

When the Audit Committee or the Board is made aware of an error or misstatement in a financial statement the Board shall prepare and issue revised financial statements or otherwise inform the shareholders of the Corporation and file such revised financial statements as required.

Limitation on Audit Committee Members' Duties

Nothing in this Charter is intended, or may be construed, to impose on any member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard required by law.