



Dear Fellow Shareholder:

Your Company is poised to create value, with renewed leadership and a compelling new strategic vision. But a number of self-interested actors threaten Karnalyte's ability to move forward.

Shareholders deserve to know the facts about these individuals. They have tried to enrich themselves at shareholders' expense, and their reckless self-interest has destroyed shareholder value and hindered Karnalyte's growth.

Karnalyte needs a fresh start and must turn the page on this history. But for that to happen, shareholders need to send a strong message in favour of progress, growth and value creation.

Read on for the complete story. And help turn the page by voting FOR all director nominees standing for election at the upcoming Annual and Special Meeting of Shareholders.



Dear Karnalyte Shareholder,

I joined Karnalyte earlier this year with a singular focus on creating value for all shareholders of Karnalyte Resources Inc. (“Karnalyte” or the “Company”).

As I reviewed the Company’s history, I was shocked by the actions taken by previous management, and certain shareholders, that have prevented Karnalyte from moving forward. Now is the time for a fresh start – to break from the past and prevent further erosion of shareholder value.

We have announced a compelling vision for Karnalyte which is endorsed by our strategic partner – and largest shareholder – Gujarat State Fertilizers & Chemicals Limited (“GSFC”). The Company needs professional, disciplined, and stable leadership to turn this vision into shareholder value.

A threat to your investment

I am taking the step of writing to you directly because Karnalyte’s future is under threat by the collective actions of three shareholders who are actively attempting to take control of Karnalyte and its Board of Directors, at the expense of the other shareholders. These shareholders have ignored corporate law, securities law, corporate governance and Karnalyte’s own long-established policies in their attempt to wrest control of your Company.

You deserve the truth about these individuals, and how the Company has come to be where it is, in order to make an informed vote. The facts matter, and I am

writing this letter to set the record straight on the past history of Karnalyte.

With the truth and the facts, the Board of Directors of Karnalyte is asking you to vote **FOR** all director nominees named in the Company’s Management Information Circular dated May 14, 2018 at the 2018 Annual and Special Meeting of Shareholders.

A brighter future for your investment

On May 14, 2018 we announced a compelling new strategic plan to help your Company create shareholder value.

Your current Board of Directors is comprised of shareholders of Karnalyte who, like me, have a singular focus on creating shareholder value. They inherited a mess when they were elected in May 2017 and have spent the past year cleaning up that mess and positioning the Company to move forward to a brighter future. Your Board of Directors and management are determined to turn the page on Karnalyte’s troubled history.

Karnalyte's Past: Value destruction, irresponsible leadership and individual self-interest

The Company's past has been dominated by a small handful of individuals who, through their irresponsibility and mismanagement have destroyed shareholder value. These individuals have relentlessly pursued their own personal agendas to enrich themselves at your expense.

Dan Brown tried to enrich himself at your expense...twice

Long-suffering Karnalyte shareholders will be familiar with Dan Brown. Mr. Brown is a Karnalyte shareholder who has at various times sought to portray himself as the champion of the shareholder interest and the saviour of the Company through his commentary in an internet chat room. But the truth is, Mr. Brown is no friend of the shareholders and has twice tried to enrich himself at the Company's expense and that of its shareholders.

In early 2018, Mr. Brown launched a self-serving attempt to gain control of Karnalyte and put his interests ahead of all of the Company's other shareholders. Mr. Brown tried to convince your Board of Directors to give him 7 million shares (being approximately 25% of the outstanding shares of Karnalyte), together with a payment of \$240,000, plus an annual \$60,000 consulting contract, without paying

the Company or its shareholders a dime, or offering anything of value to Karnalyte. Your Board of Directors rejected this attempt to take control of your Company as it offered nothing to Karnalyte and was clearly intended to benefit, and enrich, only Mr. Brown.

This was not his first attempt. In June 2017, Mr. Brown tried to convince your Board of Directors to pay him US\$150,000 in cash, give him a 2% royalty on the Wynyard Potash Project, plus a 2% finder's fee on any financing of the new potash mine, as a result of a convoluted corporate restructuring that served no business purpose. Once again, your Board of Directors acted in the best interests of all of the Company's shareholders and rejected this proposal.

Mr. Brown's proposals lacked credibility, and demonstrated a complete lack of understanding of corporate governance of public mining companies and the mining industry.

To make matters worse, behind the scenes Mr. Brown was attempting to coerce GSFC into supporting his reckless and irresponsible scheme. Mr. Brown's self-interest put a vital strategic partnership with Karnalyte's single largest shareholder at risk – all to enrich himself at the expense of the Company's other shareholders.

ARE THESE THE ACTIONS OF A 'CHAMPION OF THE
SHAREHOLDERS' OR OF SOMEONE PURSUING THEIR
OWN SELF-SERVING AGENDA?

Robin Phinney - A track record of self-interest and value destruction

Mr. Phinney is a twice-fired former President and CEO of Karnalyte. His track record is one of value destruction, self-dealing, and irresponsible leadership.

There are numerous examples of Mr. Phinney's self-serving agenda and efforts to enrich himself at the expense of the other shareholders, including:

- Single-handedly scuttling the US\$700 million project financing sponsored by GSFC for the Wynyard Potash Project
- Harassment of employees, as verified by an independent investigation

- Entering into a purported financing transaction, literally drafted on a napkin, that resulted in litigation against the Company and a cost to the Company of \$250,000 to settle that litigation
- On the day he was voted off Karnalyte's Board, transferring \$5 million from the treasury into an investment in securities unrelated to Karnalyte, which then immediately lost value

The most egregious example of Mr. Phinney's attempts to enrich himself is his single-handed scuttling of the US\$700 million GSFC-sponsored project financing of the Wynyard Potash Project, destroying significant shareholder value. This chart tells the tale:

Destruction of Shareholder Value



March 2016 was an exciting time for your Company. On March 14, 2016 Karnalyte announced an agreement in principle with GSFC to sponsor the US\$700 million financing of the first phase of development of the Wynyard Potash Project. Despite the prevailing low potash prices, the market responded very favourably to this announcement, more than tripling the trading price of Karnalyte's shares, as the chart above indicates. Things were looking up.

Unfortunately, only a few months later, on August 2, 2016, that value was totally wiped out as the Company had to announce that negotiations with GSFC had ceased. In Karnalyte's disclosure at the time, and since, the Company cited "governance matters" as a prime reason for the dissolution of the agreement in principle with GSFC.¹

[1] See Karnalyte's Material Change Report filed August 1, 2016, and, for example, Karnalyte's most recent Annual Information Form dated March 27, 2018.

The facts are that those governance matters were wholly caused by Mr. Phinney's recklessness, greed and self-interest. The result? A US\$700 million investment in the future of Karnalyte was lost.

Why did GSFC ultimately decide not to proceed with the financing?

The clearly documented facts, among other things, are that Mr. Phinney made outrageous demands of GSFC, specifically:

- Approximately US\$7 million bonus (1% of the USD \$700 million GSFC-sponsored financing)
- \$750,000 annual salary
- \$675,000 severance payment on his previous employment contract
- 1,875,000 stock options
- 1,600,000 restricted share units

GSFC was prepared to consider some of Mr. Phinney's demands in order to progress the development of the Wynyard Potash Project. However, when viewed in their totality, Mr. Phinney's demands were simply too much for GSFC to agree to as GSFC was not able to see the benefits to all of the shareholders of Karnalyte.

To be clear: Mr. Phinney single-handedly killed a US\$700 million financing of the Company's flagship project because of his unbridled greed and total disregard for the interests of all of the other shareholders of Karnalyte.

Fortunately, Mr. Phinney's mismanagement has not diminished GSFC's enthusiasm about Karnalyte's ultimate potential. GSFC is a leading Indian Fortune 500 chemicals and fertilizer company that has been in business for more than 50 years. GSFC's leadership has been, and continues to be, very supportive of Karnalyte and its business plans, including our new nitrogen fertilizer strategy. Karnalyte is extremely fortunate to have GSFC as a major shareholder and strategic partner, and this relationship will be instrumental in Karnalyte executing on the vision that management and the current Board has laid out for the future. To suggest otherwise ignores the reality of the opportunities and challenges our business faces.

Documented facts, not idle conjecture

This is not a case of the current Board of Directors casting stones. All of the transgressions of Mr. Brown and Mr. Phinney are well documented in Karnalyte's corporate records, and any shareholder who wishes to review the comprehensive evidence is welcome to contact us in order to do so.

PHINNEY AND HIS ASSOCIATES SHOULD NOT BE
TRUSTED WITH THE STEWARDSHIP OF YOUR
KARNALYTE SHARES

A Fresh Start – A better future for your investment – Vote FOR All Director Nominees

With professional, experienced and disciplined leadership and a refreshed strategic vision, your Company is poised to create value. But for that to happen, we must break with the past and move forward with a united focus and I am asking you to join with our Board of Directors in supporting a brighter future for Karnalyte.

A VOTE FOR ALL DIRECTOR NOMINEES IS A VOTE FOR THE FUTURE AND A VOTE FOR CREATING SHAREHOLDER VALUE.

You can vote your shares by telephone, fax or email by contacting AST Trust Company (Canada), Karnalyte's Registrar and Transfer Agent:

Telephone: 1-888-489-7352

Fax: (416) 368-2502, or toll-free 1-866-781-3111

Email: proxyvote@astfinancial.com

Sincerely,

A handwritten signature in cursive script, reading "Frank Wheatley", with a long horizontal flourish extending to the right.

Frank Wheatley
President

Your proxy voting deadline is 9:30 a.m. (Saskatoon time) on June 5, 2017

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