



Management Information Circular for Special Meeting of Karnalyte Resources Shareholders

to be held on December 15, 2020

**VOTE THE BLUE MANAGEMENT PROXY FORM FOR
PROFESSIONAL LEADERSHIP AND STABILITY**

To ensure that your vote is counted at the Special Meeting of Karnalyte Shareholders, please ensure it is received well in advance of the proxy voting deadline of Friday, December 11, at 9:30 a.m. (Saskatoon time). If you require assistance voting your BLUE MANAGEMENT PROXY FORM contact info@karnalyte.com or call 306-986-1486.



Voting Recommendations

1. **AGAINST** the **Directors Removal Resolution**, and
2. **WITHHOLD** from the **Dissident Director Election**
(as described in the Management Information Circular).



Nov 16 2020

Dear Karnalyte Shareholders,

Karnalyte Resources Inc. (“**Karnalyte**” or the “**Company**”) faces an unnecessary and expensive proxy contest, following a requisition from Peter Matson, Greg Szabo and Mark Zachanowich, (the “**Dissidents**”). The Dissidents are former Karnalyte Directors who resigned from the Board of Directors of Karnalyte (the “**Board**”) in January of 2019, following their breach of the Company’s Code of Conduct and their fiduciary obligations. To make matters worse, the Dissidents submitted their requisition very shortly after the current Directors were elected, with over 80% support of the votes cast. Now, shareholders are faced with an attempt to take control of the Board by a group of self-interested Dissidents. The good news is that you can protect your interests in Karnalyte by following the voting recommendations included in the **BLUE MANAGEMENT PROXY FORM**.

VOTE THE BLUE MANAGEMENT PROXY FORM FOR PROFESSIONAL LEADERSHIP AND STABILITY

There is considered decision making and positive momentum at Karnalyte. Your existing Board has initiated a review process to determine the optimal strategic direction to maximize value for all shareholders, and has engaged a leading business consulting firm to assist in that strategic review process and to provide an independent review of the pre-feasibility study on the Nitrogen Project. This independent review is nearing completion and the results will be shared with shareholders when available. Always acting with an eye towards preserving shareholder value while also moving the ball forward with discipline, your current Board has conserved shareholder funds and reduced risk by working with Gujarat State Fertilizers and Chemicals Ltd. (“**GSFC**”), the Company’s largest shareholder, on the pre-feasibility study for the Nitrogen Project.

At the same time, your Board has demonstrated its commitment to good governance and stewardship by acting quickly and decisively to engage external counsel to investigate dubious but concerning allegations made by the Dissidents, ultimately finding those claims to be without merit. Your Board and management team have also refrained from using Company resources to address relentless attacks, even when the Board and management had every justification to do so. The Board has instead directed the Company’s depleted cash resources towards

determining the best strategic direction for Karnalyte, an exercise aimed at maximizing value for all shareholders. At all times, the Board and the management team have demonstrated their discipline and commitment to acting in the best interests of all shareholders.

Perhaps most importantly, Karnalyte’s Board has deep and diversified industry expertise, meets all independence requirements, and is well qualified to oversee the execution of the Company’s value creation plan. These qualifications stand in stark contrast to the lack of qualifications on the part of the Dissidents and their handpicked Director nominees.

WITHHOLD FROM SUPPORTING SELF-INTERESTED DISSIDENTS WHO THREATEN THE FUTURE VALUE OF YOUR INVESTMENT IN KARNALYTE

The Dissidents and their Board nominees are the wrong people, in the wrong place, at the wrong time. The self-anointed “Concerned Shareholders” have a history of unethical behavior and putting their own interests ahead of other shareholders. As mentioned above, the Dissidents were previously Directors of Karnalyte but resigned from the Board after being found to be in breach of their fiduciary duties and Karnalyte’s Code of Conduct. Regardless, the Dissidents – who hold just over 5% of the Company’s outstanding shares – are now demanding to appoint their handpicked Director nominees to two thirds of the seats on Karnalyte’s Board.

It is important to keep in mind that the Dissidents are the same individuals who as Directors, spent millions of dollars without any real results. To make matters worse, the Dissidents are continuing to unnecessarily cost Karnalyte shareholders thousands of dollars and would continue to do so, should they be allowed to pursue their proxy contest misadventure. Thoroughly and fairly investigating what turned out to be unfounded and unjustified allegations cost shareholders \$103,000. Holding an unnecessary special meeting between two Annual Meetings and in the middle of a global pandemic is likely to cost shareholders a minimum of \$350,000. Shareholders should question why the Dissidents chose to make their requisition a short time after the annual meeting instead of making a proposal to be considered at that annual meeting and avoiding

the significant additional costs. If the Dissidents are successful, they will double the size of the Board resulting in additional costs to shareholders. Adding insult to injury, the Dissidents may even expect shareholders to pay for the Dissidents' own costs if the Dissidents are successful in taking control of Karnalyte. Expect the Dissident costs to be in the tens to hundreds of thousands of dollars.

According to the information provided to the Company by the Dissidents themselves, the Dissident director nominees have very limited or no experience serving as directors of a public company, NO experience in the financing or construction of major capital projects, nor any experience in the potash or mining sectors. Given the lack of critical skills and industry expertise within the Dissident Director Nominees and a lack of any vision or clarity regarding the Dissident's potash plan, it is fair for shareholders to wonder if the Dissidents' plan is actually to abandon the Company's potash project all together to focus exclusively on the nitrogen strategy. While the Dissidents have not come out and said this, their choices for their Director nominees – and corresponding lack of applicable experience or expertise – do beg this question.

After carefully reviewing what Karnalyte and the Dissidents have to offer – more detail is included in the Management Information Circular – the choice for shareholders is simple.

Accordingly, your Board unanimously recommends that shareholders vote as follows using only the BLUE MANAGEMENT PROXY FORM:

1. AGAINST the Directors Removal Resolution;
2. WITHHOLD from the Dissident Director Nominees (as described in the Management Information Circular).

VOTE YOUR BLUE MANAGEMENT PROXY FORM TODAY

The Special Meeting of Shareholders is scheduled for Tuesday, December 15, 2020 but given the COVID-19 pandemic, **shareholders are strongly encouraged not to attend the Meeting in person. Instead, in order to ensure that their vote is counted at the Meeting, shareholders are urged to vote in advance and ensure that their vote is received prior to the proxy voting deadline of Friday, December 11, 2020 at 9:30 a.m. (Saskatoon Time).**

Shareholders will be able to listen to the meeting. For more information, please see the Meeting details in the Management Information Circular.

On behalf of the Board of Directors, we appreciate your investment in Karnalyte, along with your continued engagement and support. We urge you to vote using the BLUE MANAGEMENT PROXY FORM for professional management and stability, as we believe the best is yet to come!

Sincerely,

THE BOARD OF DIRECTORS OF KARNALYTE RESOURCES INC.

REASONS TO SUPPORT THE CURRENT BOARD

1. There is Considered Decision Making and Positive Momentum at Karnalyte

Karnalyte's Board initiated a review process to determine the strategic direction in the best interests of Karnalyte and that would maximize value for all of its shareholders

The strategic review process includes an evaluation of a broad range of potential strategic alternatives available to the Company, such as the evaluation of its existing and future projects (including an independent review of the pre-feasibility study on the Nitrogen Project) and the analysis of potential financing alternatives, given Karnalyte's declining cash position.

Karnalyte engaged MNP LLP, as an independent business consultant, to assist in the strategic review process and to provide an independent review of the pre-feasibility study.

MNP is a leading business consulting firm with extensive experience in the potash and nitrogen industries. MNP has reviewed the feasibility of other proposed nitrogen fertilizer projects in Western Canada and has in-depth knowledge of the Saskatchewan area. MNP's independent review of the Karnalyte pre-feasibility study for nitrogen covers an assessment of the financial merits of the project,

including the current cost assumptions and the availability and cost of debt and/or equity financing.

Karnalyte acted quickly and decisively to investigate Dissident claims; engaged external counsel to independently investigate claims and found the claims to be without merit

On July 27, Karnalyte announced that subsequent to submitting their requisition, the Dissidents had made a number of statements regarding the Company, its Board, and its management. Karnalyte stated at the time that certain allegations the Dissidents publicly released on July 22, 2020, despite being unproven at the time, required a careful and fair review, which Karnalyte has since completed.

A leading law firm completed the extensive review, which included interviews with a number of parties, including two of the Dissidents. The 77-page investigation report (the "Investigation Report") and the almost 300-page compendium of materials to the Investigation Report highlight, among other things, the following:

- The Interim CEO and the Board are in compliance with the Company's Code of Conduct,
- There is no evidence of selective disclosure of material, non-public information by the Interim CEO,

- The Interim CEO has acted appropriately to avoid all conflict of interest,
- Mr. Vishvesh Nanavaty, a current director, and Mr. Sanjeev Varma, a former director, each nominated to the Board by GSFC, have acted appropriately to disclose and avoid conflicts of interest,
- The Company has only one GSFC nominee on its Board and is not in breach of contractual or other obligations with respect to the designation of the number of GSFC nominees on the Board,
- The Company has provided full and accurate disclosure of material transactions and related party transactions in its financial communications,
- The Company is in compliance with Canadian securities laws and Toronto Stock Exchange rules and regulations including as it relates to the independence of the Company's board of directors, and
- The Company is not in breach of the *Lobbying Act* (Canada).

After carefully reviewing the Investigation Report, the Board concluded that the Company need not pursue any further actions, or incur any further costs, in relation to the Dissidents' allegations which have now been thoroughly investigated. It is clear that the Dissidents are engaging in an active campaign to discredit management and the Board through the presentation of disingenuous and incomplete facts that do not support, justify or warrant the Dissidents' allegations and demands.

To ensure the thoroughness and fairness of the process, the Dissidents were invited to participate in the investigation and provide any information to substantiate their allegations. One of the Dissidents declined to participate. The remaining Dissidents voluntarily submitted to the process and attended hours of interviews, at all times accompanied by their legal counsel. Any restrictions on the time allotted to interviewing the Dissidents to obtain their information were imposed by the Dissidents and their legal counsel, not by the Company or its external counsel—in other words, the Dissidents were given as much time and as broad an opportunity to demonstrate the validity of their allegations. The investigation process was identical to the process used by the Company in January 2019, when a similar review was conducted of allegations raised by a shareholder against the Dissidents, then directors of Karnalyte. In that case, the Dissidents were found to have breached the Company's Code of Conduct and their fiduciary obligations. As a result, the Dissidents subsequently resigned.

2. Karnalyte's Board and Management Have Protected Shareholder Value While Moving the Company Forward

Karnalyte has refrained from using Company resources to address Dissident attacks, even in the face of aggressive, unfounded allegations

The Board and management have continued to maintain

a professional attitude and a focus on acting in the best interests of the Company, despite the relentless attacks. At the time of writing, the Dissidents have issued 13 news releases publicly accusing the Company and its management of a multitude of unsubstantiated offenses, while also calling into question the credibility and capabilities of multiple highly reputable professional services firms, regulators and other market participants.

Rather than engaging in arguments that add no value for shareholders, Karnalyte has remained focused on running the business and has limited its expenditures related to defending itself against these unsupported allegations. Instead, the Company has put its limited resources towards determining the best strategic direction for Karnalyte, an exercise aimed at maximizing value for all shareholders.

In addition, the management team worked with GSFC and others on the pre-feasibility study in order to assess the potential viability of the Nitrogen Project. During this time, work has also continued to advance the Potash Project with a team working to identify reductions in capital costs to preserve the Company's available funds and internal studies to improve both the operating and capital costs of the Potash Project in order to improve the economics of the project.

Management has also been working to reduce Karnalyte's operating costs to preserve the Company's available funds, before engaging in any major business initiatives. Despite the depleted cash resources left behind following the resignation of the Dissidents, Management is able to carry on its day to day operations and believes that Karnalyte is well positioned to withstand the difficult economic climate given its available cash, positive working capital and lack of debt. Many other junior companies in this sector are in a much worse position than Karnalyte with significantly depleted cash positions, that have resulted in capital raises at expensive and highly dilutive rates just to continue operating. Given Karnalyte's conservative spending and focused approach, it has maintained sufficient liquidity and under the current leadership, expects to remain in this position for some time to come. The strategy proposed by the Dissidents however, would deplete the Company's cash resources and lead to severe liquidity shortages by the second quarter of 2021.

Karnalyte conserved shareholder funds and reduced risk by working with GSFC on a pre-feasibility study for the Nitrogen Project

In light of the current economic circumstances and due to the additional risk associated with the Nitrogen Project, Karnalyte believed that further analysis was required to make a sound, well-informed decision on the potential viability of the Nitrogen Project prior to investing significant resources into the project. Based on GSFC's wealth of experience in the nitrogen fertilizer industry, the Company asked GSFC to assist with preparing the pre-feasibility study.

By having GSFC assist with the preparation of the pre-feasibility study, Karnalyte was able to significantly reduce

its costs until it can reasonably determine if further expenditure on the Nitrogen Project is justified. Upon reviewing the pre-feasibility study, the Board engaged MNP for an independent evaluation to confirm the validity and accuracy of the pre-feasibility study and whether to pursue the Nitrogen Project.

GSFC, as an expert in the industry and the Company's largest shareholder, is a key partner in the Nitrogen Project and their involvement is critical for its success. GSFC's participation adds credibility to Karnalyte's ability to advance the project and gain support from potential partners, such as future technology providers, engineering, procurement and construction contractors, offtake partners and investors. Furthermore, with a 38.7% ownership position in Karnalyte, GSFC has a vested interest in pursuing what is in the best interest of all shareholders.

While Karnalyte always believed that the results of its own work on the pre-feasibility study, assisted by GSFC and others, must be verified independently, it would have been irresponsible not to use the efficiencies and cost-saving measures uniquely available to Karnalyte. If the Dissidents had conducted a full feasibility study as they have suggested, the costs of such study would have depleted Karnalyte's remaining cash by upwards of \$5,000,000 on a study that may or may not yield positive results. The pre-feasibility study was engaged to provide the Company with the information necessary to determine the viability of proceeding with a costly full feasibility study.

The Dissidents claim that most, if not all, of the proceeds of Karnalyte's 2018 Rights Offering were allocated to the Nitrogen Project. Even if that were accurate, it is not realistic. The Dissidents would have needed up to twice as much of the proceeds to conduct their proposed full feasibility study. This lack of understanding clearly evidences that the Dissidents may not have properly assessed the realities of the Nitrogen Project and could have squandered Karnalyte's cash in the process.

In a Press Release issued November 14, 2018, the Company notified its shareholders that: (i) the Board of Directors of Karnalyte, including the Dissidents, had approved a Rights Offering; (ii) Karnalyte would issue rights to subscribe for up to an aggregate of approximately 14.1 million common shares at a subscription price of 17 cents per common share, raising approximately \$2.4 Million; (iii) Karnalyte intended to use the proceeds of the Rights Offering to "advance the development of both the Nitrogen Project and the Wynyard Potash Project". In Karnalyte's Rights Offering Circular dated November 14, 2018, under the heading "Use of Available Funds", it was noted that: (i) the available funds to be used for the Wynyard Potash Project was a priority over the use of available funds for the Nitrogen Project; (ii) Karnalyte intended to use a "significant portion" of the Rights Offering proceeds on the Nitrogen Project on expenditures that included development work, as well as potential site acquisitions; and (iii) Karnalyte intended to spend the available funds as stated, with reallocation adjusted within the categories of expenditures depending on timing of

availability of consultants, contractors and the availability of a suitable project site for the Nitrogen Project.

The Dissidents' failure to recognize that the 2018 Rights Offering Circular, approved by them when they were directors of Karnalyte, clearly states that the Potash Project was one of the uses of the proceeds of the 2018 Rights Offering, and that the Board, in all cases, has the discretion to use the proceeds of the 2018 Rights Offering as considered appropriate. See page 4 of the 2018 Rights Offering Circular.

3. A Qualified, Independent Board and Management Team Focused on Professional Leadership

Karnalyte's Board has deep industry expertise, meets all independence requirements, and is well qualified to oversee the execution of the value creation plan

The current Board is working in the best interests of Karnalyte and its shareholders. Karnalyte's shareholders demonstrated their overwhelming support for the current Board at the Company's most recent annual general meeting, held on June 26, 2020, where each director was elected with over 80% support of the votes that were cast. The Dissidents opted to file their requisition days after Karnalyte's Annual General Meeting.

Given that the Company is currently undertaking a strategic review, the Board believes that increasing its size at this time is not in the best interest of the Company and would increase costs to the Company unnecessarily. The Board believes that once a determination on specific projects is made, it will likely need to increase its membership by adding more individuals with additional skills to oversee the execution of its potash and nitrogen strategies.

Karnalyte's current Board meets all independence requirements. Despite the Dissidents' complaints to several regulatory bodies, Karnalyte meets the legal requirements of independence of its Directors under applicable laws and regulations.

The current Directors bring a deep and wide range of relevant experience to the Company. In particular, Mr. Anjaria has experience in project finance, capital markets, government relations and government policy; Mr. Scherman has experience in finance and accounting, financial reporting, and the mining and agriculture industries; and Mr. Nanavaty has experience in finance and accounting, project financing, manufacturing, the fertilizer industry and government relations, as further detailed below:

MR. D.C. ANJARIA

Mr. Anjaria was appointed to the Board in 2019, after a competitive and thorough vetting process, which included former Karnalyte Director and current dissident Director nominee Mr. W. Todd Rowan. As part of this process, the former CEO and Mr. Rowan travelled to Paris in July, 2019 to interview Mr. Anjaria and determined that Mr. Anjaria has the skill, experience, and independence to assist in moving Karnalyte forward.

When the Dissident Shareholders resigned from the Board

as a result of their breaches of Karnalyte's Code of Conduct, Mr. Anjaria was proposed to the Board on the basis of the former CEO and Mr. Rowan's determination that Mr. Anjaria was qualified and independent (including independence from GSFC).

Mr. Anjaria is a management graduate from the Indian Institute of Management in Ahmedabad, India. He has extensive international banking experience in India, Africa, the Middle East and Europe. Since returning to India, his focus has been on the financial markets industry where he works closely with investment banks, brokerage houses and mutual funds. As a financial markets professional, he has significant experience as a government policy advisor including advisor to the Securities and Exchange Board of India and the Securities Markets Regulator (BAPEPAM) in Indonesia. Mr. Anjaria has a wide-range of experience serving as an independent director with many companies in India.

MR. VISHVESH NANA VATY, CHAIR OF THE BOARD OF DIRECTORS

Mr. Nanavaty is GSFC's sole nominee on the Board. He is the Executive Director of Finance and Chief Finance Officer at Gujarat State Fertilizers and Chemicals Ltd. (GSFC), a large joint-sector company with more than US\$1 billion turnover, and Karnalyte's key strategic partner. Prior to his role as Executive Director of Finance, Mr. Nanavaty was GSFC's Company Secretary, and before joining GSFC, was Senior Finance Manager and Company Secretary at Johnson Pump (India) Ltd. Mr. Nanavaty is a Chartered Accountant, and received a First Class Commerce degree from The Gujarat University, The Institute of Cost & Works Accountants of India and The Institute of Company Secretaries of India.

MR. GERALD SCHERMAN

Mr. Scherman retired after more than 15 years with AREVA Resources Canada Inc. (now Orano Canada Inc.), as its Senior Vice President & Chief Financial Officer and a member of its Board of Directors. AREVA / Orano Canada has been exploring for uranium, developing uranium mines and producing uranium concentrate in Canada for over 50 years. Headquartered in Saskatoon, Saskatchewan, Orano is a leading producer of uranium in Canada. Prior to joining AREVA, he was a partner with Coopers & Lybrand (now Pricewaterhouse Coopers LLP), a national partnership of professional accountants and consultants. Over the years, and in retirement, Mr. Scherman has remained active on various boards and committees of local not-for-profit long-term care and low-income housing entities, foundations and fundraising efforts; while sustaining his interest in agriculture, as the manager of an extended family farm land holding. He obtained a Bachelor of Commerce degree from the University of Saskatchewan and qualified as a Chartered Accountant in Edmonton, Alberta. Mr. Scherman is currently a member of the Canadian and Saskatchewan Institutes of Chartered Professional Accountants.

The Board appointed an Interim CEO and Interim CFO to ensure the Company has competent management in place while it completes its strategic review and determines

the most appropriate skills and experience necessary to execute its future strategy.

The Interim CEO, Ms. Danielle Favreau, is a strong and valued member of the business community in Saskatoon, having had a lengthy accounting career with both a national accounting firm Deloitte, and the largest independent accounting firm in Saskatchewan, Virtus Group. Ms. Favreau has significant experience in the mining and agriculture sectors, including the potash industry, as well as extensive experience with Canadian publicly listed companies. Ms. Favreau is committed to Karnalyte's long-term success and to creating opportunities in her home province for generations to come. She is an active member of the community, having served on the board of Remai Modern for six years and currently serving as a volunteer director with the Saskatoon Community Foundation. In addition, Ms. Favreau adds important diversity to the industry and the Saskatchewan business community, with Karnalyte being the only Saskatchewan publicly traded company to have a female CEO.

The Interim CFO, Ms. Christie Gradin, was appointed on July 27, 2020 and brings extensive expertise, business acumen and senior financial management experience. Ms. Gradin held numerous senior financial and management positions in both private and publicly traded Companies. Most recently she served as the Director of Finance and Administration at SED Systems, a division of Calian Inc. Ms. Gradin earned a Bachelor of Commerce degree with great distinction from the University of Saskatchewan as well as a Masters of Professional Accounting and is a CPA, CA.

REASONS TO WITHHOLD FROM THE DISSIDENT DIRECTOR NOMINEES

1. The Dissidents Have a History of Unethical Behaviour and Putting Their Own Interests Ahead of All Shareholders. The Dissident Interests Are Not Aligned with Those of Other Shareholders

The Dissidents were previously Directors of Karnalyte but resigned from the Board after being found in breach of their fiduciary duties and Karnalyte's Code of Conduct

Per the Dissidents' July 7, 2020 press release, "In early 2019, the [Dissidents] found themselves offside Karnalyte's Code of Conduct, took responsibility for their actions, and resigned from the Board as the appropriate and ethical course of action."

While the Dissidents glossed over the seriousness of the breaches and simply referred to being "offside", there were in fact significant breaches of the Company's Code of Conduct, including disclosure of Karnalyte corporate documents and confidential/sensitive Karnalyte corporate information.

Prior to the breaches, the Dissidents were elected to the Board, which included a current Dissident nominee, Todd Rowan. What followed was depletion of the Company's limited cash resources, poor performance, and unacceptable governance practices, including serious breaches of confidentiality and a failure to move the Company forward

in any meaningful way—including a repeated failure to meet the Nitrogen Project milestones they themselves set.

Now the Dissidents, who demonstrated a lack of concern for governance and ethical behaviour in the past, are agitating for change and feigning concern under the guise of “concerned shareholders.” This group’s previous behaviour (and even their conduct during their current ill-timed campaign to take control of Karnalyte) suggests that they are not capable of professional, responsible stewardship that would be in the best interests of all shareholders.

In their series of accusations against the Company, the Dissidents have also questioned the expertise of independent professional advisory firms and regulatory bodies. When the Dissidents fail in achieving their desired results, they have not hesitated to question the competence and professionalism of those who disagree with them or have not done their bidding. The challenge the Dissidents face is that Karnalyte shareholders have shown themselves to be engaged and sophisticated. They have seen far too much disruption and conflict at the Company and by now, have developed a keen ability to sense when there is real risk to their investment. Given their actions, it strains credulity for the Dissidents to claim that their interests are aligned with those of the other shareholders. Shareholders of a company invest in it to see it succeed and create value. In pursuit of their own agenda, the Dissidents are disregarding the consequential impairment and destruction of shareholder value.

To repeatedly and baselessly attack the Interim CEO, whose actions since joining the Company in late 2015 have been beyond reproach, suggests a personal animosity that falls well beyond the pale of what one might expect from “concerned shareholders” who are genuinely interested in what is best for the Company.

The Dissidents are seeking disproportionate control of Karnalyte

The Dissidents are asking for unreasonable representation on Karnalyte’s Board. They hold just over 5% of the outstanding shares but seek majority control of the Board, by adding four out of a total of six directors (i.e. 66.67%). By comparison, GSFC, who hold 38.7% of the Company’s shares currently have one representative (i.e. 33.33%) on the Board. On its face, this disproportionate demand should be alarming to other Karnalyte shareholders.

2. The Dissidents Have Hurt Karnalyte Financially and Would Likely Continue to, Should They Be Successful

The Dissidents’ unsupported allegations have resulted in a costly, time consuming investigation

On July 27, Karnalyte announced that subsequent to submitting their requisition, the Dissidents had made a number of statements regarding the Company, its Board, and its management. Karnalyte stated at the time that it believed many of these statements to be unsubstantiated but that certain allegations the Dissidents publicly released on July 22, 2020, despite being unproven at the time, required a careful and fair review, which Karnalyte has since completed.

A leading law firm completed the extensive review, which included interviews with a number of parties. After carefully reviewing the Investigation Report, the Board concluded that the Company need not pursue any further actions, or incur any further costs, in relation to the Dissidents’ allegations which have now been thoroughly investigated.

**Cost of Investigation
for Karnalyte
Shareholders:
\$103,000**

The Dissidents’ requisition of an unnecessary special meeting is a waste of valuable funds

Karnalyte held its most recent Annual General Meeting of shareholders on June 26, 2020, where each Director received over 80% support. Less than two weeks following the 2020 Annual General Meeting, the Dissidents requisitioned a special meeting of shareholders for the purpose of electing directors – business which had just been addressed by the shareholders at the meeting on June 26.

Considering the strong support received from shareholders and short amount of time elapsed since the AGM, the Board selected a date for the Special Meeting that would ensure shareholders had important, substantive information to consider when asked to elect the directors of the Company. The timing of the Special Meeting allowed for sufficient time for MNP to produce a draft report on the strategic review and the review of the pre-feasibility study for the Nitrogen Project, while also allowing time for the investigation of the Dissidents’ allegations concerning management and the Board.

Unfortunately for shareholders, planning and hosting a shareholder meeting and producing the requisite disclosure materials is expensive. The Company’s Board and management would have preferred to spend shareholder resources towards moving Karnalyte forward, rather than hosting a second shareholder meeting in 2020.

**Cost of Unnecessary
Shareholder Meeting
for Karnalyte Share-
holders: \$350,000**

Doubling the size of the Board is an unnecessary and irresponsible additional expense at this time

If the Dissidents are successful in implementing their plan to expand the size of the Board and implement their hand-picked nominees, the Board will double its current size moving forward resulting in additional Company funds being paid to directors at a time of economic uncertainty as opposed to being spent toward pushing the Company forward until such time as additional spending makes strategic and economic sense. It is unclear what the exact cost of having an expanded Board will be but, based on the historic payments to directors of the Company it is likely to increase annual costs by approximately \$100,000.

If the Dissidents are successful, they will likely seek to recover their costs from Karnalyte shareholder pockets

Adding insult to injury, the Dissidents may expect shareholders to pay for their costs, if they are successful in implementing their hand-picked nominees and taking control of Karnalyte. Buried on pg. 8 of the Dissident Circular:

“...the Concerned Shareholders may seek reimbursement from Karnalyte of the Concerned Shareholders’ out-of-pocket expenses, including proxy solicitation expenses and legal fees, incurred in connection with a successful reconstitution of the Board.”

It is unclear what the Dissident costs will ultimately add up to but proxy contests generally cost tens to hundreds of thousands of dollars.

3. Dissident Director Nominees Lack Qualifications to Add Value as Directors

The Dissident Director nominees are the hand-picked choices of the Dissidents and do not have the appropriate experience required to successfully guide the future of Karnalyte.

According to the information provided to the Company by the Dissidents themselves, the Dissident director nominees have very limited or no experience serving as directors of a public company, NO experience in the financing or construction of major capital projects, nor any experience in the potash or mining sectors:

- Neil Yelland has worked for six different organizations in the last five years, most recently as an Agent with real-estate company Royal LePage. It is unclear how this experience would benefit Karnalyte or its shareholders; and
- Joel Clavelle has worked for a BESTPASS INC., since May 2014. According to its website, “Bestpass provides a comprehensive payment platform with a focus on nationwide toll management for commercial fleets of all shapes and sizes.” It is unclear how this experience would benefit Karnalyte or its shareholders.
- Joe Vidal works at Bioriginal Food & Science Corp.

- Todd Rowan served as Karnalyte’s Interim CEO from 2017 to 2019, and previously served as a Director of the Company. Mr. Rowan is currently an owner and consultant at TrendMax Agribusiness Group, where he provides crop marketing and business planning services.

4. The Dissidents have not provided an alternative strategic plan


The Dissidents have not provided a fulsome strategic plan for Karnalyte. In a July 7 press release, the Dissidents stated that their “*strategic plan for Karnalyte is focused on pursuing opportunities in the fertilizer and chemical industry in Saskatchewan that are available to Karnalyte to create shareholder value. This strategy, developed during the Concerned Shareholders’ tenure as members of the Karnalyte Board, consists of pursuing opportunities in both potash and nitrogen fertilizer.*”

These are not new or unique ideas. As Karnalyte publicly disclosed, it is exploring the potential for nitrogen opportunities.

There is a key difference between the Dissidents’ approach and Karnalyte’s, as well as a key concern with the Dissident’s approach. The key difference is that the Company is moving ahead with a strategic and disciplined approach, which protects shareholder value while pushing the ball forward. On the other hand, the Dissidents failed to advance these very same initiatives in any meaningful way while on Karnalyte’s Board, and repeatedly failed to meet the Nitrogen Project milestones they themselves set and publicly disclosed. The current Board achieved more in less than one year than the Dissidents achieved in over 18 months. The current Board continues to believe that more work is needed, but all such work must be conducted with discipline to protect the Company’s resources.

The strategic review is leveraging the insights of independent experts who will help confirm the opportunity and ensure critical external support for the development of a nitrogen project from potential key external partners. The Dissidents may be confident in their opinion on the nitrogen project, but sophisticated regional and global market participants may not share that view. Hence, the need to move forward with discipline to determine the optimal course for the Company and its shareholders.

The key concern with the Dissidents’ plan is that given the lack of large capital project, potash and mining expertise within the Dissident Director Nominees and a lack of any vision or clarity regarding the Dissidents’ potash plan, it is fair for shareholders to wonder if the Dissidents’ plan is actually to abandon the Company’s potash project all together to focus exclusively on the nitrogen strategy. While the Dissidents have not come out and said this, their choices for their Director nominees – and corresponding lack of applicable experience or expertise – do beg this question.



To ensure that your vote is counted at the Special Meeting of Karnalyte Shareholders, please ensure it is received well in advance of the proxy voting deadline of Friday, December 11, at 9:30 a.m. (Saskatoon time). If you require assistance voting your BLUE MANAGEMENT PROXY FORM contact info@karnalyte.com or call 306-986-1486.

**Time is of the essence –
Make sure your vote counts by voting today!**