

PLEASE READ THIS MATERIAL CAREFULLY AS YOU ARE REQUIRED TO MAKE A DECISION PRIOR TO 5:00 P.M. (EASTERN TIME) ON JULY 29, 2022.

This rights offering circular (the “Circular”) is prepared by management. No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Circular. Any representation to the contrary is an offence.

This is the Circular we referred to in the June 21, 2022 rights offering notice (the “Notice”), which you should have already received. Your Rights Certificate (as hereafter defined) and relevant forms were enclosed with the Notice. This Circular should be read in conjunction with the Notice and our continuous disclosure prior to making an investment decision.

The securities offered hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended (“U.S. Securities Act”) and they will not be offered or sold in the United States or to U.S. Persons (as defined in Regulation S of the U.S. Securities Act), except in exempt transactions under the U.S. Securities Act. This offering does not constitute an offer to sell or a solicitation of an offer to buy any of those securities in the United States. In addition, the offering is not being made in jurisdictions where the Company is not eligible to make such offer.

Rights Offering Circular

June 21, 2022



KARNALYTE RESOURCES INC.

**OFFERING OF RIGHTS TO SUBSCRIBE FOR 14,058,282
COMMON SHARES AT A PRICE OF \$0.35 PER SHARE**

References in this Circular to **we**, **our**, **us** and similar terms mean to Karnalyte Resources Inc. (the “**Company**”). References in this Circular to **you**, **your** and similar terms mean to holders of the Company’s common shares (the “**Common Shares**”). Unless otherwise indicated, references herein to “**\$**” or “**dollars**” are to Canadian dollars.

SUMMARY OF THE RIGHTS OFFERING

Why are you reading this Circular?

The Company is issuing transferable rights (“**Rights**”) to the holders (“**Shareholders**”) of our outstanding Common Shares of record at the close of business (5:00 p.m. Eastern time) on June 28, 2022 (the “**Record Date**”) who are resident in a province or territory of Canada or in another jurisdiction whose resident holders of Common Shares the Company has satisfied itself are entitled to receive and exercise the Rights in accordance with the laws of such jurisdiction without obliging the Company to register the Rights and the underlying Common Shares or file a prospectus or other disclosure document or to make any other filings or become subject to any reporting or disclosure obligations that the Company is not already obligated to make (the “**Eligible Jurisdictions**”).

The Rights entitle Shareholders resident in the Eligible Jurisdictions to subscribe for Common Shares on the terms and conditions described in this Circular. The purpose of this Circular is to provide you with detailed information about your rights and obligations in respect of the offering of Rights (the “**Offering**”).

This Circular should be read in conjunction with the Notice which you should have already received by mail.

Inquiries relating to this Offering should be directed to Olympia Trust Company (the “**Rights Agent**”) by email (cssinquiries@olympiatrust.com) or telephone (+1-587-774-2340 or 1-833-684-1546 (North America toll free)).

What is being offered?

The Company will issue one (1) Right for each one (1) Common Share held on the Record Date by each Shareholder resident in an Eligible Jurisdiction (an “**Eligible Shareholder**”). An aggregate of 42,174,847 Rights are being issued by the Company to purchase up to an aggregate of 14,058,282 Common Shares.

Rights issued to registered Eligible Shareholders will be evidenced by transferable rights certificates in registered form (each, a “**Rights Certificate**”). Rights issued to beneficial Eligible Shareholders will be evidenced by a confirmation from such Eligible Shareholders’ respective CDS Participant (as hereafter defined) in accordance with the practices and procedures of such CDS Participant in the book-based system administered by CDS Clearing and Depository Services Inc. (“**CDS**”).

Who is eligible to receive and exercise rights?

The Rights will be issued only to registered and beneficial Eligible Shareholders. Shareholders will be presumed to be resident in the place of their registered address, unless the contrary is shown to our satisfaction. Neither the Notice nor this Circular is to be construed as an offering of the Rights, nor are the Common Shares issuable upon exercise of the Rights offered for sale in any jurisdiction outside of Eligible Jurisdictions or to Shareholders (“**Ineligible Shareholders**”) who are residents of any jurisdiction other than the Eligible Jurisdictions (the “**Ineligible Jurisdictions**”). Instead, Ineligible Shareholders will be sent a letter advising them that their Rights will be held by the Rights Agent, located at 4000, 520 3rd Ave SW, Calgary, Alberta T2P 0R3 (the “**Subscription Office**”), who will hold such rights as agent for the benefit of all such Ineligible Shareholders. The letter will also describe the conditions that must be met, and the procedures that must be followed, in order for an Ineligible Shareholder to participate in the Offering.

What does one right entitle you to receive?

You are entitled to subscribe for one (1) Common Share for every three Rights held upon payment of the Subscription Price (the “**Basic Subscription Privilege**”) on or before the Expiry Time on the Expiry Date.

If you exercise your Basic Subscription Privilege in full, then you will also be entitled to subscribe, *pro rata*, for Common Shares (the “**Additional Common Shares**”) not otherwise purchased, if any, pursuant to the Basic Subscription Privilege (the “**Additional Subscription Privilege**”).

What is the Subscription Price?

The subscription price is \$0.35 per Common Share (the “**Subscription Price**”).

A holder of Rights must pay the Subscription Price to the Rights Agent or to their CDS Participant, in accordance with the terms and conditions set forth in this Circular, in order to exercise the Rights and purchase Common Shares.

When does the offer expire?

The Offering will expire at 5:00 p.m. (Eastern time) (the “**Expiry Time**”) on July 29, 2022 (the “**Expiry Date**”).

To subscribe for Common Shares, a properly completed Rights Certificate, election and payment for the Common Shares must be delivered to the offices of the Rights Agent at 4000, 520 3rd Ave SW, Calgary, Alberta T2P 0R3 Attn.: Corporate & Shareholder Services before the Expiry Time on the Expiry Date.

The Rights Agent may be contacted by email (cssinquiries@olympiatrust.com) or telephone (+1-587-774-2340 or 1-833-684-1546 (North America toll free)).

What are the significant attributes of the rights issued under the rights offering and the securities to be issued upon the exercise of the rights?

The Rights are transferable securities that entitle their holders to subscribe for Common Shares on the terms described in this Circular. We are authorized to issue an unlimited number of Common Shares, of which 42,174,847 are issued and outstanding as at the date hereof. Holders of Common Shares are entitled to dividends if, as and when declared by our directors, to one vote per share at meetings of our Shareholders and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the Common Shares.

What are the minimum and maximum number or amount of Common Shares that may be issued under the rights offering?

The Offering is not subject to a minimum subscription. The maximum number of Common Shares that may be issued pursuant to the Offering is 14,058,282.

Where will the rights and the securities issuable upon the exercise of the rights be listed for trading?

The Common Shares are listed on the Toronto Stock Exchange (the “TSX”) under the trading symbol “KRN”.

The Rights will trade on the TSX under the trading symbol “KRN.RT” until 12:00 noon (Eastern time) on July 29, 2022.

FORWARD-LOOKING STATEMENTS

Certain statements in this Circular 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 Company, 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 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. Such forward-looking statements and information include, but are not limited to, statements or information with respect to: the exploration and development of the Company’s mineral properties; the Company’s future business and strategies; requirements for additional capital and future financing; estimation of mineral resources and mineral reserves; estimated future working capital, funds available, and uses of funds, and future capital expenditures, exploration expenditures and other expenses for specific operations.

Although the Company's management believes that the assumptions made and the expectations represented by such statement or information are reasonable, there can be no assurance that a forward-looking statement or information referenced herein will prove to be accurate. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, exploration, development and operation risks related to the Company's projects; the ability to secure adequate financing to implement the Company's strategic and development objectives; the successful execution of the Company's project plans; the uncertainty regarding the estimation of mineral resources and mineral reserves; the lack of current revenues and uncertainty about future revenues; the risks associated with the limited operating history of the Company; environmental and regulatory risks; competition; and currency exchange rate fluctuations.

Forward-looking statements in this Circular include, without limitation, statements with respect to: the estimated costs of the Offering; the net proceeds to be available upon completion of the Offering; our working capital requirements over the next eighteen months; and the use of proceeds from the Offering.

USE OF AVAILABLE FUNDS

What will our available funds be upon the closing of the rights offering?

The Company estimates that it will have the following funds available after giving effect to the Offering:

		Assuming 15% of the Offering (\$)	Assuming 50% of the Offering (\$)	Assuming 75% of the Offering (\$)	Assuming 100% of the Offering (\$)
A	Amount to be raised by the Offering	738,059.81	2,460,199.35	3,690,299.03	4,920,398.70
B	Selling commissions and fees	Nil	Nil	Nil	Nil
C	Estimated offering costs (e.g. legal, accounting, audit)	50,000	50,000	50,000	50,000
D	Available funds: [D = A - (B + C)]	688,059.81	2,410,199.35	3,640,299.03	4,870,398.70
E	Additional sources of funding required	Nil	Nil	Nil	Nil
F	Working Capital as of March 31, 2022	1,010,000	1,010,000	1,010,000	1,010,000
G	Total: [G = D + E + F]	1,698,059.81	3,420,199.35	4,650,299.03	5,880,398.70

There has been no significant change in the Company's working capital since March 31, 2022.

How will we use the available funds?

The following table provides a detailed breakdown of how the Company will use our available funds, including those received pursuant to the Offering:

Description of intended use of available funds listed in order of priority	Assuming 15% of the Offering (\$)	Assuming 50% of the Offering (\$)	Assuming 75% of the Offering (\$)	Assuming 100% of the Offering (\$)
Attract strategic investment to Wynyard Project	46,122.00	582,883.78	1,812,983.46	1,942,122.00
Wynyard Potash Project	736,902.00	1,106,702.00	1,106,702.00	1,342,356.35

General and Administrative Expenses for the next 12 months	915,035.81	1,730,613.57	1,730,613.57	1,730,613.50
General and Administrative Expenses for the six months thereafter	Nil	Nil	Nil	865,306.79
Total:	1,698,059.81	3,420,199.35	4,650,299.03	5,880,398.71

The Company intends to use a significant portion of the proceeds from the Offering on the Wynyard Potash Project. These expenditures include development work as well as work to attract strategic investment to the project. We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons. The allocation of the net proceeds of the Offering may be adjusted within the stated categories of expenditures above depending on, among other things, timing of availability of consultants, contractors and the availability of project financing. Further, while the Company intends to spend the available funds as set forth above, there may be circumstances where, for sound business reasons, a reallocation of the available funds may be necessary. In any event, the available funds will be used by the Company in furtherance of its business. See “*Forward-Looking Information*” above.

How long will the available funds last?

Based on current plans, development programs and budgeted expenditures, management of the Company anticipates that the Company will have sufficient funds to maintain operations for at least 18 months, assuming 100% of the Offering. See “*Risk Factors*” in the Company’s annual information form for the year ended December 31, 2021. See also “*Forward-Looking Information*”.

There is no assurance that the Company will be able to raise the additional capital necessary to fund its long-term development plans.

INSIDER PARTICIPATION

Will insiders be participating?

It is anticipated that certain directors, officers or other insiders of the Company will acquire and exercise Rights under the Offering.

The foregoing reflects the intentions of such insiders (as defined in applicable Canadian securities legislation) as of the date hereof to the extent such intentions are reasonably known to the Company; however, such insiders may alter their intentions before the Expiry Time on the Expiry Date. No assurance can be given that the respective insiders will exercise or not exercise their Rights to acquire Common Shares.

Who are the holders of 10% or more of our securities before and after the rights offering?

To the knowledge of the directors and executive officers of the Company, there are no persons who currently hold 10% or more of the Common Shares, or would own 10% or more upon completion of the Offering, except as set forth below:

Name	Holdings as on 21st June, 2022	Holdings After the Offering

Gujarat State Fertilizers and Chemicals Limited	<p align="center">16,334,558 shares</p> <p align="center">or 38.73%</p>	<p align="center">Assuming GSFC Subscription:</p> <p align="center">16,334,558 to 30,392,840</p> <p align="center">or 38.73% to 54.05% ⁽¹⁾</p> <p align="center">Assuming no GSFC Subscription:</p> <p align="center">16,334,558</p> <p align="center">or 29.05% to 32.16% ⁽²⁾</p>
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- (1) Represents a range consisting of (i) the minimum number of Common Shares that will be held by GSFC assuming that all Shareholders, including GSFC, fully exercise their Basic Subscription Privilege, and (ii) the maximum number of Common Shares that will be held by GSFC if no Shareholders other than GSFC exercise their Basic Subscription Privilege and Additional Subscription Privilege.
- (2) Represents a range consisting of (i) the number of Common Shares the number of Common Shares that will be held by GSFC if Shareholders, other than GSFC, exercise their Basic Subscription Privilege and Additional Subscription Privilege and (ii) the number of Common Shares that will be held by GSFC assuming that all Shareholders, other than GSFC, fully exercise their Basic Subscription Privilege.

DILUTION

If you do not exercise your rights, by how much will your security holdings be diluted?

If a Shareholder elects not to exercise the Rights, then such Shareholder's proportionate interest in the outstanding Common Shares will be diluted as a result of the exercise of Rights by other Shareholders. If a Shareholder elects to exercise all of its Rights, such Shareholder's proportionate interest in the outstanding Common Shares will not be diluted. If a Shareholder elects to exercise its right to purchase Additional Common Shares, then such Shareholder's proportionate interest in the outstanding Common Shares will increase.

There are 42,174,847 Common Shares issued and outstanding as of the Record Date. If all Shareholders other than you exercise all of their Rights, your percentage ownership of the Common Shares will thereby be diluted by approximately 33.33%.

MANAGING DEALER, SOLICITING DEALER AND UNDERWRITING CONFLICTS

Who is the managing dealer/soliciting dealer and what are its fees?

The Company has not retained any party to solicit subscriptions for Common Shares pursuant to the Offering.

HOW TO EXERCISE THE RIGHTS

How does a security holder that is a registered holder participate in the rights offering?

The Notice for the Offering has been sent to Eligible Shareholders. For Common Shares held in registered form, a Rights Certificate evidencing the number of Rights to which an Eligible Shareholder is entitled has been included with the Notice. In order to exercise the Rights represented by the Rights Certificate, a holder of Rights must complete and deliver the Rights Certificate in the manner and upon the terms set out in the Rights Certificate.

Each Rights Certificate indicates the number of Rights to which the Rights Certificate holder is entitled. By completing the appropriate form appearing on the front of the Rights Certificate in accordance with the instructions outlined on the Rights Certificate, a Rights Certificate holder may: (i) subscribe for Common Shares (Form 1); (ii) subscribe for Additional Common Shares (Form 2); (iii) sell or transfer Rights (Form 3); or (iv) divide or combine the Rights Certificate (Form 4).

Rights Certificates will expire and be of no value unless they are returned with a properly completed Form 1, 2, 3 or 4, as the case may be, and accompanied by payment for the Common Shares subscribed for, at the office of the Rights Agent located at the Subscription Office, Attention: Corporate & Shareholder Services, before the Expiry Time on the Expiry Date.

The Subscription Price may be paid by certified cheque, bank draft or money order made payable to **“Olympia Trust Company”**. All payments, together with Form 1 and Form 2 duly completed on the Rights Certificate, must be received by the Rights Agent before the Expiry Time on the Expiry Date.

The Rights Agent may be contacted by email (cssinquiries@olympiatruster.com) or telephone (+1-587-774-2340 or 1-833-684-1546 (North America toll free)).

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscriptions will be determined by the Company in its sole discretion, and any determination by the Company will be final and binding. All subscriptions are irrevocable. The Company reserves the absolute right to reject any subscription if it is not in proper form or if the acceptance thereof or the issuance of Common Shares pursuant thereto could be deemed unlawful. The Company also reserves the right to waive any defect in respect of any particular subscription. The Company and the Rights Agent are not, and will not be, obligated to give any notice of any defect or irregularity in any subscription. The Company and the Rights Agent will not be liable for the failure to give any such notice.

How does a security holder that is not a registered holder participate in the rights offering?

For Common Shares held through a securities broker or dealer, bank or trust company or other participant (a **“CDS Participant”**) in the book-based system administered by CDS, an Eligible Shareholder may subscribe for Common Shares by instructing the CDS Participant holding the Eligible Shareholder’s Rights to elect in accordance with the Eligible Shareholder’s instructions and exercise all or a specified number of such Rights and forwarding the Subscription Price for each Common Share subscribed for to such CDS Participant in accordance with the terms of the Offering. An Eligible Shareholder wishing to subscribe for Additional Common Shares pursuant to the Additional Subscription Privilege must forward its request to the CDS Participant that holds the subscriber’s Rights prior to the Expiry Time, along with payment for the number of Additional Common Shares requested. Any excess funds will be returned by mail or credited to the Eligible Shareholder’s account with its CDS Participant without interest or deduction. Subscriptions for Common Shares made through a CDS Participant will be irrevocable and Eligible Shareholders will be unable to

withdraw their subscriptions for Common Shares once submitted. CDS Participants may have an earlier deadline for receipt of instructions and payment than the Expiry Time.

Only registered Eligible Shareholders will be provided with Rights Certificates. For all non-registered, beneficial Eligible Shareholders who hold their Common Shares through a CDS Participant in the book-based systems administered by CDS, a global certificate representing the total number of Rights to which all such Eligible Shareholders as at the Record Date are entitled will be issued in registered form to, and deposited with, CDS. The Company expects that each beneficial Eligible Shareholder will receive a confirmation of the number of Rights issued to it from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS will be responsible for establishing and maintaining book-entry accounts for CDS Participants holding Rights.

Eligible Shareholders who hold their Common Shares through a CDS Participant must arrange for exercises, purchases or transfers of Rights through their CDS Participant and should contact the CDS Participant to instruct them accordingly. It is anticipated by the Company that each purchaser of Common Shares will receive a customer confirmation of issuance or purchase, as applicable, from the CDS Participant through which such Rights are issued or such Rights or Common Shares are purchased in accordance with the practices and policies of such CDS Participant.

Beneficial Eligible Shareholders may also accept the Offering in the Eligible Jurisdictions by following the procedures for book-based transfer, provided that a confirmation of the book-based transfer of their Rights through CDS' on-line tendering system into the Company's account at CDS, is received by the Company prior to the Expiry Time. The Company has established an account at CDS for the purpose of the Offering. Any financial institution that is a participant in CDS may cause CDS to make a book-based transfer of a holder's Rights into the Company's account in accordance with CDS procedures for such transfer. Delivery of Rights using the CDS book-based transfer system will constitute a valid tender under the Offering.

Beneficial Eligible Shareholders, through their respective CDS Participants, who utilize the CDS on-line system to accept the Offering through a book-based transfer of their Rights into the Company's account with CDS are deemed to have completed a Rights Certificate and therefore such instructions received by the Company are considered as a valid tender in accordance with the terms of the Offering.

The Company will not have any liability for: (i) the records maintained by CDS or CDS Participants relating to the Rights or the book-entry accounts maintained by them; (ii) maintaining, supervising or reviewing any records relating to such Rights; or (iii) any advice or representations made or given by CDS or CDS Participants with respect to the rules and regulations of CDS or any action to be taken by CDS or their CDS Participants.

Who is eligible to receive the rights?

Registered holders of Rights

The Rights are being offered to Shareholders of the Company resident in Eligible Jurisdictions. Shareholders will be presumed to be resident in the place of their registered address, unless the contrary is shown to the satisfaction of the Company. This Circular is not to be construed as an offering of the Rights, nor are the Common Shares issuable upon exercise of the Rights offered for sale, in any jurisdiction outside the Eligible Jurisdictions or to Shareholders who are residents of any jurisdiction other than the Eligible Jurisdictions.

Ineligible Shareholders who are registered holders of their Common Shares will be sent a letter advising them that their Rights Certificates will be issued to, and held on their behalf by, the Rights Agent and a form of representation letter (the "**Representation Letter**"). The Representation Letter will set out the conditions required to be met, and procedures that must be followed, in order for an Ineligible Shareholder to participate in the Offering.

Rights Certificates in respect of Rights issued to registered Ineligible Shareholders will be issued to and held by the Rights Agent as agent for the benefit of Ineligible Shareholders. The Rights Agent will hold the Rights until 5:00 p.m. (Eastern time) on July 19, 2022 in order to provide Ineligible Shareholders an opportunity to claim a Rights Certificate by satisfying us that the issue of Common Shares pursuant to the exercise of Rights will not be in violation of the laws of the applicable jurisdiction. Following such date, the Rights Agent, for the account of registered Ineligible Shareholders (including Ineligible Shareholders with an address of record in the United States), will, prior to the Expiry Time, attempt to sell the Rights of such registered Ineligible Shareholders represented by Rights Certificates in the possession of the Rights Agent on such date or dates and at such price or prices as the Rights Agent determines in its sole discretion. No charge will be made for the sale of Rights by the Rights Agent except for a proportionate share of any brokerage commissions incurred by the Rights Agent and the costs of or incurred by the Rights Agent in connection with the sale of the rights. Registered Ineligible Shareholders will not be entitled to instruct the Rights Agent in respect of the price or the time at which the rights are to be sold. The Rights Agent will endeavor to effect sales of Rights on the open market and any proceeds received by the Rights Agent with respect to the sale of Rights net of brokerage fees and costs incurred and, if applicable, the Canadian tax required to be withheld, will be divided on a *pro rata* basis among such registered Ineligible Shareholders and delivered by mailing cheques (in Canadian funds) of the Rights Agent therefor as soon as practicable to such registered Ineligible Shareholders at their addresses recorded on the Company's books. Amounts of less than \$10.00 will not be remitted. The Rights Agent will act in its capacity as agent of the registered Ineligible Shareholders on a best efforts basis only and we and the Rights Agent do not accept responsibility for the price obtained on the sale of, or the inability to sell, the Rights on behalf of any registered Ineligible Shareholder.

The Rights and Common Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold in the United States of America or any of its territories or possessions or to U.S. Persons (as defined in Regulation S issued under the U.S. Securities Act), absent an exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws. Accordingly, subscriptions will not be accepted from any security holder or transferee who is a U.S. Person or resident in the United States of America, its territories or possessions, except pursuant to an available exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws. Payment of the Subscription Price to the Rights Agent along with the completion of Form 1 on the Rights Certificate will constitute a representation to the Rights Agent, the Company and any CDS Participant that the purchaser of the Common Shares is not a U.S. Person and is not purchasing the Common Shares for the account or benefit of, or for the resale to, any U.S. Person.

Beneficial holders of Rights

CDS Participants receiving Rights on behalf of Ineligible Shareholders will be instructed by CDS not to permit the exercise of such Rights unless the holder has completed a Representation Letter. After July 19, 2022, CDS Participants should attempt to sell the Rights of Ineligible Shareholders for the accounts of such holders and should deliver any proceeds of sale to such holders.

Beneficial owners of Common Shares registered in the name of a resident of an Ineligible Jurisdiction, who are not themselves resident in an Ineligible Jurisdiction, who wish to receive Rights and who believe that their Rights Certificates may have been delivered to the Rights Agent, should contact their broker at the earliest opportunity to request to have their Rights Certificates mailed to them.

The Rights and the Common Shares issuable on the exercise of the Rights have not been qualified for distribution in any Ineligible Jurisdiction and, accordingly, may only be offered, sold, acquired, exercised or transferred in transactions not prohibited by applicable laws in Ineligible Jurisdictions. Notwithstanding the foregoing, persons located in certain Ineligible Jurisdictions may be able to exercise the Rights and purchase Common Shares provided that they furnish the Representation Letter satisfactory to the Company on or before July 19, 2022. The form of Representation Letter will be available from the Company or the Rights Agent upon request. Beneficial owners of Rights or Common Shares should contact their broker to obtain the

Representation Letter. A holder of Rights in an Ineligible Jurisdiction holding on behalf of a person resident in an Eligible Jurisdiction may be able to exercise the Rights provided the holder certifies in the Representation Letter that the beneficial purchaser is resident in an Eligible Jurisdiction and satisfies the Company that such subscription is lawful and in compliance with all securities and other applicable laws.

What is the Additional Subscription Privilege and how can you exercise this privilege?

Registered holders of Rights

A holder of a Rights Certificate who is not an Ineligible Shareholder and who has exercised all the Rights evidenced by such Rights Certificate (i.e., exercised their Basic Subscription Privilege in full) may subscribe for Additional Common Shares, if available, at the Subscription Price. Additional Common Shares will be allocated from those Rights, if any, available as a result of Rights that are unexercised by the Expiry Time. A holder who exercises the Additional Subscription Privilege will receive the lesser of: (i) the number of Common Shares that holder subscribes for under the Additional Subscription Privilege; and (ii) the number of Common Shares that is equal to the aggregate number of Common Shares available through unexercised Rights multiplied by the quotient of the number of Rights previously exercised by such holder under the Offering divided by the aggregate number of Rights previously exercised under the Offering by holders of Rights that have subscribed for Common Shares under the Additional Subscription Privilege.

A Rights holder may subscribe for Additional Common Shares by: (i) completing Form 2 of the Rights Certificate, and (ii) delivering the Rights Certificate, together with payment for those Additional Common Shares, to the Rights Agent before the Expiry Time. If payment for all Additional Common Shares subscribed for pursuant to the Additional Subscription Privilege does not accompany the subscription, the over-subscription will be invalid. Subscriptions for Additional Common Shares immediately follow the Basic Subscription Privilege and Shareholders that validly subscribe for Additional Common Shares will receive such Additional Common Shares concurrently with the Common Shares subscribed for under the Basic Subscription Privilege.

If the Offering is fully subscribed, then the funds included for any over-subscriptions will be returned by the Rights Agent to the relevant Shareholders. If the Offering is not fully subscribed, certificates representing Common Shares due to Shareholders as a result of over-subscriptions will be delivered by the Rights Agent together with the certificates representing Common Shares due to those Shareholders pursuant to their subscriptions in accordance with the Basic Subscription Privilege. In addition, the Rights Agent will return to any over-subscribing Shareholder within 30 calendar days of the Expiry Date any excess funds paid in respect of an over-subscription for Common Shares where the number of Additional Common Shares available to that Shareholder is less than the number of Additional Common Shares subscribed for. No interest will be payable by the Company in respect of any excess funds returned to Shareholders.

Beneficial holders of Rights

If you are a beneficial holder of Rights through a CDS Participant and you wish to exercise your Additional Subscription Privilege, you must deliver your payment and instructions to the CDS Participant sufficiently in advance of the Expiry Time to allow the CDS Participant to properly exercise the Additional Subscription Privilege on your behalf.

How does a Rights holder sell or transfer rights?

Registered Holders of Rights

The rights will trade on the TSX under the trading symbol “KRN.RT” until 12:00 noon (Eastern time) on July 29, 2022. Holders of Rights Certificates not wishing to exercise their rights may sell or transfer them directly or through their securities broker or dealer at the Shareholder’s expense, subject to any applicable resale restrictions. Rights Certificates will not be registered in the name of an Ineligible Shareholder. Holders of Rights Certificates may elect to exercise only a part of their Rights, and dispose of the remainder of their Rights, or dispose of all of their Rights. Any commission or other fee payable in connection with the exercise or any trade of Rights is the responsibility of the holder of such Rights. Depending on the number of Rights a holder may wish to sell, the commission payable in connection with a sale of Rights could exceed the proceeds received from such sale.

If you wish to transfer your rights, complete Form 3 (the “**Transfer Form**”) on the Rights Certificate, have the signature guaranteed by an “eligible institution” to the satisfaction of the Rights Agent and deliver the Rights Certificate to the transferee. For this purpose, eligible institution means a Canadian Schedule 1 chartered bank, a major trust company in Canada, a member of the Securities Transfer Agents Medallion Program, or a member of the Stock Exchange Medallion Program. Members of these programs are usually members of a recognized stock exchange in Canada or members of the Investment Industry Regulatory Organization of Canada.

It is not necessary for a transferee to obtain a new Rights Certificate to exercise the Rights or the Additional Subscription Privilege, but the signature of the transferee on Forms 1 and 2 must correspond in every particular with the name of the transferee shown on the Transfer Form. If the Transfer Form is properly completed, the Company and the Rights Agent will treat the transferee as the absolute owner of the Rights Certificate for all purposes and will not be affected by notice to the contrary. A Rights Certificate so completed should be delivered to the appropriate person in ample time for the transferee to use it before the expiration of the Rights.

Beneficial holders of Rights

If you hold Common Shares through a CDS Participant, you must arrange for the exercise, transfer or purchase of rights through that CDS Participant.

When can you trade Common Shares issuable upon the exercise of your Rights?

All Common Shares issuable upon the exercise of the Rights will be listed and posted for trading on the TSX under the trading symbol “KRN” as soon as practicable after closing the Offering.

Are there restrictions on the resale of securities?

Rights offered to Shareholders in the Eligible Jurisdictions and the Common Shares issuable on exercise of such Rights may be resold without hold period restrictions under the applicable securities laws of the Eligible Jurisdictions, including through the facilities of the TSX, by such holders provided that: (i) the sale is not by a “control person” of the Company; (ii) no unusual effort is made to prepare the market or create a demand for the securities being resold; (iii) no extraordinary commission or consideration is paid to a person or company in respect of the resale; and (iv) if the selling security holder is an insider or officer of the Company, the selling security holder has no reasonable grounds to believe that the Company is in default of securities legislation.

The Rights and the Common Shares issuable on exercise of the Rights have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any state of the United States. Accordingly, the Rights and Common Shares issuable upon exercise thereof may not be offered, sold, pledged or transferred, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. Person, absent an exemption from United States federal and state registration requirements. “United States” and “U.S. Person” are as defined in Regulation S under the U.S. Securities Act.

The foregoing is a summary only and is not intended to be exhaustive. Holders of Rights should consult with their advisors concerning restrictions on resale, and should not resell their securities until they have determined that any such resale is in compliance with the requirements of applicable legislation.

Each holder is urged to consult their professional advisor to determine the exact conditions and restrictions applicable to the right to trade in securities.

Will we issue fractional underlying securities upon exercise of the rights?

The Company will not issue fractional Common Shares upon the exercise of Rights. Where the exercise of Rights would otherwise entitle the holder of Rights to fractional Common Shares, the holder’s entitlement will be reduced to the next lowest whole number of Common Shares, and no cash or other consideration will be paid in lieu thereof.

APPOINTMENT OF DEPOSITORY

Who is the depository?

Olympia Trust Company, the Rights Agent, is the depository for the Offering. The Rights Agent has been appointed to receive subscriptions and payments from holders of Rights, and to perform services relating to the exercise and transfer of the Rights, until payments from holders of Rights are returned.

What happens if the Offering is withdrawn or terminated?

The Rights Agent will hold all funds received in payment for Common Shares subscribed for on exercise of Rights in a segregated account pending completion of the Offering.

ADDITIONAL INFORMATION

Where can you find more information about us?

Further information regarding the Company, its activities and its financial results, including copies of the financial statements and other continuous disclosure documents filed by the Company with applicable Canadian securities regulatory authorities, may be obtained under the Company’s profile on SEDAR at www.sedar.com. You can also access information about us at our website at www.karnalyte.com.

MATERIAL FACTS AND MATERIAL CHANGES

There is no material fact or material change about the Company that has not been generally disclosed.