#14, 11410 - 27th Street S.E.
Calgary, AB T2Z 3R6

ANNUAL INFORMATION FORM

For the year ended December 31, 2014

Dated April 13, 2015

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GLOSSARY OF TERMS

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

"**2011 Technical Report**" means the technical report entitled "Reserve and Resources Estimate for the Wynyard Carnallite Project, Subsurface Mineral Permit KP 360A and Subsurface Mineral Lease KLSA 010, Saskatchewan, Canada" prepared by ERCOSPLAN and North Rim with an effective date of October 21, 2011;

"**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 and Lyntek with an effective date of June 27, 2012;

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

"**AIF**" means this annual information form dated April 13, 2015;

"**Amended and Restated Technical Report**" means the technical report entitled "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" prepared by ERCOSPLAN, North Rim and Foster Wheeler Canada with an effective date of March 30, 2012;

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

"**BPC**" means the JSC Belarusian Potash Company marketing agency;

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

"**business day**" means any day, other than a Saturday, Sunday or Canadian federal or Alberta provincial holiday, on which banks are open for business in Calgary, Alberta;

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

"**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;

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

"**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;

"**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 Saskatchewan Ministry of Environment pursuant to the *Canadian Environmental Assessment Act*;

"**EPCM Services Agreement**" means Engineering, Procurement and Construction Management services agreement;

"**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;

"**FAO**" means the Food and Agriculture Organization of the United Nations;

"**Fertecon**" means Fertecon Limited;

"**feasibility study**" means a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production;

"**Foster Wheeler**" means Foster Wheeler USA Corporation, an international engineering construction and project management contractor based in Houston, Texas;

"**Foster Wheeler Canada**" means Foster Wheeler Canada Limited, an affiliate of Foster Wheeler located in Calgary, Alberta;

"**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;

"**hydromagnesite**" means a hydrated form of magnesium carbonate mineral with the chemical formula $4MgCO_3 \cdot Mg(OH)_2 \cdot 4(H_2O)$;

"**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;

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

"**km**" means kilometres;

"**Karnalyte Property**" means the approximate 85,126 acres of land located in south central Saskatchewan that is the subject of Permit KP 360A and the Lease held by the Corporation;

"**Lease**" means the subsurface mineral lease of approximately 16,825 acres granted by the Saskatchewan Ministry to the Corporation on February 14, 2011, which lease includes the conversion of approximately

15,680 acres of the original Permit Area to the lease and an additional approximate 1,145 acres of land not previously included in the Permit Area for road allowances, the conversion of certain Crown holdings and the grant of certain additional continuous parcels to Karnalyte by the Saskatchewan Ministry;

"**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;

"**MgO**" is a chemical formula for magnesium oxide;

"**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 committed offtake agreement dated January 10, 2013 and entered into between the Corporation and GSFC;

"**OPEX**" means operating expenses;

"**PCS**" means Potash Corporation of Saskatchewan Inc.;

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

"**Permit KP 360**" means the exclusive 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 exclusive subsurface mineral permit issued by the Saskatchewan Ministry on February 14, 2011 and held by the Corporation for rights to explore and prospect for subsurface minerals on the portions of the Karnalyte Property, issued to replace Permit KP 360 subsequent to the conversion of certain acres of the Permit Area to the Lease;

"**Phase I**" means the development of the Wynyard Carnallite Project with a design capability and production capacity of 625,000 TPY of potash;

"**Phase II**" means the development of the Wynyard Carnallite Project with a design capability and production capacity of 1,375,000 TPY of potash;

"Phinney Shareholder Group" means a group of shareholders, including Robin Phinney, holding approximately 22.16% of the Common Shares as of 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;

"**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;

"**Saskatchewan Ministry**" means the Saskatchewan Ministry of Energy and Resources;

"**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;

"**TPY**" means tonnes per year;

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

"**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;

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

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

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

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 statements may include, but are not limited to, statements regarding:

- The evaluation of opportunities to enhance shareholder value;
- future extraction and exploitation of mineral deposits;
- capital expenditure requirements;
- future commodity prices;
- expectations regarding prices and costs;
- development of Mineral Resources and Mineral Reserves and mineral extraction processes;
- expectations regarding the Corporation's ability to raise capital;
- 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 personnel; and
- competitive conditions.

In certain cases, forward-looking statements can be identified by the use of such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology. These statements reflect the Corporation's current expectations regarding future events and operating performance and speak only as of the date of this AIF.

Forward-looking statements in this AIF include statements regarding:

- the effect of the Corporation’s decision to no longer recognize a Mineral Reserve on the Wynyard Carnallite Project
- the Corporation’s evaluation of alternatives to increase shareholder value;
- the continued listing of the Corporation’s shares on the TSX;
- Common Share issuances pursuant to the Offtake Agreement;
- Potential changes in the Corporation’s management
- further seismic exploration and drilling;
- the Corporation's ability to obtain financing on satisfactory terms;.

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

- the Corporation continues to meet listing requirements of the TSX;
- 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 material litigation;
- the risks associated with the enforcement of the Corporation's material agreements;
- environmental and other applicable law and other regulations are not amended, repealed or applied in a manner that impacts the Corporation;
- 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.

Forward-looking statements involve significant risks and uncertainties, 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 factors discussed immediately under "Risk Factors" elsewhere in this AIF. 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, 2014 which have been filed with the provincial securities commissions in each of the provinces of Canada except Québec 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 #14, 11410 - 27th Street S.E., Calgary, Alberta, T2Z 3R6. The Corporation's registered office is located at 1600, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The Corporation has no subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

2012

Over the course of the first few months of 2012, the Corporation responded to the comments received from the securities regulators in respect of the 2011 Technical Report. On March 30, 2012, the Corporation filed the Amended and Restated Technical Report for the Karnalyte Property dated effective March 30, 2012, which report was prepared in response to the comments received from the securities regulators on the 2011 Technical Report. The Amended and Restated Technical Report was prepared by ERCOSPLAN, North Rim and Foster Wheeler Canada.

On June 27, 2012, the Corporation received a preliminary feasibility study for the Wynyard Carnallite Project for magnesium compounds prepared by Lyntek. Portions of the preliminary feasibility study are included within the 2012 Technical Report also received by the Corporation on June 27, 2012, which report was prepared by ERCOSPLAN, North Rim, Foster Wheeler Canada and Lyntek. The 2012 Technical Report includes portions of the feasibility study in respect of potash for the Wynyard Carnallite Project received by the Corporation in October of 2011.

On September 6, 2012, the Corporation entered into an EPCM Services Agreement with Foster Wheeler Canada, pursuant to which Foster Wheeler Canada will provide EPCM services for the Wynyard Carnallite Project.

On October 9, 2012, the Corporation was awarded patent number 8,282,898 by the US Patent Office, in respect of its patent application number 12/623,636, originally filed with the US Patent Office on November 23, 2009.

On October 19, 2012, the Corporation filed a final short form base shelf prospectus with the securities commissions in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador. This final short form base shelf prospectus will allow the Corporation to issue up to $350 million Common Shares, units, preferred shares in series and notes or other types of unsecured debt securities during the 25-month period that the final short form base shelf prospectus remains effective.

On December 4, 2012, the Corporation was awarded patent number 8,323,371 by the US Patent Office, in respect of its patent application number 12/539,688, originally filed with the US Patent Office on August 12, 2009.

On December 12, 2012, the Corporation announced that the MOE was in the process of scheduling a public review period to consider the Wynyard Carnallite Project EIS, which review period took place from December 22, 2012 to January 28, 2013.

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 has agreed to commit approximately $15 million in the next rounds of public equity financing by the Corporation to finance the construction of Phase 1 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 non-brokered private placement to GSFC. Karnalyte 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. 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 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, originally filed with the Canadian Patent Office on August 1, 2008.

On June 14, 2013, the Corporation entered into an engagement letter (the "**BNP Natixis 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. ("**Whiting**") for the engineering and design of evaporators, potash crystallizers and auxiliary equipment at the planned Wynyard Carnallite Project. Under the terms of this agreement, Whiting will provide engineering and design services related to the major equipment components used in Karnalyte's planned potash processing operations.

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 Wynyard Carnallite Project 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 Wynyard Carnallite Project's EIS dated which enables the Corporation to proceed to the construction permitting process in respect of the project.

On September 16, 2013 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 form 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 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, originally filed with the US Patent Office on December 3, 2012.

On April 8, 2014, the Corporation was awarded patent number 2,638,704 by the Canadian Patent Office, originally filed with the Canadian Patent Office on August 13, 2008.

On May 13, 2014 Thomas Drolet was appointed as the interim President and Chief Executive Officer of the Corporation, replacing Robin Phinney, who 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 the Phinney Shareholder Group to remove four incumbent directors of the Corporation and elect four new directors of the Corporation, including Robin Phinney himself.

In December 2014 the BNP Natixis Engagement Letter was terminated by the Corporation.

Subsequent to December 31, 2014

On January 2, 2015, the Corporation called an annual general and special meeting of the shareholders to be held on Tuesday, May 12, 2015 (the "**Meeting**") and 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. The Corporation also announced that an engagement letter was signed with an Indian financial institution in October 2014, and due diligence and structuring discussions were underway. The Meeting date was subsequently changed to June 23, 2015.

On January 20, 2015 Robin Phinney announced a shareholder proposal which contained certain proposed amendments to the Corporation's by-laws.

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

On February 11, 2015 the Corporation determined, in conjunction with its legal advisors that the shareholder proposal brought forth by Robin Phinney and the Phinney Shareholder Group was not legally valid and provided a cautionary update on the magnesium project.

On March 5, 2015 Robin Phinney and the Phinney Shareholder Group filed an information circular in respect of the Meeting.

On April 1, 2015 the Alberta Securities Commission granted the Corporation's application 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 that the Board has determined 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 has 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 Board also determined that the Mineral Reserves at the Wynyard Carnallite Project should no longer be relied upon given the significant negative change in potash prices since the effective date of the 2012 Technical Report.

The Corporation determined to close its project office in Saskatchewan and to reduce the number of its employees in Saskatchewan and at its head office in Calgary.

The Corporation continues to evaluate alternatives opportunities to increase shareholder value.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Business of Karnalyte

General

The Corporation has been engaged in the business of exploration and development of high quality agricultural and industrial potash and magnesium products. The Corporation owns a 100% interest in the Karnalyte Property which comprises a total of 85,126 acres of land, which includes the area covered by Permit KP 360A and the Lease.

On April 13, 2015, the Corporation announced that the Board has determined 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. The Board of Directors has therefore determined to suspend all activity in relation to the Wynyard Carnallite Project, other than the minimum required to maintain Permit KP 360A and the Lease, to secure the site on a care and maintenance basis, and otherwise preserve intact the Wynyard Carnallite Project. Accordingly, unless there is a significant improvement in the market for potash and magnesium or the situation otherwise changes, the Corporation will not undertake any further development work at the Wynyard Carnallite Project. The Corporation intends to review whether there is any possibility of finding a buyer for the Wynyard Carnallite Project or whether it can be otherwise disposed of on reasonable terms, consistent with the restrictions to which the Corporation and the Wynyard Carnallite Project are subject in the Corporation’s various agreements with GSFC.

Given the significant negative change in pricing for potash and magnesium, the Corporation no longer considers the Wynyard Carnallite Project to have a Mineral Reserve. The Mineral Reserves previously reported by the Corporation should therefore not be relied upon. This includes the Mineral Reserves reported in the 2012 Technical Report and in the Amended and Restated Technical Report. The Corporation has further determined that although it remains the Corporation’s sole material non-cash asset, the Wynyard Carnallite Project should no longer be considered to be a material mineral property of the Corporation.

The Corporation continues to evaluate alternative opportunities to enhance shareholder value.

Proprietary Protection

The Corporation has relied 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 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 three 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 all trademarks (with the final allowance granted in January 2014) from the Canadian and United States trademark authorities for the filed applications.

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**	**Proposed Patent Name**	**Description**
USA	12/539,688	8,232,371	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	12/623,636	8,282,898	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 $MgCl_2$ 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.
Canada	2,638,521	2,638,521	August 1, 2008	Method of	A method for producing high

				selectively dissolving minerals from a carnallite or sylvinite source	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 USA	2,638,704 US13/692,470	2,638,704 8,685,135	August 1, 2008 December 3, 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.

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	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.
Canada	2,703,276	May 5, 2010	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 where more ore can be extracted without any difficulties being presented by the tailings.

Jurisdiction	Patent Number	Filing Date	Proposed Patent Name	Description
USA	61/977,807	April 10, 2014	Method for producing high grade hydromagnesite and magnesium oxide from carnallite brine	A method of synthesizing high purity hydromagnesite and magnesium oxide from carnallite brine as it relates to ammoniating the brine with subsequent progressive carbonation to precipitate hydromagnesite.
USA	61/977,840	April 10, 2014	Method for purification to produce high grade magnesium compounds	Method of purification process for magnesium carbonate and magnesium oxide and the progressive precipitation and washing of a product synthesized from magnesium chloride brine as well as hydrated magnesium sulfate and sodium carbonate.

Employees

As at December 31, 2014, Karnalyte had a total of 12 full-time and one part-time employee. In addition, as at December 31, 2014, Karnalyte employed the services of three consultants. On April 12, 2015 the Corporation announced that its project office in Saskatchewan would be closed and that the employment of a number of employees there and at the Corporation's head office in Calgary would be terminated.

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 will need additional financing, 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 or, if available, will be on reasonable terms. Any future funding that is obtained by issuing Common Shares from treasury, and 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 could have material adverse consequences on the business, prospects and financial condition of the Corporation.

The Corporation is presently not proceeding with the execution of its project plans

In July 2013, the breakup of the BPC created significant market uncertainty which resulted in reduced prices and cautious purchasing behavior in the global potash market. Although the market began to stabilize in 2014 with an increase in global demand for potash and higher prices, the continued improvement of the market is uncertain. This uncertainty in both the pricing environment for potash and in the market for securities of potash related issuers has had an adverse impact on the Corporation's ability to access the capital required to proceed with the construction of the Wynyard Carnallite Project as planned.

The Board has determined 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. The Board has therefore determined to suspend all activity in relation to the Wynyard Carnallite 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. Accordingly, unless there is a significant improvement in the market for potash and magnesium or the situation otherwise changes, the Corporation will not undertake any further development work at the Wynyard Carnallite Project. The Corporation intends to review whether there is any possibility of finding a buyer for the Wynyard Carnallite Project or whether it can be otherwise disposed of on reasonable terms, consistent with the restrictions to which the Corporation and the Wynyard Carnallite Project are subject in the Corporation's various agreements with GSFC.

No Reliance on Prior Mineral Reserve Disclosure

Given the significant negative change in pricing for potash and magnesium, the Corporation no longer considers the Wynyard Carnallite Project to have a Mineral Reserves. The Mineral Reserves previously reported by the Corporation should therefore not be relied upon. This includes the Mineral Reserves reported in the 2012 Technical Report or the Amended and Restated Technical Report. The Corporation has further determined that although it remains the Corporation's sole material non-cash asset, the Wynyard Carnallite Project should no longer be considered to be a material mineral property of the Corporation.

Such position could have a material adverse effect on the Corporation's business, financial condition, operations and prospects.

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 on 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. There can be no assurance that the underlying assumed levels of expenses will prove to be accurate and that significant additional losses will not occur in the near future. 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.

Current global financial conditions adversely affect the Corporation's financial position

Current financial conditions globally, and in particular in the global potash market, continue to be subject to increased volatility with increasing global market concerns. Access to financing has been negatively impacted by the serious decline in potash prices and the resulting impact on share prices of potash companies. This same situation has resulted in the Corporation recognizing that an impairment of its capital and intangible assets has occurred and as a result the Corporation now values the Wynyard Carnallite Project at its salvage value of $4,016,000. These factors may impact the ability of the Corporation to obtain equity and/or debt financing in the future, if at all, and, if obtained, on terms favourable to the Corporation. If these increased levels of volatility and market turmoil continue, the Corporation's operations could continue to 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.

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

The Corporation has a very limited history of operations. 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.

The Corporation has no material mineral property

At present, the Corporation does not have an interest in a material mineral property and is evaluating alternative opportunities to enhance shareholder value. If no alternative business is acquired, the continued listing and operating of the Corporation could be adversely affected.

The Corporation will require approvals, licenses and permits, that it currently does not have, in order to commence mining operations

Any future mining operations of the Corporation will require approvals, licenses and permits from various governmental authorities that the Corporation does not currently have. While the Corporation has obtained certain licenses required to progress its business, 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 should market conditions improve.

To the extent such approvals, licenses and permits are required and not obtained, the Corporation may be curtailed or prohibited from proceeding with 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 impact on the Corporation and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

Title to the Corporation's mineral projects cannot be assured

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral rights 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 Permit KP 360A and the Lease 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 Permit KP 360A and the Lease.

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.

The Corporation relies on key personnel

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, results of operations and prospects. The Corporation does not have key person insurance in effect for management, and has no current plans to do so. As a consequence of the decision to suspend activity at the Wynyard Carnallite Project, the Corporation has determined to close its project office in Saskatchewan. The employment of a number of employees in Saskatoon and in Calgary has also been terminated.

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 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. 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 financial conditions or 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 the impact of the breakup of the BPC on the global potash industry, 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 and the sustained decline in the trading price of the Common Shares will not continue.

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 may be issued an additional 555,555 Common Shares pursuant to a purchase price adjustment mechanism, if commercial production at the Wynyard Carnallite Project has not commenced on or before October 1, 2016 which may be dilutive to existing shareholders. Following the Board's decision on April 13, 2015 to place the Wynyard Carnallite Project on care and maintenance it is almost certain that commercial production will not have commenced by October 1, 2016.

The Corporation's Board and management could change

In December 2014 Robin Phinney requisitioned a shareholders meeting to remove four incumbent directors and to elect four new directors to the Board. On January 2, 2015, the Corporation called an annual general and special meeting of the shareholders to be held on June 23, 2015. At the Meeting, the Corporation could see a significant change to its Board and management employees. Such a change could have a material adverse effect on the Corporation's business, financial condition or results of operations.

The Corporation has significant shareholders

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 on the Wynyard Carnallite Project has not commenced on or before October 1, 2016. The shareholders of the Corporation have approved the issuance of these additional Common Shares but the Corporation has not yet issued these Common Shares to GSFC. Accordingly, subject to applicable law and the fiduciary duty of the Corporation's directors and officers, when such Common Shares are issued, GSFC may be able to exercise influence over matters requiring shareholder approval.

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 its 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 the improvements covered by patent applications or that they were the first to file. Accordingly, there can be no assurance that the patent application 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 or 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 or 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 assets, liabilities, 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 adversely affect the Corporation's financial condition.

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 upon its financial condition.

The Corporation has negative operating cash flow

For the year ended December 31, 2014, the Corporation had negative operating cash flow. The Corporation's ability to generate positive operating cash flow will depend upon a number of factors. 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. These financings may be on terms less favourable to the Corporation than those obtained previously.

Environmental regulations may impact and increase the Corporation's costs

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 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.

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 operations.

Governmental and regulatory requirements could adversely impact the development of the Corporation's projects

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, environmental protection, 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 impact on the Corporation and cause increases in capital expenditures or require abandonment or delays of the Corporation's operations. Changes to tax laws may also have an adverse effect on the Corporation's future earning potential.

Any future mining operations will be subject to the normal risks associated with mine operations

Any future mining operations by the Corporation will be 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 the Corporation's financial position and prospects.

Competition in the mining industry may adversely affect the Corporation

The mining industry is intensely competitive. The Corporation competes with other mining companies, most of which have greater resources and experience. Competition in the mining 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; and the capital for the purpose of funding such properties. 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 or to acquire the capital necessary to fund its operations and develop its properties. The Corporation's inability to compete with other mining companies for these resources would have a material adverse effect on the Corporation's business and results of operations.

In the future, the Corporation may also compete with other mining companies in marketing any mineral products. Any inability to compete with established competitors for markets would have a material adverse effect on the Corporation's business and results from 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.

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 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

	Trading Price ($)	Price Range ($)		Trading
	Close (Average)	**High**	**Low**	**Volume**
2014				
January	**1.54**	**1.82**	**1.33**	**1,342,308**
February	**1.36**	**1.40**	**1.31**	**878,763**
March	**1.40**	**1.55**	**1.30**	**1,493,720**
April	**1.31**	**1.43**	**1.20**	**930,746**
May	**1.19**	**1.35**	**1.05**	**1,115,826**
June	**1.27**	**1.38**	**1.12**	**836,630**
July	**1.23**	**1.31**	**1.15**	**333,564**
August	**1.16**	**1.24**	**1.10**	**486,401**
September	**1.03**	**1.15**	**0.93**	**703,579**
October	**0.87**	**1.00**	**0.77**	**588,430**
November	**0.88**	**0.98**	**0.80**	**398,751**
December	**0.82**	**0.90**	**0.71**	**859,470**

DIRECTORS AND OFFICERS

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.

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, 2014, the Corporation's directors and executive officers as a group beneficially owned, directly or indirectly, or exercise control or direction over, an aggregate of 594,300 of the issued and outstanding Common Shares representing 2.16% of the Common Shares outstanding at December 31, 2014. 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 135,000 of the issued and outstanding Common Shares representing 0.5% of the Common Shares outstanding. None of the directors or executive officers have non-compete or nondisclosure agreements with the Corporation.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation for Past Five Years	Number of Common Shares Owned Directly or Indirectly[7]
Stephen Goodman[4] Larchmont, New York, USA	President, Chief Executive Officer since November 12, 2014, director since November 13, 2014	President, Chief Executive Officer since November 12, 2014. Prior thereto, Investment Banker at KGS-Alpha Capital Markets L.P. in New York from August 2013 to November 11, 2014. Prior thereto, Vice President, Investment Banker at Knight Capital LLC, in New York from August 2012 to July 2013. Prior thereto, Sr. Vice President, Investment Banking at Shoreline Pacific LLC in New York from March 2011 to July 2012. Prior thereto, Investment Banking Associate at Casimir Capital L.P. in New York from April 2009 to March 2011. Prior thereto, Vice President Institutional Sales SMH Capital Inc. in New York from October 2008 to April 2009.	Nil
Bruce Townsend[3][5] Venice, Florida, USA	Director since September 1, 2009 and Chairman since June 4, 2010	Retired since 2009. Prior thereto, Director, Financial Analysis Nitrogen Operations with PCS from 2001 to July 2009.	135,000
Martin Hall[2][3][5] Canmore, Alberta	Director since November 14, 2013	Semi – retired Chartered Accountant. From 2003 to present acted as corporate director and financial consultant to various public and private corporations.	Nil
Vishvesh D. Nanavaty[1][2][3][4] 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[6]
Mukund Purohit Gujarat State, India	Vice-President, International Business Development since May 24, 2013	Currently Chairman and Managing Director of Neopolitan Pizza Pvt Ltd. and Director of N-Viro Fertilizer India Pvt. Ltd and Indo-Canadian Business Chamber, and advisor to the Saskatchewan Ministry of the Economy. Prior thereto, served on the board of Panorama India from 2007 to 2011. Prior thereto, an Executive Trade Committee member to Indo-Canada Chamber of Commerce from 2002 to 2003.	Nil
Jay H. Sujir[1][2][5] Vancouver, British Columbia	Director since November 12, 2014	Partner at Anfield Sujir Kennedy & Durno LLP since 1991.	Nil
Gerald Offet[1][2][5] Regina, Saskatchewan	Director since November 13, 2014	Consultant with Enterprise Saskatchewan since July 2009. Prior thereto, Chief Operating Officer of Enterprise Saskatchewan with the Government of Saskatchewan since 2008.	Nil

Notes:

(1) Member of the Compensation Committee
(2) Member of the Corporate Governance Committee.
(3) Member of the Audit Committee.
(4) Member of Capital Investment Committee. The Capital Investment Committee is comprised of members of management, directors and external experts responsible for the implementation of Phase 1 of the Wynyard Carnallite Project.
(5) Member of the Independent Committee.
(6) This amount does not include the 5,490,306 Common Shares held by GSFC.
(7) As of the date of this AIF.

Cease Trade Orders

Other than as disclosed below, 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 Karnalyte 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.

Martin Hall was a director and Chief Financial Officer of Turnkey E&P Inc. ("**Turnkey**"), a TSX listed company. Mr. Hall resigned as a director of Turnkey on August 12, 2008 due to a dispute over financial policies. On November 17, 2008, Turnkey's principal operating subsidiary in the United States filed for protection under Chapter 11 of the United States Bankruptcy Code and the bankruptcy was subsequently converted to Chapter 7 and was liquidated by a Bankruptcy Trustee. Turnkey was the subject of a cease trade order issued by the Alberta Securities Commission on December 14, 2009 and by other securities commissions in Canada subsequent to that date for failing to file interim unaudited financial statements, interim management discussion and analysis and certification of interim filings for the interim period ended September 30, 2009. Turnkey was moved from the TSX to the NEX, and was ultimately delisted from the NEX in June 2010.

Mr. Hall was appointed a director of Divergent Energy Services Corporation ("**DVG**") on March 13, 2013 (formerly Canadian Oilfield Solutions Corp.). On April 25, 2013, a cease trade order was issued against DVG by the Alberta Securities Commission prohibiting all trading or purchasing of its securities and on May 17, 2013, a cease trade order was issued against the Corporation by the British Columbia Securities Commission. The cease trade orders were issued on the basis that the DVG 's financial reports for the interim periods ended March 31, 2012, June 30, 2012 and September 30, 2012 were not prepared in accordance with Alberta securities laws. On December 3, 2013, the Alberta and British Columbia securities Commissions revoked their respective cease trade orders as DVG had refiled its 2012 financial reports and filed financial reports up to and including the interim period ended September 30, 2013.

Jay Sujir was a former director of Rio Silver Inc. (formerly, Escape Gold Inc., formerly, Escape Group Inc.) ("**Rio**") which has been subject to cease-trade orders in Alberta and British Columbia for extended periods of time for failure to file financial statements. Mr. Sujir had no association with this company whatsoever at the time the financial statements became overdue or when the cease trade orders were made, and he became a director solely to assist in the resurrection of the company. Mr. Sujir became a director of Rio in April 2005. On June 20, 2003 a cease trade order was issued by the Alberta Securities Commission, and on May 11, 2005 a cease trade order was issued by the British Columbia Securities Commission. The British Columbia Securities Commission revoked its order on September 20, 2006. The Alberta Securities Commission revoked its order on October 6, 2006.

Bankruptcies

Other than as disclosed herein, to the knowledge of Karnalyte, no director, executive officer or shareholder holding a sufficient number of securities to affect materially 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.

Jay Sujir was an independent director of Norwood Resources Ltd. ("**Norwood**") from May 2008 until January 2011. In the last quarter of 2010, the board of directors of Norwood determined that the delays through the last quarter of 2010 had made the company insolvent and believed that the company was un-financeable, and determined that the interests of all stakeholders would best be protected by an assignment into bankruptcy. Norwood declared bankruptcy on January 19, 2011. Mr. Sujir resigned as a director on January 19, 2011.

To the knowledge of Karnalyte, no director or executive officer of Karnalyte, or shareholder holding a sufficient number of securities to affect materially 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 affect materially 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

V.E. Dale Burstall, the Secretary of the Corporation, and Sabina Shah, the Assistant Secretary of the Corporation are partners with Burstall Winger Zammit LLP, which provides legal services to the Corporation on a fee for services basis.

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 Phinney, the former President, Chief Executive Officer and a former director may be considered to be a former promoter of the Corporation because he took the initiative in founding and organizing the business of the Corporation. As of December 31, 2014, Mr. Phinney owned 4,012,409 Common Shares representing 14.6% of the issued and outstanding Common Shares (on a non-diluted basis) as at December 31, 2014, of which 3,250,000 Common Shares are held by 1385659 Alberta Ltd., a private company which Mr. Phinney controls. Mr. Phinney was terminated as President and Chief Executive Officer of the Corporation in May 2013 and subsequently resigned as a director in June 2014, and is no longer considered a promoter of the Corporation.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of Karnalyte is not aware of any legal proceedings required to be disclosed herein to which the Corporation is or was a party or of which any of its property is or was the subject of, during the financial year ended December 31, 2014, nor are any such proceedings known to the Corporation to be contemplated except that on March 27, 2015 Mr. Robin Phinney issued a news release that stated that he is "evaluating damages suffered" and that he is "considering all available legal remedies". There can be no assurance that Mr. Phinney will not commence legal action against the Corporation.

There were no penalties or sanctions imposed against the Corporation by a court relating to provincial and territorial securities legislation or by a securities regulatory authority, during the financial year ended December 31, 2014, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Corporation, and 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 entering into the Offtake Agreement, Side Letter and Subscription Agreement between the Corporation and GSFC and the concurrent nomination of Vishvesh Nanavaty, as nominee of GSFC, to the Board of Directors 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.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are KPMG LLP, Chartered 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.

MATERIAL CONTRACTS

The only material contracts entered into by the Corporation or on its behalf, in the most recently completed financial year, or in a previous financial year and which are still in effect, other than contracts entered into in the ordinary course of business, are the following:

1. The Offtake Agreement;
2. The Subscription Agreement; and
3. The Side Letter.

Copies of these agreements are available on SEDAR 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 Martin Hall (Chairman), Vishvesh Nanavaty and Bruce Townsend. Each of Martin Hall, Vishvesh Nanavaty and Bruce Townsend 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.

Martin Hall

Mr. Hall qualified as a Chartered Accountant in 1978 and has been involved in the oilfield services sector since 1994. From 1994 to April 2003 he was the Vice President Finance and Chief Financial Officer and Secretary of Tesco Corporation, a company listed on the TSX engaged in the manufacture, sale and rental of drilling equipment domestically and internationally. Since 2004, he has held various board positions including Drillers Technology Corporation, a drilling contractor listed on the TSX (chairman and chair of the audit committee); Saxon Energy Services, a drilling contractor (financial consultant); Wellco Energy Services Trust, a diversified oilfield services trust (director and chair of the audit committee and corporate governance committee); Turnkey E&P Inc., a TSX listed exploration and production Corporation and drilling contractor (director and part-time Chief Financial Officer); and HSE Integrated Ltd., a TSX listed health, safety and environmental service company (director and chair of the audit committee) and Divergent Energy Services Corporation on March 13, 2013 (formerly Canadian Oilfield Solutions Corp.), a TSX Venture Exchange oil and gas service company (director, chair of the audit committee and member of the corporate governance and nominating committee).

Vishvesh Nanavaty

Mr. Nanavaty is the Senior Vice President (Finance) & CFO with GSFC, and previously was 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.

Bruce Townsend

Mr. Townsend has held a number of senior management roles. He was the Director, Financial Analysis Nitrogen Operations with Potash Corporation of Saskatchewan from 2001 to 2009. Prior thereto he was Manager, Planning and Business Analysis with PCS from 1991 to 2001. Mr. Townsend has a Bachelor of Commerce (Accounting) degree from University of Saskatchewan.

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 Accountants, during the years ended 2014 and 2013:

KPMG LLP	**2014 ($)**	**2013 ($)**
Audit Fees(1)	125,000	119,500
Audit Related Fees(2)	Nil	7,000
Tax Fees(3)	11,884	51,800
All Other Fees(4)	Nil	Nil
Total(5)	136,884	178,300

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 and assistance with due diligence.
(3) Tax fees are for tax compliance, tax advice and tax planning.
(4) All other fees for services performed by the Corporation's auditors.
(5) 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. These additional costs are not material as compared to the total professional services fees for each year.

INTERESTS OF EXPERTS

The Corporation's auditors are KPMG LLP, Chartered Accountants, who have confirmed they are independent in respect 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 May 12, 2014. 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, 2014.

Effective Date

Unless otherwise specifically herein provided, the information contained in this AIF is stated as at April 13, 2015.

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.