



**104 - 26 Crystalridge Drive
Okotoks, Alberta
T1S 2C3**

ANNUAL INFORMATION FORM

For the year ended December 31, 2010

Dated March 8, 2011

TABLE OF CONTENTS

GLOSSARY OF TERMS	1
FORWARD LOOKING INFORMATION	9
KARNALYTE RESOURCES INC.	11
Name, Address and Incorporation	11
GENERAL DEVELOPMENT OF THE BUSINESS.....	11
Three Year History	11
DESCRIPTION OF THE BUSINESS AND OPERATIONS	13
Business of Karnalyte	13
Description of the Karnalyte Property	13
Regional Geology	16
Local and Property Geology	17
Mineralization	18
Deposit Description	20
Deposit Mineralogy	20
Summary of Cored Drill Holes on Permit KP 360	21
2008 Program.....	21
2009 Sampling	22
Summary of 2009 Geochemical Core Hole Samples.....	22
Inferred Mineral Resources.....	24
Indicated Mineral Resources.....	25
Summary of Solution Mining Method and Brine Field Design	25
Mineral Processing.....	26
Cost Estimations	26
Marketing Plan.....	28
Preliminary Project Implementation and Production Ramp-Up Schedule.....	28
Increase in Sustainable CAPEX.....	29
Environmental Considerations.....	30
Proprietary Protection	31
Competitive Conditions	33
Overview	33
Mining Methods.....	35
Potash in Saskatchewan	36
Potash Supply Environment.....	37
Potash Price Environment.....	38
Employees.....	38
RISK FACTORS	38
DIVIDEND POLICY.....	48
GENERAL DESCRIPTION OF CAPITAL STRUCTURE.....	48
Common Shares	48
Preferred Shares	48
MARKET FOR SECURITIES	48
DIRECTORS AND OFFICERS	49
Cease Trade Orders.....	50
Bankruptcies	51
Penalties or Sanctions	51
Conflicts of Interest.....	51
PROMOTER.....	51
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	52
INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	52
AUDITORS, REGISTRAR AND TRANSFER AGENT.....	52

MATERIAL CONTRACTS	52
Composition of Audit Committee.....	53
Audit Committee Oversight	53
Reliance on Certain Exemptions.....	54
Pre-Approval Policies and Procedures.....	54
External Auditor Service Fees	54
ADDITIONAL INFORMATION.....	55
Effective Date	55

GLOSSARY OF TERMS

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

"2008 Founders Private Placement" means the non-brokered private placement by the Corporation of 4,599,999 Common Shares at a price of \$0.001 per share for gross proceeds of \$4,599.99 which closed on April 1, 2008;

"2008 Private Placement" means the non-brokered private placement by the Corporation of 5,000,000 Common Shares at a price of \$1.00 per share for gross proceeds of \$5,000,000 which closed on April 11, 2008;

"2009 Private Placement" means collectively the brokered private placement by the Corporation of an aggregate of 747,800 Flow-Through Units of the Corporation at a price of \$5.75 per Flow-Through Unit, and 2,037,600 Common Shares of the Corporation at a price of \$5.00 per Common Share for aggregate gross proceeds of \$14,487,850 which closed in two tranches on July 31, 2009 and August 12, 2009;

"2D" means two dimensional;

"3D" means three dimensional;

"3D seismic" means the surface exploration method using sound waves to assist in the determination of composition, fluid content, extent and geometry of subsurface rocks, providing three dimensional subsurface images of vertical and horizontal underground features, including carnallite layers;

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

"Agrium" means Agrium Inc.;

"AIF" means this annual information form dated March 8, 2011;

"Belle Plaine Member" means the potash and carnallite bearing bed that is second from the top, within the Prairie Evaporite Formation;

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

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

"British Sulphur" means British Sulphur Consultants Ltd., a division of CRU International Ltd.;

"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;

"CAPEX" means capital expenditures;

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

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

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

"Compensation Option" means the option to be issued to the underwriters pursuant to the IPO to purchase that number of Common Shares equal to 6% of the aggregate number of Common Shares sold pursuant to the IPO (including Common Shares sold pursuant to the exercise of the over-allotment option) at a price of \$8.60 per share until the date that is 18 months after the closing date of the IPO or over-allotment option, as applicable;

"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;

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

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

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

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

"DH20" means a drill hole drilled by the Corporation in 2009 on the Karnalyte Property;

"DH21" means a drill hole drilled by the Corporation in 2009 on the Karnalyte Property;

"EIS" means an Environmental Impact Statement, which is a description and evaluation of the impacts of a development on the environment and includes a discussion of a company's commitment regarding the development which statement is required to be submitted to the Saskatchewan Ministry of Environment pursuant to the Canadian Environmental Assessment Act;

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

"Esterhazy Member" means the lowest potash and carnallite bearing bed within the Prairie Evaporite Formation;

"evaporator" means a process vessel used in conjunction with a steam heat exchanger to evaporate water from process brine;

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

"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;

"Flow-Through Unit" means a unit of the Corporation issued in connection with the 2009 Private Placement, each consisting of one Flow-Through Share and one Flow-Through Warrant;

"Flow-Through Share" means a Common Share of the Corporation comprising part of a Flow-Through Unit issued in connection with the 2009 Private Placement on a "flow-through" basis pursuant to the Tax Act;

"Flow-Through Warrant" means a flow-through share purchase warrant of the Corporation comprising part of a Flow-Through Unit issued in connection with the 2009 Private Placement on a "flow-through" basis pursuant to the Tax Act, each entitling the holder to acquire automatically, without payment of any additional consideration, Common Shares of the Corporation, in accordance with the following deadlines:

- (a) In the event a Liquidity Event is not completed before the Liquidity Event Deadline (as herein defined), holders of the Flow-Through Warrants will receive a Liquidity Penalty of one-tenth (0.1) of a Common Share for every Flow-Through Warrant held;
- (b) In the event that a Liquidity Event (as herein defined) is not completed by the date that is twenty (20) months after the effective closing date of the 2009 Private Placement (the **"Second Liquidity Event Deadline"**), holders of the Flow-Through Warrants will receive a Liquidity Penalty of an additional one-twentieth (0.05) of a Common Share for every Flow-Through Warrant held; and
- (c) For each additional whole or partial month commencing with the first month following the Second Liquidity Event Deadline in which a Liquidity Event is not completed (each month end, a **"Subsequent Liquidity Event Deadline"**), then the holders of the Flow-Through Warrants will receive a further additional Liquidity Penalty in the form of one-hundredth (0.01) of a Common Share for every Flow-Through Warrant held;

"FOB" means free on board;

"FOB Vancouver (granular)" means the "spot" price of granular potash shipped FOB from Vancouver, which has historically been the primary port of departure for Canadian potash exports;

"FOB Vancouver (standard)" means the "spot" price of standard grade potash shipped FOB from Vancouver which has historically been the primary port of departure for Canadian potash exports;

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

"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;

"IFA" means the International Fertilizer Industry Association;

"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;

"Inferred Mineral Resource" means that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information

and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes;

"IPO" means the initial public offering of the Corporation's Common Shares;

"IPO Underwriters" means collectively, BMO Nesbitt Burns Inc., Dundee Securities Corporation, CIBC World Markets Inc., Scotia Capital Inc., Canaccord Genuity Corp. and Wellington West Capital Markets Inc.;

"IRR" means internal rate of return;

"K₂O" is a chemical term used in the analysis and marketing of fertilizers that contain different potassium compounds, as a comparison of their relative potassium content when compared to equivalent potassium oxide (K₂O). Pure KCl is equivalent to 63.178% K₂O;

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

"km" means kilometres;

"Karnalyte Property" means the approximate 68,301 acres (276.4 square kms) of land located in south central Saskatchewan that is the subject of Permit KP 360A 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;

"Liquidity Event" means (i) an initial public offering of the Corporation, evidenced only by the issuance of a receipt for a final prospectus by any securities regulatory authority in any province of Canada or by the declaration of effectiveness of a registration statement by the Securities and Exchange Commission in the United States, (ii) a reverse takeover transaction within the meaning of NI 51-102, (iii) or a takeover bid or arrangement of the Corporation where the consideration is solely cash and which results in the substantial sale of the Common Shares of the Corporation to a third party;

"Liquidity Event Deadline" means the date which is no later than the date which is 15 months after the closing date of the 2009 Private Placement, being November 12, 2010;

"Liquidity Penalty" means the Common Shares to be received pursuant of the Flow-Through Warrants and the Liquidity Rights issued to subscribers to the 2009 Private Placement;

"Liquidity Right" means a right issued to subscribers for Common Shares in connection with the 2009 Private Placement, each entitling the holder to acquire automatically, without payment of any additional consideration, Common Shares of the Corporation, in accordance with the following deadlines:

- (a) In the event a Liquidity Event was not completed before the Liquidity Event Deadline, holders of the Common Shares would receive a Liquidity Penalty of one-tenth (0.1) of a Common Share for every Common Share held;
- (b) In the event that a Liquidity Event was not completed by the date that is twenty (20) months after the closing date of the 2009 Private Placement (the Second Liquidity Event Deadline), holders of the Common Shares would receive a Liquidity Penalty of an additional one-twentieth (0.05) of a Common Share for every Common Share held; and

- (c) For each additional whole or partial month commencing with the first month following the Second Liquidity Event Deadline in which a Liquidity Event was not completed (each month end, being a Subsequent Liquidity Event Deadline), then the holders of the Common Shares would receive a further additional Liquidity Penalty in the form of one-one-hundredth (0.01) of a Common Share for every Common Share held;

"Lower Cretaceous Mannville Formation" or **"Mannville Formation"** is a stratigraphic unit of the Cretaceous age in the Western Canadian Sedimentary Basin, consisting of interbedded continental sand and shale in the base, followed by a calcareous sandstone member, marine shale, glauconitic sandstone and salt and pepper sandstone, about 500 meters below the surface, containing a vast aquifer of brackish water;

"m" means meter;

"m²" means square meter;

"m³" means cubic meter;

"MD&A" means management discussion and analysis;

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

"Members" means collectively, the Belle Plaine Member, the Esterhazy Member and the Patience Lake Member;

"MgCl₂" is a chemical formula for magnesium chloride;

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

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

"mi²" means square mile;

"mm" means millimetre;

"mmt" means million metric tonnes;

"MOP" means muriate of potash;

"**Mosaic**" means The Mosaic Company;

"**mt**" means metric tonnes;

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

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

"**NI 51-102**" means National Instrument 51-102 - *Continuous Disclosure Obligations*;

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

"**NPV**" means net present value;

"**OPEX**" means operating expenses;

"**Options**" means incentive stock options of the Corporation currently issued or to be issued under the Plan;

"**Patience Lake Member**" means the uppermost potash and carnallite bearing bed within the Prairie Evaporite Formation;

"**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;

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

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

"**Prairie Evaporite Formation**" means an underground sedimentary formation containing many layers of salts and insoluble material, formed by evaporation of water from ancient seas. Layers of interest for potash and carnallite content include in descending order of depth, the Patience Lake Member, the Belle Plaine Member, the White Bear Marker Beds, and the Esterhazy Member;

"**Preliminary Assessment**" means the technical report entitled "Preliminary Assessment Study, Wynyard Carnallite Project, Subsurface Mineral Permit KP 360, Saskatchewan, Canada" prepared by ERCOSPLAN, North Rim and Foster Wheeler for the Corporation and dated August 26, 2010;

"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;

"Proven Mineral Reserve" means the economically mineable part of a Measured 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 is justified;

"Probable Mineral Reserve" means the economically mineable part of an Indicated Mineral Resource and, in some circumstances, a Measured 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;

"QA/QC" means quality assurance and quality control;

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

"Resource Surcharge" means the resource surcharge tax levied on the value of sales of all potash, uranium and coal produced in Saskatchewan, pursuant to *The Corporation Capital Tax Act* (Saskatchewan);

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

"Saskatchewan Regulations" means *Subsurface Minerals Regulations, 1960* (Saskatchewan) under *The Crown Minerals Act* (Saskatchewan) together with any amendments thereto;

"SRC" means the Saskatchewan Research Council;

"SRCGL" means the Saskatchewan Research Council Geoanalytical Laboratory;

"Subsurface Minerals" means all natural mineral salts of boron, calcium, lithium, magnesium, potassium, sodium, bromine, chlorine, fluorine, iodine, nitrogen, phosphorus and sulphur, and their compounds, occurring more than two hundred feet below the surface of the land, and any other mineral substance that may be declared a "subsurface mineral" within the meaning of Saskatchewan Regulations 541/67 under *The Mineral Resources Act, 1959* by the Lieutenant Governor in Council;

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

"sylvite" means the natural mineral form of potassium chloride;

"Tax Act" means the *Income Tax Act* (Canada), together with any amendments thereto and where applicable, includes all regulations promulgated thereunder;

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

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

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

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

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

"**USGS**" mean United States Geological Survey;

"**White Bear Marker Bed**" means a layer between the Belle Plaine Member and the Esterhazy Member, not generally containing minable volumes of sylvinite or carnallite, but used by geologists to determine the location of the other zones;

"**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:

- future extraction and exploitation of mineral deposits;
- capital expenditure requirements;
- future commodity prices;
- expectations regarding prices and costs;
- development of mineral resources and mineral extraction processes;
- expectations regarding the Corporation's ability to subsequently raise capital;
- expenditures to be made by the Corporation to meet certain work commitments;
- work plans to be conducted by the Corporation;
- reclamation and rehabilitation obligation and liabilities;
- treatment under governmental regulatory regimes with respect to environmental matters;
- treatment under governmental taxation regimes;
- 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 Corporation's ability to commence and ramp up production from 500,000 to 2 million tonnes per year;
- the costs related to the operation of the plant and facilities will be consistent with other solution mining operations subject to differences in the Corporation's mineral body and processing;
- the use of solution mining process;
- the Corporation's plans to carry out mineral deposit analysis, complete a feasibility study and advance the EIS;
- further seismic exploration and drilling;
- brine field preparation taking between 24 and 30 months;
- production run rates achieving 500,000 tonnes per year within 10 months following the completion of the processing plant;
- future increases in global fertilizer demand and consumption;
- total capital expenditure for a 500,000 tonne mine of \$408.9 million and for a 2 million tonne mine of \$1,507.4 million;
- total operating expenditure per tonne for a 500,000 tonne mine of \$153.7 and for a 2 million tonne mine of \$147.1;
- anticipated results of development and extraction activities and estimated future development;
- the Corporation's ability to obtain additional financing on satisfactory terms;
- the market prices for potash;
- the Corporation's ability to obtain and enforce its intellectual property rights;

- the Corporation's ability to pump the waste underground as brine to eliminate surface salt tail piles; and
- the improvements that the Corporation has developed for the solution mining process are as effective as expected by the Corporation.

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

- the Corporation executes its project development plans in a manner consistent with its budgets and planning;
- feasibility and other studies support the Corporation's current development plans;
- the Corporation obtains additional financing in the future;
- the Corporation is able to convert existing Mineral Resources into proven or probable mineral reserves;
- drilling of the cavern wells on the drilling pad, and cavern preparation, proceeds as expected and is completed within 21 months of commencement;
- estimates of Mineral Resources are accurate;
- 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 is able to file an EIS satisfactory to the Government of Saskatchewan;
- the Corporation's key senior management continue in their respective roles with the Corporation;
- the Corporation's intellectual property is not challenged;
- the Corporation does not become subject to litigation;
- environmental and other applicable law and other regulations are not amended, repealed or applied in a manner that impacts the development and operation of the Wynyard Carnallite Project as currently anticipated;
- there is no adverse changes to price of potash that would adversely affect the prospects for developing and operating the Wynyard Carnallite Project, or making it inadvisable or uneconomic to proceed with development; and
- the future mining operations operate in the normal course.

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, 2010 which have been filed with Canadian provincial securities commissions and are available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

KARNALYTE RESOURCES INC.

Name, Address and Incorporation

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

The Corporation's head office is located at 104 - 26 Crystalridge Drive, Okotoks, Alberta, T1S 2C3. 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

2008

On March 24, 2008, Permit KP 360 was granted by the Saskatchewan Ministry, pursuant to the Saskatchewan Regulations to Robin Phinney, President and Chief Executive Officer of the Corporation in respect of the Karnalyte Property in the Wynard area of Saskatchewan. The Corporation was incorporated on November 16, 2007 and Permit KP 360, which was held in trust by Mr. Phinney on behalf of the Corporation upon its issuance, was transferred to the Corporation on October 24, 2008. The original Permit Area consisted of one exploration permit, being Permit KP 360, covering approximately 83,981 acres (340 square kms), near the town of Wynyard in the province of Saskatchewan.

Concurrent with the commencement of its exploration activities, the Corporation began developing its solution mining process for the extraction of potash and magnesium compounds based primarily on a known solution mining technique. See "Description of the Business and Operations - Description of the Karnalyte Property - Preliminary Assessment" and "Description of the Business and Operations - Proprietary Protection".

Formal operations of the Corporation commenced on April 1, 2008 following the 2008 Founders Private Placement of 4,599,999 Common Shares at a price of \$0.001 per share for gross proceeds of \$4,599.99. Subsequently, on April 11, 2008, the Corporation completed the 2008 Private Placement of 5,000,000 Common Shares at a price of \$1.00 per share for gross proceeds of \$5,000,000.

In June 2008, the Corporation purchased surface rights to an aggregate of 260 acres (1.05 km²) of land in the area of Permit KP 360 to secure a site for its plant and load-out surface facilities.

In September 2008, the Corporation engaged ERCOSPLAN to provide a third party review of the Corporation's solution mining process. In March 2009, the Corporation received preliminary results from ERCOSPLAN indicating that solution mining of the carnallite layer is technically feasible and concluded that it would allow for the development of a sufficient cavern volume for continuous brine extraction with adequate potassium chloride concentration.

As part of an initial subsurface investigation, a 3D seismic survey was completed by the Corporation during the winter of 2007/2008 followed by an additional 3D seismic survey in November 2008. The goal of the survey was to extend the geological knowledge and further delineate the resource contained in the three prospective potash beds within the Prairie Evaporite Formation. See "Description of the Business and Operations - Description of the Karnalyte Property - Exploration".

2009

In April 2009, the Corporation received a technical report dated April 13, 2009 prepared by North Rim for the DH10 and DH11 historical drill test holes.

On July 31, 2009 and August 12, 2009, the Corporation closed both tranches of the 2009 Private Placement of an aggregate of 747,800 Flow-Through Units of the Corporation at a price of \$5.75 per Flow-Through Unit and 2,037,600 Common Shares at a price of \$5.00 per Common Share for aggregate gross proceeds of \$4,487,850. The Flow-Through Units issued pursuant to the 2009 Private Placement each consisted of one Flow-Through Share and one Flow-Through Warrant. The subscribers of Common Shares under the 2009 Private Placement were also granted the Liquidity Rights for no additional consideration.

In November 2009, a preliminary EIS for the Corporation's Wynyard Carnallite Project was submitted to the Governments of Saskatchewan and Canada. The Government of Canada indicated that no further review was required, whereas the Government of Saskatchewan determined that certain information contained in the preliminary EIS was either incomplete or deficient, and accordingly, the Government of Saskatchewan returned the preliminary EIS to the Corporation for revision. See "Description of the Business of the Corporation" and "Risk Factors" section of the AIF.

2010

In March 2010, the Corporation received a technical report prepared by North Rim dated March 5, 2010 which updated the findings of the technical report prepared by North Rim dated April 13, 2009 to include the two new exploration drill holes (DH20 and DH21).

In September 2010, the Corporation received the Preliminary Assessment. See "Description of the Business and Operations - Description of the Karnalyte Property - Preliminary Assessment".

On November 29, 2010, the Corporation issued an aggregate of 278,540 Common Shares pursuant to the Liquidity Penalty to subscribers to the 2009 Private Placement.

On December 14, 2010, the Corporation completed its IPO of 6,975,000 Common Shares at a price of \$8.60 per share for gross proceeds of \$59,985,000. In connection with the closing of the IPO, the Corporation granted Compensation Options entitling the underwriters of the IPO to acquire 418,500 Common Shares.

2011

On January 13, 2011, the Corporation closed the over-allotment option in connection with its IPO of an additional 470,000 Common Shares at a price of \$8.60 per share for additional gross proceeds of \$4,042,000. In connection with the closing of the over-allotment option, the Corporation granted Compensation Options entitling the underwriters of the IPO to acquire an additional 28,200 Common Shares.

On January 17, 2011, the Corporation entered into a contract with a subsidiary of Foster Wheeler's global engineering and construction group to perform the Corporation's feasibility study. Under the terms of the contract, Foster Wheeler will also coordinate preparation of the Corporation's EIS to be advanced concurrently with the feasibility study. The Corporation has engaged Geo Engineers Inc. to perform environmental and geotechnical engineering services for the feasibility study and ERCOSPLAN has been engaged to perform the mining engineering services for the underground mining portion of the feasibility study.

On February 14, 2011, the Saskatchewan Ministry granted the Corporation the Lease, which converted approximately 15,680 acres of the area covered by Permit KP 360 to the Lease and includes 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. On February 14, 2011, the Saskatchewan Ministry replaced the Corporation's original Permit KP 360 with Permit KP 360A.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Business of Karnalyte

General

The Corporation is engaged in the business of exploration and development of high quality agricultural and industrial potash and magnesium products. The Corporation intends to develop and extract a carnallite - sylvite mineral deposit through a known solution mining process, at competitive cost, with minor environmental impacts.

The Corporation owns a 100% interest in Permit KP 360A located near Wynyard, Saskatchewan. The Karnalyte Property is comprised of 68,301 acres pursuant to Permit KP 360A. The Corporation has converted 16,825 acres to the Lease.

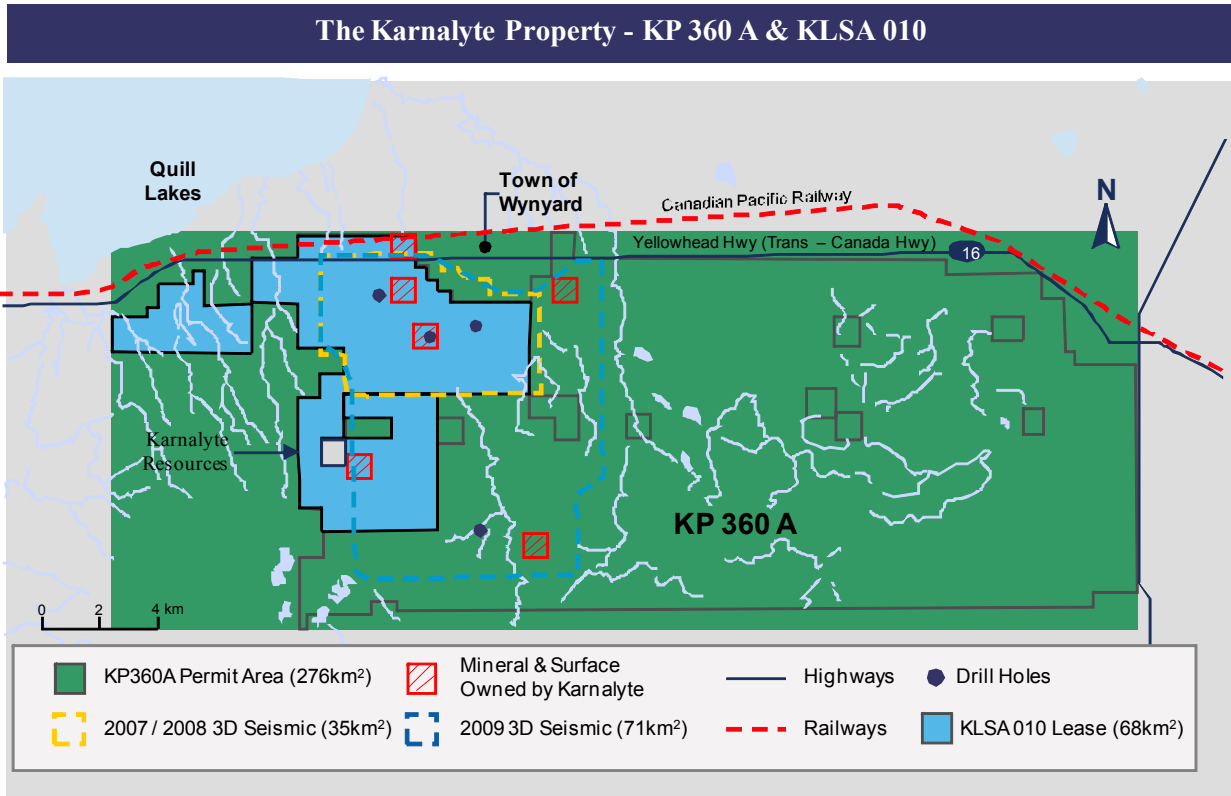
The Wynyard Carnallite Project is an exploration and pre-development property with a dominant zone of carnallite and sylvite mineralization. To date, the Corporation has drilled two exploration drill holes and has conducted advanced exploration on approximately 6,300 acres, or 7.5% of the Karnalyte Property.

Description of the Karnalyte Property

The Preliminary Assessment of the Corporation is available for review at the Corporation's profile on SEDAR at www.sedar.com.

Project Description and Location

The Karnalyte Property is a mineral property consisting of a potash deposit and an area of prospective potash exploration. The property is located approximately 175 km east of Saskatoon, Saskatchewan and approximately 65 km east of the Lanigan potash mine, which is operated by PCS.



Source: Corporation, ERCOSPLAN Preliminary Assessment

The Corporation holds its interest in the Karnalyte Property through Permit KP 360A, a mineral permit granted by the Saskatchewan government that gives the holder an exclusive right to prospect for subsurface minerals, including potash, owned by the Crown. The Permit Area originally spanned 83,981 acres of nearly contiguous Crown mineral rights, interrupted by only intermittent freehold tenures, and currently spans 68,301 acres, subsequent to the conversion of certain areas within the Permit Area to the Lease.

The Karnalyte Property is located within Townships 31 and 32 which are each divided into 36 legally surveyed sections. The dimensions of Permit KP 360 are approximately 18 miles (29 kilometres) in East-West direction and 8 miles (12.8 kilometres) North-South. The boundary of Permit KP 360 is shown in the map above and is comprised of approximately 144 sections of land which the permit covers for exploration purposes. The sections not covered by the permit are freehold, or under private landholder's mineral ownership and are not included in the rights granted under the permit. All surface land ownership is private, (i.e., the title is owned by individuals or corporations as opposed to the Crown). In agricultural areas, surface access must be negotiated with individual landholders, and with the approval of the rural municipalities. The 3D seismic survey conducted in the winter of 2007/2008 and 2009 were completed with full permission from the landowners and no complications were encountered.

The Corporation has secured the surface rights to 260 acres of land in the area of the Lease for the plant and load-out surface facilities, of which 160 acres is proposed for use as the plant production site. Management has estimated that the surface area required for a potash solution mine and plant, including cavern well pads will be less than a one-quarter section (160 acres). All left-over brine is planned to be deep-well injected; therefore, management expects that no tailings ponds or tails piles will be needed.

Permit KP 360 was granted on March 13, 2008 for an initial term ending March 12, 2013. Permit KP 360 was replaced with Permit KP 360A on February 14, 2011. The initial term of Permit KP 360A remains unchanged. To keep Permit KP 360A in good standing, the Corporation must pay annual rental fees, undertake certain work on the Karnalyte Property and file assessment reports. The annual rental fee for the Karnalyte Property for each of the first five years is a rate of \$0.50 per acre. The original annual rental fee for the Karnalyte Property under Permit KP 360 was approximately \$42,000 in aggregate annually. Subsequent to the conversion of certain acres of the Permit Area to Lease on February 14, 2011, the rental fee under Permit KP 360A is approximately \$34,000 in aggregate annually. After five years, the exploration phase of the Karnalyte Property can be extended for three one-year periods subject to payment of the following fees: \$10,000 for the first extension, \$20,000 for the second, and \$40,000 for the third.

As of June 30, 2010 the Corporation, pursuant to the Saskatchewan Regulations, reported expenditures of approximately \$4.5 million incurred on Permit KP 360. This amount was accepted by the Saskatchewan Ministry as qualified expenditures which can be applied against the annual expenditure requirements over the life of the permit. Excess expenditures may be applied toward the mandating expenditures made in any subsequent year during the term of Permit KP 360A or within the first three years of the term of a lease.

The Corporation submitted an application to convert certain portions of Permit KP 360 to a "subsurface mineral lease" and on February 14, 2011 the Corporation was granted the approval and converted certain acres of the Permit Area to the Lease at a rate of \$2.00 per acre. Converting the permit to a lease is a prerequisite to undertaking commercial mining operations and will be subject to meeting further conditions, including the payment of a royalty to the province which ranges from 4.25% to 9.0% of the value of the potash produced with an expected effective royalty rate generally ranging from 2.1% to 4.5% of the value of the potash produced, depending on the grade of ore. Any revenue generation from commercial production at the Wynyard Carnallite Project will be subject to a further 3.0% of Resource Surcharge.

Drilling licenses and seismic survey licenses are required from the Province of Saskatchewan to conduct reverse circulation or diamond drilling and seismic surveys on the Karnalyte Property. It is the responsibility of the Corporation to obtain these licenses prior to beginning each program of exploration activities on the Karnalyte Property.

As of the date of this AIF, there were no royalties (other than the royalties payable upon the commencement of commercial mining), back-in rights, payments or other agreements and encumbrances to which the Karnalyte Property is subject. There are no known environmental liabilities to which the Karnalyte Property is subject other than standard licenses and permitting requirements for similar operation and compliance with provincial acts and regulations.

Accessibility, Climate, Local Resources and Physiography

The Karnalyte Property is located 0.5 km to the south of Highway 16 near the town of Wynyard, Saskatchewan. Overall, the Permit Area consists of flat to gently rolling predominantly cleared farmland with local mixed poplar/aspen bluffs. The ground surface at DH20 drill hole is located at an elevation of 584.7 m above mean sea level.

The Karnalyte Property is accessible and serviced by a network of "grid" section gravel and paved roads, including a major paved highway (Highway 16 connects the urban centers of Saskatoon and Yorkton, Saskatchewan) bounding the northern portion of the Permit Area. Although there is currently no rail access to the Karnalyte Property, a major line of Canadian Pacific Railway Limited runs parallel to Highway 16 at Wynyard, Saskatchewan, a divisional point in their system. The Corporation has purchased a parcel of land immediately south of the Canadian Pacific Railway Limited line and north of

Highway 16 which is 1.6 km west of Wynyard, Saskatchewan. The Corporation plans on using this land for construction of a rail spur, railcar loading, and a product storage facility. In addition, the Canadian National Railway Company has a line within 38 km of the Corporation's load-out facility; this can be used as a supplementary rail connection. In Central Saskatchewan, there is a pool of skilled professional, technical and trades persons with experience in potash mine construction and operation.

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

The region is well served by an electrical distribution network. The Karnalyte Property is relatively close to the main electrical supply grid for SaskPower. As with electrical power, SaskEnergy's natural gas distribution lines are in the vicinity of the Karnalyte Property but would require upgrade. Aquifers within the subsurface Lower Cretaceous Mannville Formation some 500 meters below the Karnalyte Property could potentially supply process water for the operations. Any such use would require permitting with the Saskatchewan Ministry and possibly the Saskatchewan Ministry of Environment. The Ordovician Formation, some 2,000 meters below surface, consists of sandstone beds that could potentially be used as a storage reservoir for spent process brines from the Corporation's processing facility.

History of the Karnalyte Property

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

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

On March 13, 2008, Permit KP 360 was granted to Robin L. Phinney, President and Chief Executive Officer of the Corporation by the Saskatchewan Ministry. Mr. Phinney subsequently transferred the Permit KP 360 to the Corporation on October 24, 2008 for no consideration. On February 14, 2011, Permit KP 360 was replaced by the Saskatchewan Ministry with Permit KP 360A, subsequent to the conversion of certain acres of the Permit Area to the Lease.

Geological Setting

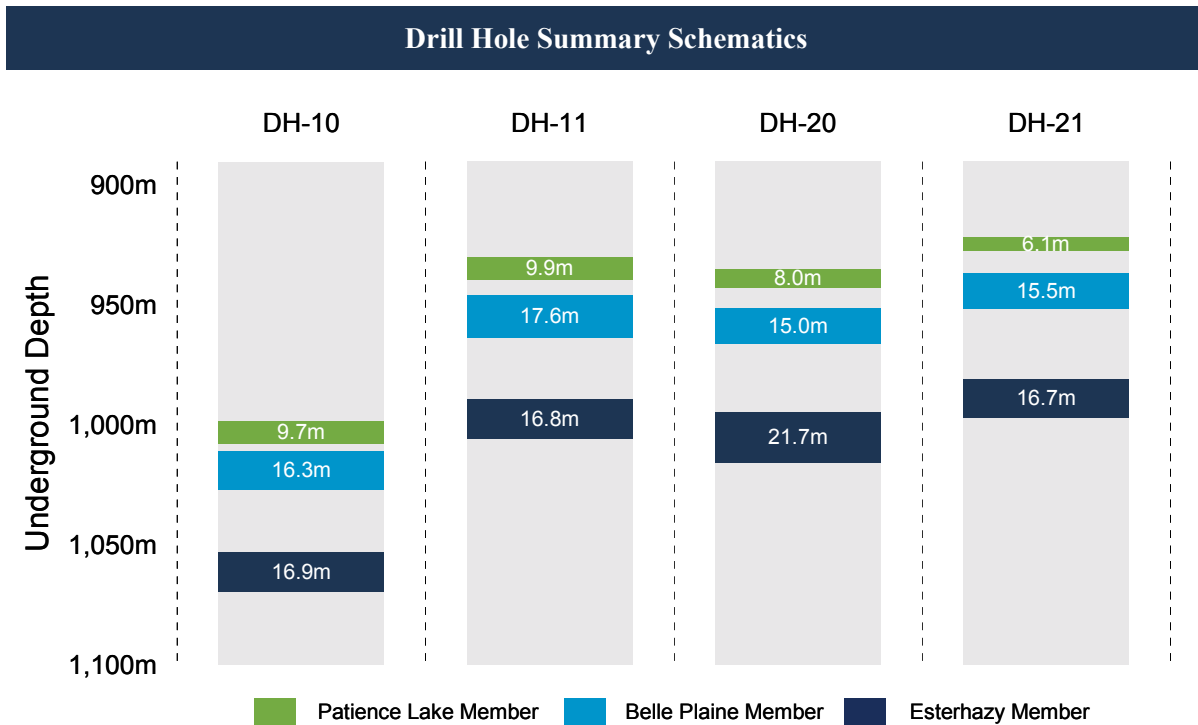
Regional Geology

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

Bedded and laterally extensive evaporite beds containing deposits of halite, sylvite and carnallite are found within the medial sequence, specifically within Middle Devonian strata commonly called the "Elk Point Group" and ranging from some 2,500 m below surface in the south of the province to surface

outcrop in north-western Manitoba. Overlying the Elk Point Group is a sequence of rocks commonly referred to as the "Manitoba Group" and consisting of the Dawson Bay Formation and the overlying Souris River Formations. Within this sequence are two halite beds: (1) the "Hubbard Salt," which is the uppermost bed of the Dawson Bay Formation, and (2) the "Davidson Evaporite" consisting of two halite beds separated by an anhydrite bed. These are important from a conventional underground mining viewpoint as they form a flood protection zone separating the Prairie Evaporite mining horizon from the water and brine aquifers present within the Mesozoic sands.

The Karnalyte Property is situated on the northern edge of what is commonly termed the "Commercial Potash Mining Belt". Within this "belt", the potash-bearing beds of the uppermost Prairie Evaporite Formation range between 950 m to 1,075 m below surface, which is considered to be the maximum depth for the safe implementation of conventional underground mining operations. The top of the Prairie Evaporite Formation in the Karnalyte Property is at an approximate depth of 960 m (3150 ft). The Prairie Evaporite Formation is divided into a lowermost "Lower Salt" and an overlying unnamed unit containing three potash-bearing Members and one set of "marker beds".



Note:

- (1) Number in the bar represents thickness of the mineralized bed.

Source: Preliminary Assessment

Local and Property Geology

All the Members are present in the Permit Area. Also present are the White Bear Marker Beds, distinctive units of thin interbedded clay, halite and sylvinite present between the Belle Plaine and Esterhazy Members. The following is a summary of the key stratigraphic boundaries as determined for the Permit Area.

The Patience Lake Member is the uppermost member of the Prairie Evaporite Formation with potential for potash mining. The Belle Plaine Member underlies the Patience Lake Member and is separated from it by barren halite beds. The Members are currently being mined using solution mining techniques at the Belle Plaine potash mine operated by Mosaic. The Esterhazy Member is separated from the Belle Plaine Member by the White Bear Marker Beds, a sequence of clay seams, low-grade sylvinite beds, and halite.

A correlation of the Prairie Evaporite Formation for three of the wells on the Karnalyte Property has been established, thus establishing general continuity of the Members and individual sylvinite- and carnallite-bearing intervals that were identified in the drill holes.

Deposit Types and Mineralization

Mineralization

The sylvinite and carnallite mineralization identified from drill hole data consists of three principal members. The evaporite mineral deposit consists of essentially flat-lying interbedded halite, sylvinite and carnallite that extend from central Alberta through to Manitoba, North Dakota and Montana. The evaporite deposits underlying and within a two mile zone surrounding the Karnalyte Property were penetrated by six surface drill holes. Of these, only drill holes DH10, DH11, DH20 and DH21 penetrated the Prairie Evaporite Formation. Public record data is currently available for DH10 and DH11. Public record data for DH20 and DH21 will be available after the confidential time period has expired. The other two historical drill holes on the Karnalyte Property did not penetrate the Prairie Evaporite Formation. Portions of the Karnalyte Property were also surveyed by a 3D seismic geophysical survey undertaken by the Corporation in 2008 and 2009. Evaluation of the historical and new borehole geophysical drill-hole logs, chemical assay results of Prairie Evaporite Formation drill-cores, and geological well-site reports show that the sylvinite and carnallite mineralization occurs within the Members of the Prairie Evaporite Formation.

The evaporite beds are regular and flat-lying apart from regional dip and local anticlinal and synclinal "noses", except where the evaporite minerals have been dissolved by sub-surface fluids and replaced with a mixture of halite and water insolubles or post-depositional halite replacement of the sylvinite and carnallite. The areal extent and estimated mass of the sylvinite and carnallite beds are based on historic and new drill-hole data and interpreted vintage seismic maps on file with the Government of Saskatchewan and the interpreted results of the 3D seismic programs undertaken by the Corporation in 2008 and 2009.

The sylvinite and carnallite mineralization identified from drill hole data is present in all three of the Members. As the rate of dip for the potash bearing bed is minimal, the sample/core length as measured in the core is the true thickness of the mineralized bed.

Patience Lake Member: The top of the Patience Lake Member is placed at the top of the uppermost sylvinite bed at 934.83 m depth. The lower contact is at the base of the lowermost sylvinite bed at 942.83 m depth for drill hole DH20. This contact separates the Patience Lake Member from the underlying Belle Plaine Member and is referred to as the inter-bed salt.

The Patience Lake Member mineralized interval from the four holes considered in the Preliminary Assessment is as follows:

Patience Lake Member Statistics				
Hole ID/Year Drilled		Top (m)	Base (m)	Thickness (m)
Dominion Kandahar - 1952	(DH10)	998.31	1,007.97	9.66
Mobil Wynyard ⁽¹⁾ - 1967	(DH11)	929.57	939.47	9.90
The Corporation Wynyard - 2009	(DH20)	934.83	942.83	8.00
The Corporation Wynyard - 2009	(DH21)	921.33	927.43	<u>6.10</u>
Average				8.41

Note:

- (1) This drill hole has an upper Patience Lake sylvinitic Member from 925.61 m to 929.57 m as well.

Belle Plaine Member: The top of the Belle Plaine Member is defined as the top of the uppermost carnallite bed at 951.43 m depth, and the lower boundary is defined as the base of the lowermost carnallite bed that underlies the carnallite to halite transitional zone at 966.40 m depth for DH20.

The Belle Plaine Member interval from the four holes considered in the Preliminary Assessment are as follows:

Belle Plaine Member Statistics				
Hole ID/Year Drilled		Top (m)	Base (m)	Thickness (m)
Dominion Kandahar - 1952	(DH10)	1010.93	1,027.27	16.34
Mobil Wynyard - 1967	(DH11)	945.93	963.50	17.57
The Corporation Wynyard - 2009	(DH20)	951.43	966.40	14.97
The Corporation Wynyard - 2009	(DH21)	936.28	951.80	<u>15.52</u>
Average				16.10

Esterhazy Member: The top of the Esterhazy Member is defined as the top of a locally variable, but regionally persistent, clay zone that usually immediately overlies the first sylvinitic and/or carnallite bed of the Esterhazy Member at 994.48 m depth for DH20. The lower boundary is placed at the base of a consistent clay marker-bed that immediately underlies the sylvinitic / carnallite to halite transition at 1016.1 m depth.

The Esterhazy Member interval from the four holes considered in the Preliminary Assessment are as follows:

Esterhazy Member Statistics				
Hole ID/Year Drilled		Top (m)	Base (m)	Thickness(m) ⁽¹⁾
Dominion Kandahar - 1952	(DH10)	1052.86	1,069.76	16.90
Mobil Wynyard - 1967	(DH11)	989.32	1006.10	16.78
The Corporation Wynyard - 2009	(DH20)	994.48	1016.13	21.65
The Corporation Wynyard - 2009	(DH21)	980.57	997.26	<u>16.69</u>
Average				18.00

Following is the total thickness range for the Members from top of the Patience Lake Member mineralized zone to the bottom of the Esterhazy Member:

Top of Patience Lake Member to Base of Esterhazy Member Statistics				
Hole ID/Year Drilled		Top (m)	Base (m)	Thickness(m)
Dominion Kandahar - 1952	(DH10)	998.31	1,069.76	71.45
Mobil Wynyard - 1967	(DH11)	925.61	1006.1	80.49
The Corporation Wynyard - 2009	(DH20)	934.83	1016.13	81.30
The Corporation Wynyard - 2009	(DH21)	921.33	997.26	75.93
Average				77.30

It is interpreted that the sylvinitic and carnallitic mineralization may extend in horizontal directions from these four holes shown with radius of influence; however, the limit of the mineralization in the vertical direction has been established by drilling.

Deposit Description

The potassium mineralization, in the form of sylvite-bearing sylvinitic rock, and magnesium mineralization, in the form of carnallite-bearing carnallitic rock, underlies substantially all of the Karnalyte Property except where dissolution and collapse anomalies have modified and/or removed the evaporite rock. Such structures are least common in the western half of the Karnalyte Property but are present in the eastern half, as shown by historical 2D seismic interpretations.

Deposit Mineralogy

The potash-bearing sylvinitic rock is mineralogically simple and consists of a mechanical mixture of sylvite and halite, with minor amounts of carnallite and insolubles such as clay, dolomite, and anhydrite. The magnesium- and potassium-bearing carnallitic rock is also mineralogically simple and consists of a mechanical mixture of carnallite, sylvite and halite, with minor amounts of insolubles such as clay, dolomite, and anhydrite.

Exploration

In 2008, the Corporation undertook a 3D seismic program covering some 34.5 km² immediately to the east of the DH11 drill hole. The information from this survey was utilized to determine drill hole locations and identify any major subsurface anomalies. Following this 3D survey, the Corporation drilled two cored holes and one water-test well in September to October 2009. In 2009, a second 3D seismic program was undertaken to the south and east of the 2008 program. This program covered 106 km² (41 mi²).

A search of historical assessment files held by Saskatchewan Ministry was made in order to find any potash mineral resource information that may have been filed. The search found historical information including chemical assay data from drill-core analysis.

Drilling

From September to October 2009, the Corporation completed a three-hole exploration drilling program in the northwestern portion of the Karnalyte Property. Crusader Drilling Corp., a Saskatchewan based drilling company, was contracted to complete the program utilizing oil-field drilling equipment capable of drilling to depths beyond that of the Prairie Evaporite Formation. Two of the holes (DH20) and (DH21), were cored in the Prairie Evaporite, and the third, 2-16, was a water source test hole.

The two cored holes drilled in 2009 were primarily designed to evaluate the carnallite mineral potential, and secondarily, the potash mineral potential, of the Prairie Evaporite Formation. All holes were vertical, penetrated the potash-mineralized members of the Prairie Evaporite Formation and were cored through the potash-bearing zones. The various parameters of the coring program are summarized in the table below.

Two historic drill holes (DH10 and DH11) on the Karnalyte Property penetrated the Prairie Evaporite Formation. Both of the drill holes were cored and logged with borehole geophysical probes. Copies of the borehole surveys and the cores from the Members of the Prairie Evaporite Formation intersected in these drill holes have been retained by Saskatchewan Ministry for use by the public and are stored at the Geodata Branch in Regina, Saskatchewan.

Summary of Cored Drill Holes on Permit KP 360

Hole Number	Start of Coring (m)	End of Coring (m)	Total Meters Cored	Formations Cored	Total Depth (m)
Dominion Kandahar (DH10) ⁽¹⁾	952.4	988.7	36.3	Dawson Bay, Prairie Evaporite	1075.3
	989.0	1074.4	85.4		
Mobil Wynyard (DH11)	920.4	1017.1	96.7	Dawson Bay, Prairie Evaporite	1019.2
The Corporation Wynyard (DH 20) (2009)	933.0	1038.5	105.5	Dawson Bay, Prairie Evaporite	1038.55
The Corporation Wynyard (CH 21) (2009)	911.0	1034.4	123.4	Dawson Bay, Prairie Evaporite	1047.6

Note:

- (1) Core sample was continuous but a portion was missing between 988.7 and 989 meters.

The objective of the drilling program was to define the most suitable area within the Karnalyte Property boundary for the development of a carnallite / potash solution mine. The core point in DH20 and DH21 was the top of the Second Red Bed Member of the Dawson Bay Formation. A series of continuous cores were taken through the mineralization to a point beneath the lowest carnallite and potash bearing bed. As the rate of dip of the potash-bearing beds is minimal, i.e. they are flat lying and laterally continuous, the sample/core length as measured in core is the true thickness of the mineralized bed. Coring to total depth was successful in all drill holes and recovery through the Prairie Evaporite Formation was excellent, with exception of Core 1 in DH21. Upon completion of wireline logging, DH21 hole has been plugged and abandoned while a cavern brine preparation test was recently completed on DH20.

Sampling and Analysis

Two 2009 cores (DH20 and DH21) and two of the four historical cores from drill holes located near or within the Karnalyte Property (DH10 and DH11) have been inspected. In addition to this historical core data, portions of the core from the Mobil Wynyard (DH11) drill hole were assayed by North Rim during the fall of 2008, and these results were presented in the Preliminary Assessment. DH10 could not be re-assayed as the center section had been destroyed. Apart from the new assay program, none of the historical information can be directly verified at this time, other than to note occurrences of data quality variation that may affect the calculation of mineral resource as well as, potash and carnallite grade and tonnage.

2008 Program

At the request of the Corporation, North Rim undertook a re-sampling and assay project on DH11 in August 2008. The historical assays of the DH11 were not adequate to completely assess the entire mineralized drill-core interval, therefore, a supplementary sampling and assay program was undertaken in August 2008. The intervals for new chemical assay samples were selected to fill in gaps in the historical sampling program. The following procedures were used to the 2008 sample/assay program: (i) drill-core

was measured; (ii) the intervals for new chemical assay samples were selected to fill-in gaps in the historical sampling program; and (iii) samples were selected on the basis of drill-core measurement only. In total, 117 new chemical assay samples were collected: (i) samples for chemical assay were numbered and these numbers were written in permanent marker on the inner sides of the core boxes; (ii) the samples for chemical assay were placed in standard polypropylene sample bags; (iii) samples for chemical assay were bagged and heat sealed to prevent any influx of moisture; and (iv) labels were placed both inside and on the outside of the bag.

A bulk sample of the drill-core was collected for assaying and testing undertaken by the Corporation using the following procedures: (i) samples were selected from both the Patience Lake and Belle Plaine Members and included both sylvinite and carnallite intervals. The material was collected by visually selecting material to be as representative as possible; (ii) a 10.8 kg sample was taken from the Patience Lake (928.7 m - 963.8 m) over 35 m; and (iii) a 6.4 kg sample was taken from the Belle Plaine Member (991.3 m - 1011.1 m) over 20 m.

The bulk samples were sent for assaying and testing. The samples were bagged and labelled as with the assay samples. The bags were vacuum-sealed for transport to ensure the preservation of the carnallite, as moisture can cause carnallite to disintegrate. Further procedures included: (i) bulk samples were labelled with the interval measurement, weight and drill-hole identification; (ii) in both bulk sample and chemical assay samples, labels were placed both inside and on the outside of the bag; and (iii) ADM Consulting of Saskatoon, Saskatchewan was contracted to cut and label the samples for chemical assay. This work was done at the Subsurface Core Laboratory in Regina which employed the following procedures: (i) after cutting and bagging, personnel from ADM Consulting shipped the samples directly to SRCGL in Saskatoon; (ii) upon receipt of the samples a packing slip was sent by SRCGL to North Rim confirming the sample numbers of the samples submitted for analysis; (iii) a North Rim employee signed the sheet/slip confirming that the accuracy of the listed sample list and both parties retained a copy; (iv) SRCGL provided written documentation of the job number indicating that the samples were entered into the processing queue; and (v) upon completion of processing and assay the results of the analysis were compiled into tables and were used to prepare the mineral resource estimate.

2009 Sampling

The 2009 core samples were transported from the drill site to the North Rim core laboratory. Core boxes remained sealed until the sampling process commenced.

The geochemical sampling interval of interest for the two cored drill holes completed during the 2009 exploration program was several meters above the uppermost sylvinite bed of the Patience Lake Member to approximately 15 m below the base of the Belle Plaine Member into the lower salt. The following table summarizes the geochemical sampling intervals in all drill holes from 2009.

Summary of 2009 Geochemical Core Hole Samples

Hole No.	Sampling Interval (m)		Total	No. of Samples	Average Sample Length (m)
	From	To			
DH20	934.0	1024.6	90.6	357	0.24
DH21	920.8	1011.1	90.3	373	0.25
Totals	-----	-----	180.9	730	-----

The core was examined, slabbed, marked for sampling, photographed and cross cut on a box-by-box basis. This facilitated maintaining the integrity of the highly carnallitic core and minimized exposure to the atmosphere. The core box lid was removed and the core lengths were individually unwrapped. Upon selection of the overall sampling interval, the plastic wrapping was removed from the individual core

lengths, then slabbed (i.e., cut in half length-wise), re-wrapped and placed in a waterproof plastic bag labelled with the sample number. Although the entire core half was cut into samples, the remaining half is available for further geological investigations.

The prepared samples were then forwarded to the SRCGL in Saskatoon, Saskatchewan where they were crushed, split and analyzed according to the parameters of the SRC basic potash analysis package. QA/QC measures were strictly adhered to, including the use of standards, blanks and repeats throughout the analyses. The authors of the Preliminary Assessment confirm that these QA/QC measures comply with the industry standards.

Security of Samples for 2009

The following procedures were carried out to ensure the core was under the supervision of responsible personnel while maintaining the integrity of the core. From retrieval of the core at the drill site to shipping of the core to Saskatoon, the core was under constant supervision. Upon arrival at the core laboratory, the Project Geologist, an employee of North Rim and consultant to the Corporation, inspected the shipment and signed the shipment invoice. All samples were selected, cut and packaged under the supervision of the Project Geologist. Samples collected for geochemical assay were wrapped in plastic wrap and secured in plastic bags to ensure they were not exposed to moisture. The sample number was written on the sample in permanent ink, a sample tag was placed inside the bag and the bag was labelled with the sample number. The sample bags were sealed and packed in numbered plastic pails and the pails were labelled with contact information. The samples remained sealed until they were opened for processing at the geochemical laboratory. Samples were then delivered by North Rim staff to the SRCGL in Saskatoon, Saskatchewan, for analysis.

SRCGL received the core samples at the lab and carried out the following sample preparation procedures. SRCGL prepared an in-house sample list and group number for the shipment and individually crushed all samples in the group to 6 mm screen size. Each sample was evenly distributed in the splitter to avoid sample bias. The crusher and splitter equipment between each sample was then cleaned using compressed air. The crushed sample was split and one portion was inserted into the appropriate sample vial. All material that did not get analyzed was resealed in original labelled plastic bags and stored in plastic pails with the appropriate group number marked on the outside of the pail. The reject material was returned to the Corporation after all samples had been analyzed and passed through QA/QC. Vials of material were sent for grinding and visually inspected to ensure fineness of material. The pulverized samples were placed in a tray and sample paperwork was then submitted to the Main Office. Worksheets were created detailing the samples to be analyzed, the type of analyses requested as well as the standards, blanks and split replicates to be completed. Samples and paperwork were then submitted to the Geochemical Laboratory. Samples were analyzed using SRCGL's Basic Potash Package (Soluble Inductively Coupled Plasma, % Insolubles and % Moisture). With each set of 40 samples, 2 potash standards, 1 quartz blank, and 1 sample pulp replicate analysis were completed. After processing the entire group of samples, a split sample replicate was also completed. After receiving all results from SRCGL, the QA/QC department completed checks to ensure accuracy. Upon completion of the assaying and QA/QC procedures, the geochemical results were e-mailed to the North Rim contact list in a password-protected zip file.

The sample preparation and analytical procedures were of the highest quality and were NI 43-101-compliant. SRCGL adheres to strict QA/QC procedures during sample preparation and analysis. No aspect of the sample preparation was conducted by an employee, officer, director, or associate of the Corporation or affiliated companies.

Data Verification

The data presented in the Preliminary Assessment from drill holes DH10 and DH11 is historical data and as such, no comment was made by North Rim as to the employment of quality control measures and data verification procedures applied by the initial assayer. Examination of the drill core from two drill holes DH10 and DH11 was made by North Rim. From that examination, North Rim is able to state the following: (i) that the drill cores examined show evidence of analysis as described in the well file reports; (ii) that the drill cores have been preserved in cardboard boxes in the core and sample repository of the Saskatchewan Subsurface Geological Laboratory; and (iii) that measurement of assay intervals and stratigraphic markers present in cores generally correlates well with measurements reported in core assays and depths determined from examination of borehole gamma ray-neutron logs.

As in all historical assays, data quality will vary and this may affect the estimation of the grade and tonnage of mineral resources. Missing assays and/or intervals where no sample was collected or no assay completed will have an impact on the resource estimation.

North Rim is able to provide verification of the Corporation's 2009 exploration program and all associated geochemical data as it was involved in the sampling process and carried out quality control measures to ensure the security and integrity of the core.

Mineral Resource Estimates

To estimate Inferred Mineral Resource, a radius of 6.0 km was used around a cored and assayed drill hole with a cut-off grade of 5% KCl and 10% MgCl₂, excluding Indicated Mineral Resource, and exclusions for known seismic collapse anomalies. The Inferred Mineral Resource was calculated assuming uniform distribution of grade and thickness from the central core hole. Further deductions were made for undetected seismic anomalies (10% in areas with 3D cover and 25% in areas with 2D cover), mining extraction (72.3% for Patience Lake and Belle Plaine Members and 69.4% for Esterhazy Member) and 15% for plant recovery. Combining the extraction ratio and the cavern and transport losses a 27.7% deduction was applied to the upper caverns of the Patience Lake Member and Belle Plaine Member intervals and a 30.6% deduction was applied to the lower caverns of the Esterhazy Member interval. Based on these considerations, the following Inferred Mineral Resource has been estimated from the bottom of the Belle Plaine Member to the top of the Patience Lake Member and for the Esterhazy Member.

Inferred Mineral Resources

	Area (x10⁶m²)	Recoverable mmt	KCl Grade	KCl Mineral Resource mmt	MgCl₂ Grade	MgCl₂ Mineral Resource mmt
Belle Plaine/Patience Lake	82.9	863.2	14.24% ⁽¹⁾	12.03	14.00% ⁽¹⁾	120.8
Esterhazy	91.3	371.7	17.02% ⁽¹⁾	63.3	2.71% ⁽¹⁾	10.1
Total Inferred	174.2	1,234.9	13% - 19% ⁽²⁾	186.3	3% - 15% ⁽²⁾	130.9

Notes:

- (1) Indicates average grade.
- (2) Indicates grade range.

To estimate the Indicated Mineral Resources, a radius of 2.2 km was used around cored and recently assayed drill holes with carnallite, in the area where 3D seismic allowed definition of "Carnallite probability" and 1.6 km around other cored and recently assayed drill holes with a cut-off grade of 5% KCl and 10% MgCl₂. As the cores of DH10 could not be resampled and assayed, there are no Indicated Mineral Resources for this drill hole. Applying the same exclusions and deductions as described for the

Inferred Mineral Resources, the following Indicated carnallite Mineral Resources have been estimated from the bottom of the Belle Plaine Member to the top of the Patience Lake Member and for the Esterhazy Member.

Indicated Mineral Resources

	Area ($\times 10^6 \text{ m}^2$)	Recoverable mmt	KCl Grade	KCl Mineral Resource mmt	MgCl ₂ Grade	MgCl ₂ Mineral Resource mmt
Belle Plaine/Patience Lake	25.6	327.3	13.23% ⁽¹⁾	43.3	14.62% ⁽¹⁾	47.9
Esterhazy	17.3	80.5	16.03% ⁽¹⁾	12.9	2.87% ⁽¹⁾	2.3
Total Indicated	42.9	407.8	13% – 17% ⁽²⁾	56.2	3% - 15% ⁽²⁾	50.2

Notes:

- (1) Indicates average grade.
(2) Indicates grade range.

The effective date for both the Inferred and Indicated Mineral Resource estimates is August 16, 2010.

Preliminary Assessment

The Preliminary Assessment details the proposed mining method to be used by the Corporation and the design of a brine field adequate for the production of an amount of brine that will be sufficient for a production of 500,000 tonnes of KCl product. While the 500,000 tonne per year operation is the base case for the initial mine plan, the Preliminary Assessment also contemplates the economics surrounding a ramp up in production to 2 million tonnes per year of KCl. The economic information surrounding a 2 million tonne per year operation is based on multiplication of the cost estimates for the 500,000 tonne per year operation and not based on actual design work. The economic evaluation in the Preliminary Assessment does not include Inferred Mineral Resources.

Summary of Solution Mining Method and Brine Field Design

The Corporation proposes to extract both sylvite and carnallite minerals as sources of potassium and magnesium from deposits of sylvinitic and carnallitic rock found on the Wynyard Carnallite Project, using solution mining methods from the Members. This process forms a "pregnant" brine solution consisting of the magnesium, potassium chloride soluble salts and NaCl, that would subsequently be processed in a surface plant to initially recover the potassium chloride from the brine, then to further refine the magnesium chloride brine by treatment with calcium oxide (CaO) to produce magnesium hydroxide (Mg(OH)₂). The magnesium hydroxide is utilized as a feedstock to create magnesium oxide (MgO).

In order to extract both sylvite and carnallite mineral the solution mining concept is based on hot leaching in dual well caverns that are developed consecutively in the two different solution mining horizons, with use of an oil blanket. A brine field of 21 active production caverns with four to five new caverns developed each year will be necessary to meet the processing plant requirements for a 500,000 tonnes per year plant.

The initial brine field will consist of two drilling/production pads with nine caverns and a third pad with three caverns. The wells to these caverns will be connected to a distribution system, consisting of a valve manifold and eight pipelines required to transport different fluids to and from the caverns. These pipelines will be dimensioned to take the maximum possible flow from a pad. The three pad pipeline systems will be connected to the main pipeline system connected to the tank farm and the processing

plant. When all the caverns connected to the first pad are mined out, the brine field will be extended and the pipeline system will be extended from the first pad to the next pad.

Mineral Processing

The processing starts with the production brines coming from the brine field to the solution preparation area, where possible insolubles suspended in the brines are settled and removed as an insoluble cake and stored in a holding cell. After this stage the brines are mixed and kept in storage tanks to ensure continuous feed to the evaporation circuit.

In the evaporation circuit, the preparatory brine solution is mixed with recycled processing brines and concentrated in three effect evaporators where the solution is heated, water is evaporated and the steam thus generated is used to heat the incoming streams. The condensate is recycled and reused as warm solvent for the brine field. The mixed NaCl/KCl solid slurry precipitated from the evaporators is dewatered. The solid is discharged to the low MgCl_2 feed repulp tank. During normal operation, wash water is added in solid-liquid separation to reduce MgCl_2 content in the solid cake and to control the amount of magnesium chloride to enter the low MgCl_2 crystallization circuit. The high MgCl_2 liquid is slightly diluted before disposal by deepwell injection.

In the low MgCl_2 feed preparation circuit, the mixed NaCl/KCl solid from solid-liquid separation by evaporation is dissolved by the hot leach recycle brine. The NaCl slurry is debrined and dissolved in water for disposal by deep well injection and/or undissolved NaCl and insolubles are slurried and disposed into the mined out caverns. The KCl rich liquid is sent to the low MgCl_2 crystallizers.

The KCl rich feed solution for the low MgCl_2 crystallization enters a three stage crystallizer where the solution is cooled down, KCl is precipitated and water is evaporated. The remaining brine is re-heated and delivered to the low MgCl_2 feed repulp tank to be reused as dissolution medium. Part of the solution is forwarded to the evaporators to bleed off the MgCl_2 and water accumulated in the circuit and to recover the KCl.

The KCl slurry from third stage crystallizer is sent to the solid-liquid separation. The liquid is forwarded to the solution transfer tank and then also heated in the plate heat exchanger to reuse for dissolution of KCl/NaCl mixed solid. The KCl solid is delivered to the drying and compaction area from the solid-liquid separation. In the drying and compaction circuit, the KCl solid from the low MgCl_2 crystallization is dried and further treated to obtain 38.0 tonnes hourly of agricultural product and 36.6 tonnes of high quality industrial grade product hourly. The products are bagged, stored and loaded on trucks or train as required by the client.

Cost Estimations

The figures below are estimates of the costs for both a 500,000 tonne per year and a 2 million tonne per year operation. The 2 million tonne operation cost estimates were generally arrived at by applying multiplication factors to the cost estimates for the initial 500,000 tonne per year potash operation. The cost estimates are set out in the table below.

Cost Estimates for 500,000 and 2 Million Tonne Per Year Operation (\$ millions)

	500,000 Tonne Per Year Operation	2 Million Tonne Per Year Operation⁽¹⁾
Brine Processing Plant	\$174.4	\$632.7
Brine Field costs	73.1	258.6
Brine Disposal and Process Water	11.0	38.4

Indirect Costs	54.9	165.4
External Infrastructure	39.9	104.5
Other	55.6	307.8
Total CAPEX	<u>\$408.9</u>	<u>\$1,507.4</u>
Estimated Operating Expenditures (Per annum)	\$76.9	\$294.3
Estimated Operating Expenditures (\$/tonne)	\$153.7	\$147.1
Confidence (Conceptual Estimate)	±35%	±50%

Note:

(1) Based on specific multiplication factors (weighted average factor of 3.69).

Source: Preliminary Assessment

The financial model using the estimated capital expenditures and operational expenditures provides favourable results. The following table summarizes the NPV and IRR for both a 500,000 tonne per year and a 2 million tonne per year operation.

Preliminary Economic Evaluation for 500,000 and 2 Million Tonne Per Year Operation

	500,000 Tonne Per Year Operation⁽¹⁾	2 Million Tonne Per Year Operation⁽¹⁾
Mine Production (million tonnes)	14.8	47.6
Discount Rate	11%	11%
Assumed Inflation	2%	2%
NPV (after tax, \$ millions)	\$295.3	\$1,766.8
IRR (after tax)	21%	34%

Note:

(1) Based on a potash price of \$460 tonne potash FOB Vancouver.

Source: Preliminary Assessment

The sensitivity of the project to capital expenditures and operational expenditures increases or product price and production decreases was tested on the 500,000 tonne per year operation.

By changing the boundary conditions, the sensitivity of the project to capital expenditures and operational expenditures increases or product price and production decreases was tested. These figures are all based on a maximum operation of 500,000 tonnes per year and would change upon ramping up production to 2 million tonnes per year.

**Sensitivity of IRR and NPV After Tax of a 500,000 Tonne Per Year Operation (Discount Rate Fixed at 11%)
to Changes in Boundary Conditions**

	NPV (\$ Millions)	IRR (in %)
Base DCFM ⁽¹⁾	295.3	21
10% Decrease in Product Prices	80.7	14
20% Increase in OPEX	172.7	17
20% Increase in CAPEX	204.1	17
5% Decrease in Sales Volume (Planned Production)	200.0	18

Note:

(1) DCFM means the discounted cash flow model for Karnalyte.

Source: Preliminary Assessment

The above sensitivity analysis is based on the brine concentrations as defined in the Preliminary Assessment. If the production brine concentrations are higher than currently anticipated, potash production would be higher than expected with the total capital expenditures and per tonne operational expenditures remaining in the same range as currently estimated. If the production brine concentrations are, however, lower than currently anticipated, the production output would decrease while capital expenditures and operational expenditures remain in the currently estimated height. This second scenario was considered in the sensitivity analysis by including a case of 5% lower production output.

Marketing Plan

The Corporation plans to initially sell its product to North American customers focusing on the agricultural and industrial markets. The Corporation is in the pre-development stage and therefore does not have any contracts currently in place for the sale of potash.

Preliminary Project Implementation and Production Ramp-Up Schedule

Time critical for implementation of the project is the time required for the drilling and preparation of the 42 initial wells of the brine field, which depending on the number of drill rigs used, is expected to take between 24 and 30 months. This work is planned to be done concurrently with the start of construction subsequent to the receipt of satisfactory result of the feasibility study and the completion of an additional financing. With the start of brine production from the brine field, potash production is expected to gradually ramp-up from zero tonnes to full production of 500,000 tonnes per year over a period of approximately ten months. The investment schedule for the project is tightly constrained by the plant ramp up of the operation.

The major time constraint on the production ramp up for a 2 million tonne per year operation is the drilling of the cavern wells on the drilling pad and preparing the caverns for production, which is estimated to take up to 21 months. A fast production ramp up can only be achieved when drilling and preparation of the required caverns is completed before the 500,000 tonne per year full production is reached. The Corporation will evaluate the extra capacity to install gas and electrical system for a 2 million tonne per year facility based on the feasibility study. Note that the capital expenditures and operational expenditures for the 2 million tonne per year operation provide an order of magnitude number of ($\pm 50\%$) given that the multiplication factors used are estimates and not based on actual field work.

Estimated Annual Direct, Indirect and Total Production Costs and the Estimated Costs per Tonne of Product for a 2 Million Tonne Per Year Operation

Year	Annual Costs for a 500,000 TPY Operation (\$'000s)	Annual Additional Costs for a Capacity Increase to 2.0 TPY Operation (\$'000s)	Total Annual Costs (\$'000s)
0	10,500 ⁽¹⁾	-	10,500
1	94,326	18,690	113,016
2	235,320	62,153	297,473
3	68,751	34,412	103,163
4	-	174,781	174,781
5	-	218,196	218,196
6	-	275,259	275,259
7	-	270,680	270,680
8	-	44,608	44,608
Total	408,896	1,098,779	1,507,675

Note:

- (1) Up to \$5 million of this amount may be moved from Year 0 to Year 1 depending on timing of the launch of the feasibility study and geological work.

The approximate production ramp up for the investment schedule of the table above are summarized in the table below. Also listed in the table below is the gradual decrease in operating expenditures/tonne of product due to the increased size of the operation.

Based on the detailed investment schedule, the expenditures for the sustainable capital expenditures can be evaluated as described in the Preliminary Assessment with: 4% of direct investment of the brine filed after 5 years; 2% of direct investment of the plant after 5 years; and 1% of direct investment of the disposal and water well infrastructure after 5 years.

**Preliminary Production Ramp-Up Schedule and Estimated Change in
OPEX/tonne with Increasing Production**

Year	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Annual Production ('000s tonnes)	411	588	1,069	1,575	1,931	2,000
OPEX/Tonne	153.39	153.31	151.20	148.99	147.43	147.13

Production, revenues and expenses are all expected to remain constant at Year 8 levels for the remaining years over the life of the mine.

The table below sets out the gradual increase in sustainable CAPEX.

Increase in Sustainable CAPEX

Year	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Expenditure (\$'000s)	14,445	14,904	19,514	25,208	32,748	39,986	41,121	41,121

Environmental Considerations

The surface impact from plant and mining operation is expected to be small for both the 500,000 tonne per year and the 2 million tonne per year operations and it is planned that all waste products from brine processing will be either brought back in the mined out caverns or will be injected into the Deadwood Formation.

Management believes that the Corporation will not be required to post bonding to finance remediation and reclamation. A closure fund was, however, included in the financial model to represent a possible option for financing remediation and reclamation measures. When all caverns from a drilling pad are mined out and have been backfilled, the caverns can be securely sealed and the upper meters of casing can be removed. When the brine field infrastructure is removed, it is expected that the land can be used again for agricultural purposes.

Taxes

The potash production tax system was introduced on January 1, 1990 and is set out in the Potash Production Tax Schedule of *The Mineral Taxation Act* and *The Potash Production Tax Regulations*. Potash production taxes are segregated into the base payment profit tax. The base payment applies to all potash produced from Saskatchewan lands and is based on the number of tonnes of K₂O sold (amount of K₂O is equal to 63% of KCl) multiplied by a base rate per tonne. Tonnes produced from approved new capacity that commences on or after January 1, 2005 are not subject to the base payment for ten years. The profit tax is based on profit per tonnes of K₂O sold. The provisions of the profit tax allows the Corporation to deduct 120% of the initial and expansion CAPEX from the profit figure from which the profit tax is calculated.

Mine Life

The Indicated Mineral Resources are sufficient to support the project at an annual production rate of 500,000 tonnes for over 100 years and at an annual production of 2 million tonnes Indicated Mineral Resources are adequate for a period of 28 years. Furthermore the 3D seismic survey on part of the Permit Area shows that there is a potential to increase the potash resources by further drilling beyond the present area with Indicated Mineral Resources.

Payback Period of Capital

For a 500,000 tonne per year operation, the payback period is seven years and by ramping up to 2 million tonnes per year the payback period would increase to eight years. See "Forward-Looking Statements".

Development Plans

ERCOSPLAN recommends that further investigations are made to reduce operational uncertainties in the estimates surrounding the development of the initial 500,000 tonnes per year and subsequent increase to 2 million tonne operation in two phases:

Phase 1 should provide basic data required for a feasibility study and consists mainly of:

- dissolution test work on core samples of the deposit to better understand the dissolution behaviour of the material and to verify some of the assumptions made in estimating the average production brine composition; and
- rock mechanical test work to provide reliable data for the 3D rock mechanical modeling that is required for detailed cavern dimensioning and estimate of subsidence.

Because these investigations require core material, further cored drill holes must be drilled. The cost for Phase 1 is estimated approximately \$2.7 million. Phase 1 ends with a short report that investigates the economical feasibility of the project based on the concept defined in the Preliminary Assessment, but with an estimated production brine composition and process route based on the results of the investigations.

Phase 2 is conditional upon favourable outcomes from Phase 1 and would be a full scale feasibility study that contemplates the initial construction of a 500,000 tonnes per year facility and includes a ramp up to a 2 million tonnes per year facility within five to six years. The following would be completed as part of the contemplated feasibility study:

- selection of the location and drilling of additional surface drill holes in the area investigated with 3D seismic to increase the confidence level of the resource estimate;
- further geotechnical and solubility testing of drill-core samples;
- completion of the EIS study (some long term environmental investigations required for this study should be started during Phase 1);
- completion of regulatory permitting, and more detailed marketing studies;
- front-end engineering and design work on the surface facility, which can run partly in parallel to investigations of Phase 1;
- laboratory test work on deposit samples to further optimize the solution mining operation;
- detailed design work on cavern and brine field as well as on the brine processing facilities; and
- definition of NI 43-101 Mineral Reserves.

Phase 2 will end with a feasibility study. The costs for Phase 2 are estimated to be between \$15 million to \$17 million depending upon the number of drill holes planned and the amount of engineering analysis required.

Proprietary Protection

The Corporation relies upon various intellectual property rights to maintain proprietary control over its improvements to the industry standard solution mining process and the formulation of the Corporation's anticipated products. The Corporation 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 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 pending patent applications for the following inventions:

Jurisdiction	Patent Number	Filing Date	Proposed Patent Name	Description
Canada Pending	2,638,521	August 1, 2008	Method of selectively dissolving minerals from a carnallite or sylvinitic source	A method for producing high grade potassium chloride from a source of carnallite. The method solubilizes and purifies the carnallite to produce potassium chloride having low levels of contaminants and resistance to hygroscopic behaviour.
Canada and USA Pending	2,638,704 and 12/539,688	August 13, 2008 and August 12, 2009	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 Pending	12/623,636	November 23, 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 magnesium chloride 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 Pending	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.

Competitive Conditions

The Potash Industry

Overview

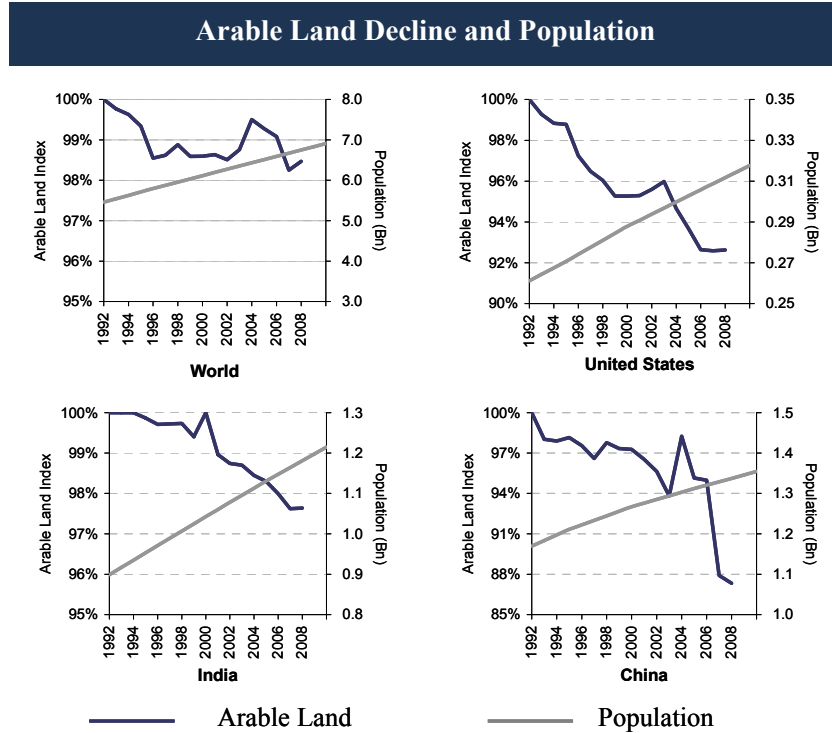
Potash is the common name given to a group of potassium-bearing minerals such as potassium carbonate and various mined and manufactured salts that contain the element potassium. While there are a number of such minerals, only those that are water-soluble are of significant commercial interest. The most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

According to the USGS Mineral Commodity Summaries (January 2010), approximately 93% of world potash production is used for agricultural fertilizer. Plants deficient in potassium are less resistant to pests and disease, and have poor size, shape, colour, taste and shelf life. Most virgin soils contain adequate potassium to allow farmers to produce average crops. The agricultural cycle of growing and harvesting crops depletes the soil of potassium, nitrogen and phosphate, which need to be replenished in consistent ratios if the soil is to remain fertile (hence the historical agricultural practice of leaving land fallow for a number of years in order to replenish itself). Fertilizers replace the nutrients that crops remove from the soil, thereby sustaining or enhancing the yield of crops. Farmers determine the types, quantities and proportions of fertilizer to apply depending on crop, soil, quality, weather conditions, regional farming practices and fertilizer and crop prices. The functions potassium performs cannot be carried out by other nutrients and potash has no commercially viable substitute as a potassium fertilizer source. The remaining potash consumption is made up of the manufacture of potassium bearing chemicals, detergents, ceramics and pharmaceuticals, as well as water conditioner and de-icing salt.

Potash demand depends on the demand for fertilizer, which is based on the total planted acreage, crop mix, fertilizer application rates and farmer economics. Each of these factors is affected by current and projected grain stocks and prices, governmental agricultural policies, improvements in efficiency and fertilizer application and weather. Consumption of potash grew at an average rate of 3% per year from 2002 to 2008.

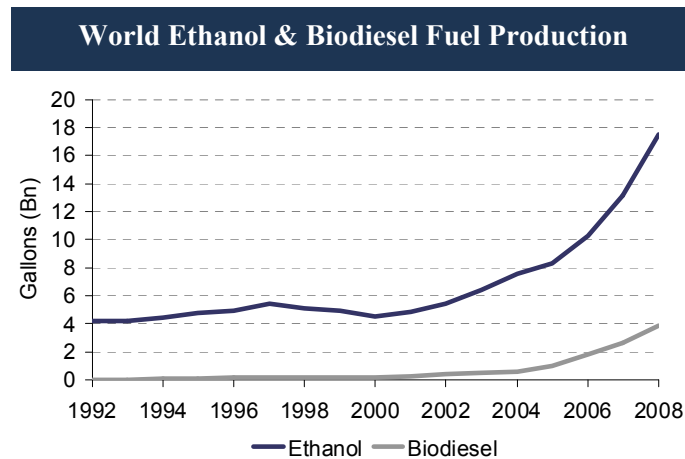
There are a number of factors that have led to the steady increase in fertilizer consumption over the past 50 years and that some industry observers expect to continue, and possibly accelerate, this trend. The root of these factors is the need to produce increasing amounts of food from shrinking amounts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

Global population has been rising in recent years and diet has been improving, while arable land per capita has been decreasing. From 1990 to 2008, arable land per person decreased by an average of approximately 1.4% per year. The decline in arable land per capita is expected to continue, as a result there will be less land per person in the future from which food can potentially be produced. As agricultural yields increase to address the declining arable land per capita, expanded use of potash may be one of the drivers of growth in agriculture production, according to British Sulphur.



Source: United Nations - Food and Agricultural Organization and Population Division

The increasing global demand for fertilizer has also been accelerated by the burgeoning ethanol and biofuel industry. Due to the historically high prices of oil in recent years and the increasing governmental support for clean alternative sources of energy, many countries have put in place energy self-reliance programs with the intent of using ethanol and biofuels to supplement fossil fuels consumption. Global ethanol production is expected by the Food and Agriculture Organization of the United Nations and the Organization for Economic Co-Operation and Development to grow from approximately 74 billion litres in 2009 to approximately 159 billion litres in 2019. The following shows the increase in ethanol and biodiesel production levels since 1980.



Source: Earth Policy Institute

Mining Methods

Potash ore is extracted from two major ore deposit types:

1. Deeply buried marine evaporite deposits that typically range from 400 metres to greater than 1,000 metres below the surface such as those typically found in Canada and Russia. Most potash is sourced from buried deposits using conventional mechanized underground mining methods, although solution mining methods also are employed. The land area affected is typically confined to the immediate area of the shaft, plant and waste disposal but may be up to several square kilometres. The Karnalyte Property falls into this category.
2. Surface brine deposits are associated with saline water bodies such as the Dead Sea in the Middle East and the Great Salt Lake in the US. These types of ore deposits are exploited using solar evaporation ponds to concentrate and precipitate the potash. The evaporation ponds are extensive, with some operations covering in excess of 90 square kilometres of land area.

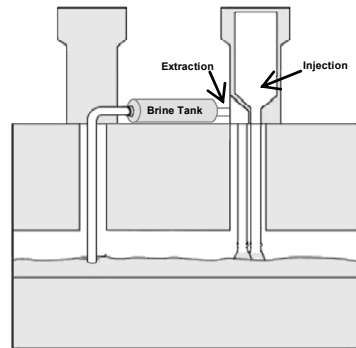
A conventional mechanized underground mining operation is the most widely used method for the extraction of potash ore. A variety of mining techniques and equipment may be employed depending on factors such as ore body depth, geometry, thickness and consistency, the geological and geotechnical conditions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

An alternative mining method, is solution mining. The principle of solution mining involves drilling large-diameter boreholes to the bottom of the lowest mineralized layer. Heated water is then introduced into the well. A small volume of oil is injected to control upward vertical dissolution and the layers of rock salt assist in creating a connection between two wells to form a dual well cavern as well as lateral dissolution of the highly soluble carnallite salt layer. Once a diameter of approximately 100 metres is achieved, the leaching tubes are retracted or perforated thereby developing a working solution mining cavern.

Mining Method Illustrative Comparison

Solution Mining

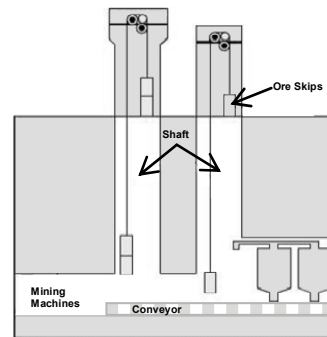
- **Extraction Summary:** Heated brine (salt and water solution) is injected into the mine and salt from the walls
- **Deposit Features:** Deeper deposits / irregular shaped
- **Mine Depth:** Up to ~3,000 metres
- **Typical Mining Method:** Salt dissolution and brine pumping (solution is brought to the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



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

Conventional Mining

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



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

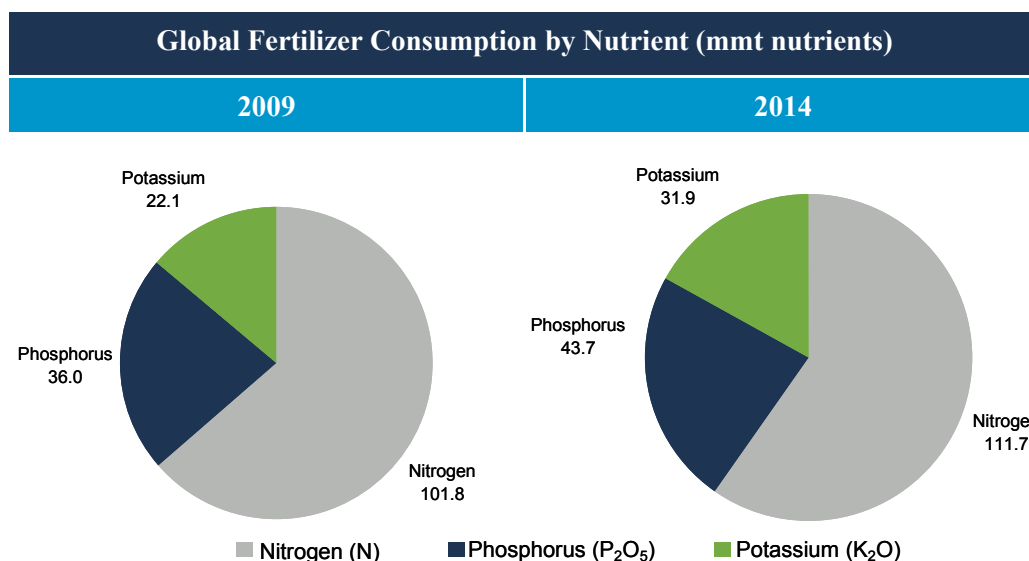
Source: Equity Research

Potash in Saskatchewan

Over one-third of annual global potash production capacity is located in Canada, making it the leading world producer. In 2010, 11 potash mines and processing plants operated in Canada, 10 in Saskatchewan and one in New Brunswick. Significant Canadian potash producers are, in descending order of capacity, PCS, Mosaic and Agrium. The first conventional mine started production in 1962, and in 1964, the first solution mine was started near Belle Plaine. By 1971, all ten existing mines in Saskatchewan were in operation. Canada controls approximately half of the world's Mineral Reserves of potash. All necessary potash mining infrastructure is currently available in Saskatchewan due to the operation of a large number of potash mines.

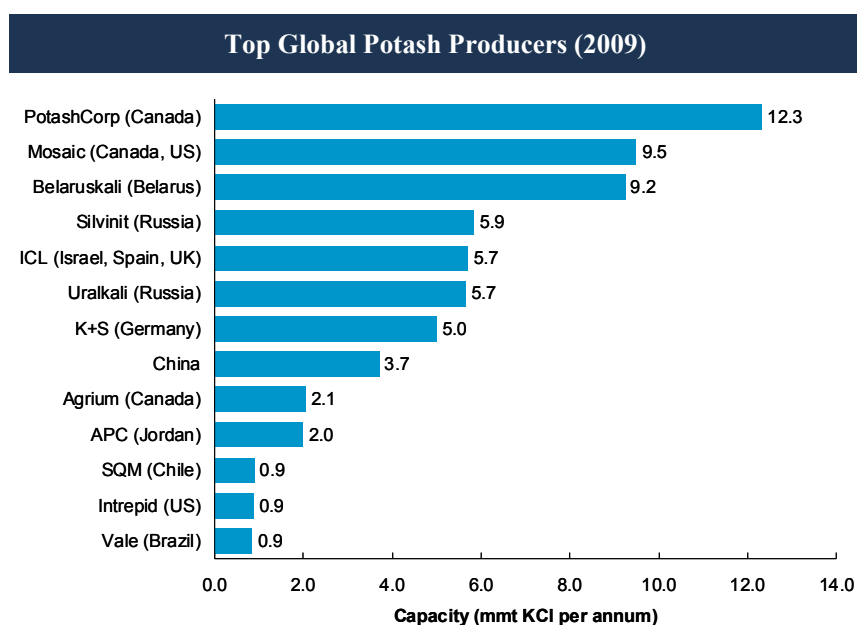
Potash Supply Environment

In 2009, potash fertilizers comprised approximately 14% of global fertilizer consumption. This percentage is expected to grow over the next five years, as shown in the following chart:



Source: IFA

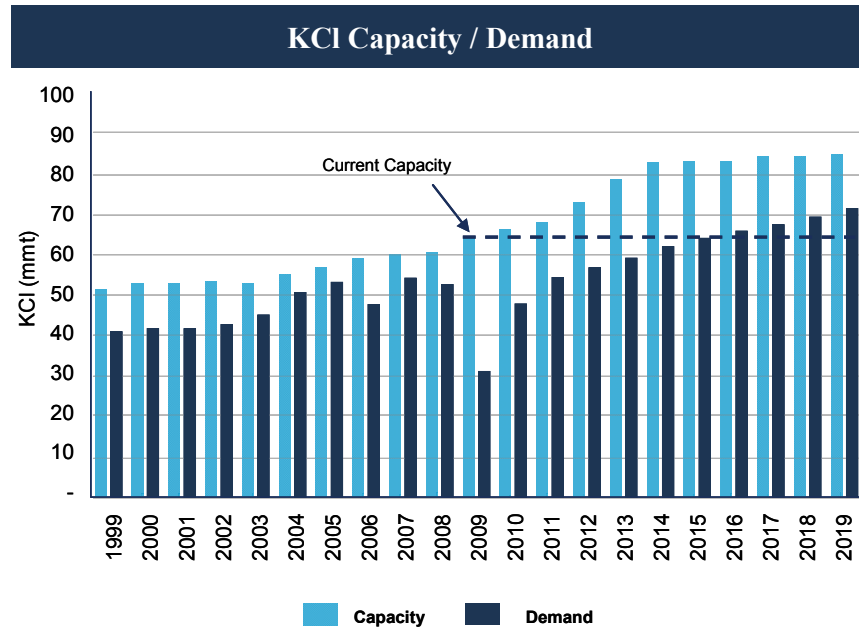
According to the IFA, global potash production in 2008 was concentrated in three regions: North America (34%), Eastern Europe and Central Asia (34%) and Western Europe (13%), which collectively accounted for 81% of global potash production. Global potash production is predominantly generated by nine companies, with major production plants in 5 regions. The leading global providers of potash are shown in the following chart:



Source: British Sulphur

As a result of rising potash prices, many existing potash producers are adding new capacity through the expansion of mines and processing facilities.

Global Expected Potash Demand and Capacity Additions



Source: British Sulphur

Potash Price Environment

Potash prices refer to the delivered cost of potash and are usually negotiated between suppliers and consumers based on delivery contracts. Sales contracts often vary in terms from geographic market to geographic market, and may be structured as large sales contracts with fixed prices, contracts negotiated on a monthly or annual basis with terms conditional on minimum orders for the year, and ad hoc "spot" purchases.

Management of the Corporation understands that premium grades of potash include coarse and granular material in which the particle sizes are larger (1 - 4 mm), and soluble industrial products that are generally purer than 98% KCl. In international markets, granular and coarse potash are generally priced at a premium. Rising demand led to sharp price increases in almost all international potash markets from 2007 to 2009, and management expects prices to rise moderately in the future.

Employees

As at December 31, 2010, Karnalyte had a total of 15 full-time employees. In addition, as at December 31, 2010, Karnalyte employed the services of two consultants.

RISK FACTORS

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

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

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

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

Estimates of Mineral Resources are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and technical report studies. This information is used to calculate estimates of the capital costs, operating costs other financial parameters based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the Mineral Resource, expected recovery rates, comparable facility and equipment operating costs anticipated climatic conditions and other factors. As a result, it is possible that the actual capital cost, operating costs, other economic parameters and economic returns of any proposed mine may differ from those estimated and such differences could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There can be no assurance that the Corporation will be able to complete development of the Wynyard Carnallite Project or other any potash development project on time, on budget or at all due to, among other things, and in addition to those factors described above, a decline in potash prices, changes in the economics of the Wynyard Carnallite Project; delays in receiving required consents including obtaining EIS approval, permits and licenses; the delivery and installation of plant and equipment; cost overruns; governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of commodities and environmental protection; or that the Corporation's personnel, systems, procedures and controls will be adequate to support operations. Should any of these events occur, it would have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

The Corporation may not successfully execute its project plans

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

productivity of skilled labour, and the regulation of the mining industry by various levels of government and governmental agencies.

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

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

The Corporation will need additional financing 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 is expected to be obtained by issuing Common Shares from treasury, and as a result control of the Corporation may change and purchasers to this Offering may suffer additional dilution.

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

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

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

The Corporation has no proven or probable mineral reserves

Currently, the Corporation does not have any Proven or Probable Mineral Reserves. No assurance can be given that potash or magnesium mineralization will be discovered in sufficient quantities to justify commercial operations or that the funds required for exploration and development can be obtained on a timely basis. Whether a potash deposit will become a Proven or Probable Mineral Reserve and commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit such as size, grade, geological formation and proximity to infrastructure; potash prices, (which are highly cyclical); government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, permitting; and environmental protection. If the Corporation is unable to upgrade the Karnalyte Property's Inferred Mineral Resources and Indicated Mineral Resources to Mineral Reserves in sufficient quantities to justify preparation of a feasibility study or commercial operations, it could be unable to develop a mine on the Karnalyte Property and its business, financial condition and results of operations would be adversely affected.

Estimates of Mineral Resources are uncertain

The figures for Mineral Resources contained in this prospectus are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that Mineral Resources could be mined or processed profitably. Such estimation is a subjective process, and the accuracy of any Mineral Resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. However, such figures are estimates, and no assurance can be given that the indicated level of Mineral Resources will be produced. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. There are numerous uncertainties inherent in estimating Mineral Resources, including many factors beyond the Corporation's control. Fluctuations in the price of potash or by-products may render Mineral Resources containing lower grades of mineralization uneconomic. Market price fluctuations of potash may render the present Mineral Resources unprofitable for periods of time.

Fluctuation in potash prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. Any material reductions in estimates of Mineral Resources, or of the Corporation's ability to extract these Mineral Resources, could have a material adverse effect on the Corporation's operations and financial condition.

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.

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

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

The Corporation depends on a single property and any adverse change to that property would materially impact the Corporation

The Corporation's primary asset is a 100% interest in the Permit KP 360A, the Lease and the Wynyard Carnallite Project. Any material adverse development affecting the progress of this property will have a material adverse effect on the Corporation's business, financial performance, results of operations and prospects.

Solution mining of carnallite deposits has not been proven

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

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

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

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

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or the more stringent implementation thereof, could have a material adverse 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.

The Corporation does not have the necessary permits to commercially develop the Mineral Resources on the Karnalyte Property

To date, the Corporation has obtained one permit to explore for potash and certain other minerals and there is no assurance that any additional permits will be issued. Although Permit KP 360A allows for certain exploration activities to be conducted within the Permit Area, it does not allow for the development of any Mineral Resources. In order to commercially develop the resources found within the Permit Area, the Corporation must apply for and obtain a lease which will allow for the development of the Mineral Resources. The Lease granted by the Saskatchewan Ministry converted approximately 15,680 acres of the original Permit Area to a lease. Any additional lease to commercially exploit Mineral Resources will only be granted if the underlying permit is in good standing. There is no assurance that a lease will be granted by the Government of Saskatchewan for the remaining Permit Area.

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 and take certain actions in order to keep Permit KP 360 in good standing. If the Corporation defaults with respect to making payments or completing assessment work as required, the Corporation may lose its rights to Permit KP 360A.

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

The Corporation's success will depend in large measure on the performance of its management and other key personnel. The loss of the services of any of such persons could have a material adverse affect 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. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the mining industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

The Corporation 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 conditions and result of operations.

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

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

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 securityholders.

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.

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.

Environmental regulations may impact the development and operation of the Wynyard Carnallite Project and increase the Corporation's costs

All phases of the Corporation's operations are subject to environmental regulation. Environmental legislation is becoming more strict, 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.

Satisfactory completion of the EIS is required for the development of the Wynyard Carnallite Project. No assurances can be given as to the timing of the Government of Saskatchewan's acceptance of the EIS or the Corporation's ability to satisfy the comments provided by the government to date. The Corporation plans to engage an experienced third party firm to revise the EIS based on the Government of Saskatchewan's comments and provide further updating to the document as the Corporation moves through the feasibility study and detailed engineering stages of development.

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.

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

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

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

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

risks or such liabilities may have a material adverse effect on the Corporation's financial position and prospects.

The cyclical nature of the potash markets may adversely affect the Corporation's financial position

The market for potash tends to move in cycles. Periods of high demand, increasing profits and high capacity utilization lead to additional capacity through expansion of existing mines and investment in new mines which results in increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilization until the cycle repeats. This cyclicity in prices can result in supply/demand imbalances and pressures on potash prices and profit margins which may impact Karnalyte's financial results and price for the Common Share. The potash industry is dependent on conditions in the economy generally and the agriculture sector, both in North America and offshore. The agricultural sector can be affected by adverse weather conditions, cost of inputs, commodity prices, animal diseases, the availability of government support programs and other uncertainties that may affect sales of fertilizer products.

Competition in the mining industry may adversely affect the Corporation

The potash mining industry is intensely competitive. The Corporation competes with other mining companies, most of which have greater resources and experience. Competition in the potash 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. Many competitors not only explore for and mine potash, but conduct refining and marketing operations on a worldwide basis. Such competition may result in the Corporation being unable to acquire desired properties, to develop and integrate new technologies, to recruit or retain qualified employees 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 exporting and marketing its potash to foreign and domestic markets. Any inability to compete with established competitors for markets and in implementing advanced technologies would have a material adverse effect on the Corporation's business and results from operations.

Currency fluctuations may adversely impact the financial position of the Corporation

In the event that Karnalyte successfully develops its potash deposit into an operating mine, Karnalyte may sell some or all of its potash to the US, and other foreign markets. Net income from sales into the US and other foreign markets may be denominated in United States dollars, and resulting fluctuations in the currency exchange rate between the Canadian dollar and the US dollar may have an impact on the Canadian dollar amount of net income realized from future potential sales to foreign markets.

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

Global financial conditions have been subject to significant volatility in recent years. Numerous financial institutions have declared bankruptcy and others have received capital bail-outs or other relief from government authorities. Access to financing has been negatively impacted by both sub-prime mortgages in the United States and elsewhere and the liquidity crisis resulting from the asset-backed commercial paper market. As a result of these global conditions, the Corporation is subject to increased counterparty risk and liquidity risk. In the event that a counterparty fails to complete its obligations, the Corporation would bear the risk of loss of the amount expected to be received under these financial instruments in the event of the default or bankruptcy of a counterparty.

Weather patterns may affect future demand

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

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
2010				
December ⁽¹⁾	8.02	8.63	7.07	1,908,138
2011				
January	9.94	13.00	8.20	2,313,011
February	10.60	11.80	9.25	1,169,793
March 1 to 7	12.74	13.45	11.50	563,592

Note:

(1) Pursuant to the IPO, the Common Shares commenced trading on the TSX on December 14, 2010.

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, 2010, the Corporation's directors and executive officers as a group beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 4,842,640 of the issued and outstanding Common Shares representing 23.5% of the outstanding Common Shares. None of the directors nor the 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
Robin L. Phinney ⁽¹⁾ Okotoks, Alberta	President, Chief Executive Officer and a Director since November 16, 2007	President and Chief Executive Officer of the Corporation since November 2007. Prior thereto co-founder and Vice President of Engineering with Whitemud Resources Inc. from 2003 to 2007.	3,944,400
Ronald Love Calgary, Alberta	Vice-President, Finance, Chief Financial Officer since May 1, 2010 and Director since February 4, 2010	Vice-President, Finance, and Chief Financial Officer of the Corporation since May 1, 2010. Prior thereto, Vice-President Finance, Administration and Treasury, with The Churchill Corporation from November 2009 to April 2010. Prior thereto, Chief Financial Officer and Vice President Finance of Whitemud Resources Inc. from 2006 to 2009. Prior thereto, Vice President and Controller of Altalink L.P. from 2004 to 2006.	Nil
Bruce Townsend ⁽²⁾ 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.	110,580
Paul Sharpe Stittsville, Ontario	Director since March 31, 2008	Partner with Perley-Robertson, Hill & McDougall LLP since September 2010. Prior thereto, Senior Patent Agent and Partner with Blake, Cassels & Graydon LLP from May 2008 to August 2010. Prior thereto, a Partner with Ogilvy Renault LLP from 2002 to 2008.	100,580

Ian Brown ⁽¹⁾⁽²⁾ Calgary, Alberta	Director since April 9, 2010	Independent businessman and corporate director since January 2006. Prior thereto, Mr Brown was a Senior Managing Director of Raymond James Ltd. from 1995 to 2005.	27,000
Mark Wayne ⁽¹⁾⁽²⁾ Calgary, Alberta	Director since April 28, 2010	Vice President of MGI Securities Inc. since January 2005, Chief Financial Officer of Antares Minerals Inc. from 2004 to December 2010, and Chief Financial Officer of Regulus Resources Inc. from January 2011 to present. Prior thereto, co-founder and Chief Executive Officer of Lightyear Capital Inc. from 2001 to 2004, and Chief Financial Officer of QGX Ltd. from 1996 to 2006.	25,000
Julius Brinkman Calgary, Alberta	Vice-President, Corporate Development since March 10, 2010	Vice President, Corporate Development of the Corporation since March 2010. Prior thereto Vice President, Investment Advisor for BMO Nesbitt Burns from December 2007 to March 2010. Prior thereto Vice President, Investment Advisor for National Bank Financial from January 2002 to November 2007.	55,000 ⁽⁴⁾⁽⁵⁾
Siu Ma Edmonton, Alberta	Vice-President, Engineering, Research and Development since July 1, 2010	Vice President Engineering, R&D of the Corporation since July 1 2010. Prior thereto, Senior Associate Process Engineer from 2004 to June 2010 with Syncrude. Prior thereto, Senior Process Engineer for Dynatec Corporation, 1996 to 2004.	139,580 ⁽⁷⁾
Robert T. Macgillivray Nanton, Alberta	Vice-President, Marketing of the Corporation since June 11, 2009	Consultant and Vice-President Marketing of the Corporation since 2007. Prior thereto, the CEO of Hub Commodities from 1995 to 2007.	165,000 ⁽⁶⁾
Henry Kerkhoven Okotoks, Alberta	Vice-President, Administration since June 4, 2010	Vice President Administration of the Corporation since June 11, 2010. Prior thereto, Chief Financial Officer of the Corporation from March 31, 2008 to April 30, 2010. Prior thereto, Chief Executive Officer and Chief Financial Officer of K-I-T-Solutions Inc. from 2003 to 2008. Prior thereto, as Project Management Leader with Fujitsu Consulting from 1998 to 2003.	275,500

Notes:

- (1) Member of the Compensation and Corporate Governance Committee.
- (2) Member of the Audit Committee.
- (3) This amount includes 3,250,000 Common Shares held by 1385659 Alberta Ltd., a private company controlled by Robin L. Phinney.
- (4) This amount does not include the Common Shares owned by 1385659 Alberta Ltd. Julius Brinkman owns less than 5% of the outstanding shares of 1385659 Alberta Ltd. and is neither a director or officer of this company.
- (5) This amount does not include any Common Shares issuable upon exercise of the Broker Warrants currently held by the 2009 Private Placement Agent. Mr. Brinkman has a beneficial interest in 16,713 of the Broker Warrants as he was employed by the 2009 Private Placement Agent when the 2009 Private Placement occurred.
- (6) This amount includes 5,000 Common Shares held by Graintrade.com Inc., a private company owned by Mr. Macgillivray and his spouse.

Cease Trade Orders

To the knowledge of Karnalyte, no director or executive officer is, as of the date of this AIF, or was within 10 years prior to the date of this AIF, a director, chief executive officer or chief financial officer of any company (including Karnalyte) that: (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied 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.

Bankruptcies

Other than as disclosed below, 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.

Mark Wayne was a director of Railpower Technologies Corp. ("**Railpower**"), a TSX listed company, from February 2, 2002 until June 1, 2008 when Mr. Wayne did not stand for re-election as a director at the Railpower annual shareholder meeting. In February 2009, Railpower made an application for protection under the *Companies' Creditors Arrangement Act* (Canada). In June 2009, Railpower was purchased by R. J. Corman Railroad Group, LLC.

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, is a partner with Burstall Winger LLP, which provides legal services to the Corporation on a fee for services basis. Paul Sharpe, a director of the Corporation, a partner with Perley - Robertson, Hill & McDougall LLP, which firm is the legal counsel retained by the Corporation to complete its patent related filings.

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 A. Phinney, the President, Chief Executive Officer and a director may be considered to be the promoter of the Corporation because he took the initiative in founding and organizing the business of the

Corporation. As of the date of this AIF, Mr. Phinney owned 3,944,400 Common Shares representing 19.4% of the issued and outstanding Common Shares (on a non-diluted basis), of which 3,250,000 Common Shares are held by 1385659 Alberta Ltd., a private company which Mr. Phinney controls. In addition, Mr. Phinney currently has 393,000 Options.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of Karnalyte is not aware of any legal proceedings 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, 2010, nor are any such proceedings known to the Corporation to be contemplated.

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, 2010, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Corporation, and the Corporation did not entered 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

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 Olympia Trust Company at its principal office in Calgary, Alberta and its office in Toronto, Ontario.

MATERIAL CONTRACTS

The only material contracts entered into by the Corporation or on its behalf, since its incorporation, other than contracts entered into in the ordinary course of business are:

1. The agency agreement dated August 1, 2009 between the Corporation and the 2009 Private Placement agent, in respect of the 2009 Private Placement.
2. The underwriting agreement dated December 6, 2010 between the Corporation and the IPO Underwriters.
3. The lock-up agreements dated as of December 14, 2010 between the IPO Underwriters and each of all directors and management of the Corporation.

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 Ian Brown (Chairman), Bruce Townsend and Mark Wayne. Each of Ian Brown, Bruce Townsend and Mark Wayne is "financially literate" and "independent" within the meaning of NI 52-110. The relevant education and experience of each audit committee member is outlined below.

Ian Brown, CA

Mr. Brown is a Chartered Accountant with over 20 years of financial and capital markets experience. Mr. Brown is currently an independent businessman and corporate director. Mr. Brown was a Senior Managing Director of Raymond James Ltd. from 1995 to 2005. Prior thereto, he held the position of Executive Vice President of the Alberta Stock Exchange from 1986 to 1995. Mr. Brown is presently an active board member of a number of public and private companies, including Bonavista Energy Trust, Cathedral Energy Services Ltd., Petrobank Energy and Resources Ltd., PetroBakken Energy Ltd. and the Canadian Investor Protection Fund. Mr. Brown has also previously served on the boards of the TSX Group and Market Regulation Services. Mr. Brown receives his Bachelor of Arts degree from McMaster University in 1979, his Bachelor of Commerce degree from University of Windsor in 1980, and his Chartered Accountant designation in 1983.

Bruce Townsend

Mr. Townsend has held a number of senior management roles. He was the Director, Financial Analysis Nitrogen Operations with PCS 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.

Mark Wayne

Mr. Wayne has over 20 years experience in corporate finance and related matters. He was a securities lawyer in Calgary for seven years before entering the investment industry in 1987. He has helped raise early rounds of capital for several public and private companies over the years, in a variety of sectors including oil and gas, mining and technology. Currently, Mr. Wayne is the Vice-President of MGI Securities Inc., and Chief Financial Officer of Regulus Resources Inc. Mr. Wayne was the co-founder and Chief Executive Officer of Lightyear Capital Inc. from 2001 to 2004, and served as Chief Financial Officer of QGX Ltd. from 1996 to 2006 and as Chief Financial Officers of Antares Minerals Inc. from 2004 to December 2010. He has served and is currently serving as a board member on several public and private companies.

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 the following services from its auditor: (i) additional services of up to \$2,000 outside of audit related or tax related services; and (ii) tax related services of up to \$5,000. 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 2010 and 2009:

KPMG LLP	2010 (\$)	2009 (\$)
Audit Fees ⁽¹⁾	\$88,000	\$47,000
Audit Related Fees ⁽²⁾	\$90,000	Nil
Tax Fees ⁽³⁾	\$16,170	Nil
All Other Fees ⁽⁴⁾	Nil	Nil
Total⁽⁵⁾	\$189,170	\$47,000

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 related to performance of limited procedures performed by the Corporation's auditors related to and in connection with statutory and regulatory filings.
- (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 prepared an independent audit report dated March 8, 2011 in respect of Karnalyte's audited annual financial statements with accompanying notes thereto for the year ended December 31, 2010. KPMG LLP advises that they are independent of Karnalyte within the Rules of Professional Conduct of the Institute of Chartered Accounts of Alberta.

ERCOSPLAN, North Rim and Foster Wheeler collectively prepared the Preliminary Assessment, which report evaluates the resource potential of the Karnalyte Property. Neither ERCOSPLAN, North Rim or Foster Wheeler nor any associate or affiliate of ERCOSPLAN, North Rim or Foster Wheeler owns, directly or indirectly, any Common Shares. No director, officer or employee of ERCOSPLAN, North Rim or Foster Wheeler is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or any of its associates or affiliates.

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 prospectus dated December 6, 2010. 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, 2010.

Effective Date

Unless otherwise specifically herein provided, the information contained in this AIF is stated as at March 8, 2011.

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.