

March 30, 2020

VIA EMAIL

Alberta Securities Commission
Suite 600, 250 – 5th Street SW
Calgary, A.B. T2P 0R4

Financial and Consumer Affairs Authority
1919 Saskatchewan Drive
Regina, S.K. S4P 4H2

Dear Sirs and Madams:

**Re: Potential Proxy Solicitation at the Annual General and Special Meetings of
Karnalyte Resources Inc. (“Karnalyte”) held on May 5, 2017 and June 7, 2018**

We are counsel for David Van Dam, a resident of Kenora, Ontario and a shareholder of Karnalyte. It has come to our attention that, among other things, improper proxy solicitation and other irregularities may have occurred in connection with Karnalyte’s annual general meeting that took place on May 5, 2017 (the “**2017 AGM**”), as well as its special meeting of shareholders that took place on June 7, 2018 (the “**2018 Meeting**”). Both of these meetings took place in Saskatoon, Saskatchewan.

This information came to Mr. Van Dam’s attention through documents filed in connection with a Court action—Court of Queen’s Bench of Alberta Action No. 1801-07487—that Karnalyte commenced against Mr. Van Dam and certain other shareholders, namely Robin Phinney and Dan Brown. Of specific interest is the affidavit sworn by Mr. Brown on November 23, 2018, which we understand has been provided to you by Peter Yates, counsel for Mr. Phinney, in his letter of March 30, 2020. Our concerns arising from these documents and the related events are similar to those expressed by Mr. Yates, and include the following:

1. **Improper Proxy Solicitation:** Mr. Brown swore an affidavit in the course of Karnalyte’s action against its shareholders in which he alludes to meetings, phone calls and text messages between himself and nominees for the board of directors of Karnalyte at the 2017 AGM. Among these nominees were directors of Gujarat State Fertilizer and Chemicals (“**GSFC**”), one of Karnalyte’s substantial shareholders. It appears that neither the Alberta Securities Commission (“**ASC**”) nor the Financial and Consumer Affairs Authority (“**FCAA**”) granted these nominees an exemption from the proxy solicitation requirements of applicable securities laws, nor was there any dissident proxy circular filed in respect of these nominees. As such, they were not in a position to solicit

proxies from shareholders, and we are concerned that there may have been improper and possibly illegal proxy solicitation by these nominees that had a significant impact on the results of the 2017 AGM.

2. Considerable Entrenchment Efforts by Karnalyte and Voting Irregularities: Mr. Brown also alludes in his affidavit to voting irregularities and efforts by Karnalyte to exclude board nominees for non-substantive and/or trivial procedural irregularities. Mr. Van Dam himself was subjected to this type of oppressive conduct leading up to the annual general meeting in 2018. After he began formally communicating with Karnalyte in January 2018, he was first told to nominate directors for election at the upcoming annual general meeting. Then he was told that his proposal to nominate directors did not comply with the applicable form requirements, and that the company would not comply in any event. Then he was told that he did not in fact represent over 5% of Karnalyte's shareholders, which he did. Finally, after proving that he represented over 5% of Karnalyte's shareholders, he was told that it was too late to nominate directors and that his nominees would not be included. These actions show a concerted effort by Karnalyte's current board to frustrate shareholder democracy. It also appears that their actions may include things as malicious as tampering with shareholder votes. We understand that the concerns regarding vote tampering in connection with the 2018 annual general meeting have been raised by Mr. Yates in his letter and we echo those concerns.

Similar concerns arise regarding the rights offering that took place in late 2018, at a significantly discounted price as compared with Karnalyte's share price at the time and with GSFC as the standby guarantor. Through the rights offering, GSFC increased its ownership stake to 38.8%, diluting all other shareholders, and now has effective control of the company. Most troubling of all, we understand that GSFC may not have paid for the shares acquired on this offering, and instead was loaned over \$2,000,000 by Karnalyte to purchase the shares. We understand that this concern has been described in full by Mr. Yates in his letter. These circumstances point toward a concerted effort to consolidate the power of the current board at the expense of the shareholders.

Karnalyte's action was recently dismissed in its entirety with costs to the defendant shareholders in reasons indexed at 2020 ABQB 119. The above concerns regarding the current board's entrenchment efforts are enhanced by the reports that Karnalyte spent a substantial sum of money, likely over \$1,000,000, unsuccessfully prosecuting that action against its own shareholders.

In light of the foregoing, we respectfully ask that the ASC and/or the FCAA conduct an investigation into the conduct of Karnalyte's board and the potential violations of the law and shareholder rights. We also ask that the results of the 2018 rights offering be reversed until a shareholder vote can be held on the issuance of shares pursuant to that offering, and/or the financial results from the standby guarantee can be reviewed in greater detail. Finally, we ask that the ASC and/or the FCAA order a new meeting of the shareholders to be held in order for a fair and democratic voting of the shares of the company to take

place, with nominees from all interested parties being considered and voted on.

Yours truly,

Fraser / Batkin / Hanson / Tribe LLP

Per:

Oliver C. Hanson

* Incorporated Partner