

MANAGEMENT'S DISCUSSION AND ANALYSIS (RESTATED)

For the period ended September 30, 2015

The restated Management's Discussion and Analysis ("MD&A") of Karnalyte Resources Inc. ("Karnalyte" or the "Company") should be read in conjunction with the Company's restated interim unaudited condensed financial statements for the period ended September 30, 2015. Details of the restatement referred to below are provided in Note 2 to the financial statements. This MD&A is intended to provide a summary of the operational and financial results of the Company for the period ended September 30, 2015.

The financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Statements, and should be read in conjunction with the year-end December 31, 2014 financial statements. These documents, including the Annual Information Form and additional information about the Company are available on SEDAR at www.sedar.com.

Some of the statements made herein contain "forward-looking information" and accordingly please refer to the "Forward-Looking Information" section at the end of the MD&A.

Explanatory Note Regarding the Restatement of Previously Issued Interim Unaudited Condensed Financial Statements.

We have restated our statement of financial position as at September 30, 2015 and our statement of comprehensive loss and statement of cash flows for the three and nine month periods ended September 30, 2015. For information on these adjustments and a reconciliation of amounts previously reported, please refer to Note 2 to the financial statements. The financial information and other affected information presented in this restated MD&A, have been restated to give effect to the restatement.

The financial statements of the Company that were filed for the period ended September 30, 2015 should no longer be relied upon.

In the course of preparing the year-end financial statements for the year ended December 31, 2015, an error was identified in the September 30, 2015 interim unaudited condensed financial statements. Cash disbursements made to reduce existing accounts payable in the amount of \$659,000 occurring in September 2015 were not recorded in the accounting system until October 2015. In addition, the Company received goods and services in the amount of \$358,000 prior to September 30, 2015 that were not recorded as payable until October 2015. The correction of this error resulted in the following adjustments to the September 30, 2015 reported balances:

- a. A decrease in cash of \$659,000;
- b. An increase in additions to mineral properties of \$151,000 and patents of \$3,000 resulting in an increase in the impairment loss of \$154,000 for the three and nine months ended;
- c. An increase in general and administrative expenses for the three and nine months ended of \$204,000;
- d. A net decrease in trade and other accounts payable of \$301,000;

The Company does not expect any adverse effect on the Company's day-to-day operations as a result of the Restatement.

The following table summarizes the impact of the restatement adjustments on the reported balances in the Company's previously reported interim unaudited condensed financial statements.

Effect of restatement on statement of financial position:

ASSETS (CAD \$ thousands)	September 30, 2015		
	As reported	Adjustment	Re-stated
Current assets			
Cash	\$ 30,445	\$ (659)	\$ 29,786
Trade and other receivables	60		60
Prepaid expenses	127		127
	30,632	(659)	29,973
Restricted cash	375		375
Capital assets	1,123		1,123
Exploration and evaluation assets	2,382		2,382
ASSETS	34,512	(659)	33,853
LIABILITIES			
Current liabilities			
Trade and other payables	\$ 2,139	\$ (301)	\$ 1,838
	2,139	(301)	1,838
Provisions	184		184
Total liabilities	2,323	(301)	2,022
SHAREHOLDERS' EQUITY			
Share capital	129,786		129,786
Contributed surplus	9,202		9,202
Deficit	(106,799)	(358)	(107,157)
Total shareholders' equity	32,189	(358)	31,831
LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 34,512	\$ (659)	\$ 33,853

Effect of restatement on statement of comprehensive loss:

(CAD \$ thousands, except per share amounts)	Three months ended September 30, 2015			Nine months ended September 30, 2015		
	As reported	Adjustment	Re-stated	As reported	Adjustment	Re-stated
Expenses						
General and administrative	\$ 1,345	\$ 204	\$ 1,549	\$ 7,329	\$ 204	\$ 7,533
Depreciation and amortization	191		191	575		575
Share-based compensation expense	735		735	703		703
Restructuring expenses	-		-	3,451		3,451
Impairment loss	370	154	524	370	154	524
Other income and expenses	-		-	(15)		(15)
	2,641	358	2,999	12,413	358	12,771
Finance income	(73)		(73)	(310)		(310)
Finance expense	35		35	139		139
Net finance income	(38)	-	(38)	(171)	-	(171)
Comprehensive loss	\$ (2,603)	\$ (358)	\$ (2,961)	\$ (12,242)	\$ (358)	\$ (12,600)
Loss per share (note 5(b))						
Basic and diluted	\$ (0.09)		\$ (0.11)	\$ (0.45)		\$ (0.46)

Effect of restatement on statement of cash flows:

(CAD thousands, unaudited)	September 30, 2015		
	As Reported	Adjustment	Restated
Cash Flows from (used in) Operating Activities			
Net loss for the period	\$ (12,242)	\$ (358)	\$ (12,600)
Add/deduct:			
Depreciation and amortization (note 3)	575		575
Impairment Expenses (note 4)	370	154	524
Stock-based compensation expense (note 9)	703		703
Net finance income	(171)		(171)
Interest income received	310		310
Changes in non-cash working capital (note 6)	713	(455)	258
	(9,742)	(659)	(10,401)
Cash Flows from (used in) Investing Activities			
Additions to intangible assets (note 4)	(370)	(154)	(524)
Proceeds on sale of intangible assets	-		-
Additions to capital assets (note 3)	(64)		(64)
Proceeds on sale of capital assets	-		-
Changes in non-cash working capital (note 6)	-	154	154
	(434)	-	(434)
Cash Flows from (used in) Financing Activities			
Deferred financing costs	-	-	-
	-	-	-
Effect of foreign exchange on cash	(119)	-	(119)
Change in cash	(10,295)	(659)	(10,954)
Cash, beginning of period	40,740	-	40,740
Cash and cash equivalents, end of period	\$ 30,445	\$ (659)	\$ 29,786

In the second quarter of 2015, the majority of the current directors and officers of the Company were appointed subsequent to a settlement following a proxy contest. As a result, the Company has dealt with a lack of continuity of personnel and business processes. The Company has since undertaken a review of its accounting records, vendor invoices, minutes of meetings of the board of directors and its subcommittees, among other records of the Company, to partly mitigate the risks.

Once management became aware of the materiality of the error in the September 30, 2015 interim unaudited condensed financial statements, it was communicated to the Audit Committee and a recommendation was made to the Audit Committee that the interim unaudited condensed financial statements as at September 30, 2015 should be restated. It is management's view that this error was a result of the material weaknesses in Internal Controls over Financial Reporting as noted in the original MD&A filed on November 9th, 2015. The former Interim Chief Financial Officer, working on a consulting basis has since been replaced by a permanent Controller who is also acting Interim Chief Financial Officer and now oversees the accounting affairs of the Company. The Company also intends to hire an additional accounting employee to assist in the day-to-day recording of financial transactions. This new employee will report to the Chief Financial Officer of the Company.

While the above efforts have significantly improved the control environment, management is still of the view that the Company has not remediated the material weaknesses noted in the original MD&A issued on November 9th, 2015. The material weaknesses cannot be considered to be remediated until the

applicable remedial controls operate for a sufficient period of time and management has concluded through testing, that the controls are operating effectively.

OVERVIEW

Karnalyte is pleased to announce that during the third quarter of 2015 the Company has made significant progress on the Company's two key areas of focus: 1) securing financing to construct Phase 1 of Karnalyte's 625,000 tpy Potash production facility at Wynyard, Saskatchewan (the "**Financing**"), and 2) completing the first phase of the previously announced development program to optimize production from the underground caverns in preparation for the full-scale production facility (the "**Optimization Program**").

Management is actively engaged in negotiating the terms of the Financing which could be transformative for the Company. As previously announced, Karnalyte's strategic partner, Gujarat State Fertilizer Company ("**GSFC**"), is willing to assist Karnalyte in securing all necessary financing to complete Phase 1 of the Company's 625,000 tpy Potash production facility ("**Phase 1**"). GSFC is assisting Karnalyte by arranging project financing based on GSFC's financial strength as a AA+ rated company. Accordingly, such project Financing may be available to Karnalyte on significantly more attractive terms than offered by North American banks. This may allow the Company to secure a substantial upfront debt disbursement without a corresponding initial equity infusion, the flexibility to raise required equity as a subordinated shareholder loan, and a commitment by GSFC to backstop required equity if needed.

In connection with the Financing Karnalyte has engaged Mr. Julius Brinkman as the Company's Vice President of Capital markets with the mandate to secure full financing for the construction of Phase 1. Mr. Brinkman was instrumental in raising capital in each of the Company's prior rounds of financing and is a welcome addition to Karnalyte's management team.

The Company's engineering and construction teams have achieved all of the key milestones for the first phase of the Optimization Program on time and within budget. Design and construction of the mechanical equipment for Phase 1 of the cavern preparation system is now complete. Design work on the cavern production equipment for Phase 2 is on schedule for completion during the winter of 2015/2016. Water injection for cavern preparation and development is currently scheduled to commence in the spring of 2016, with cavern production projected to follow immediately thereafter. The Company anticipates that the Optimization Program will be completed in the fall 2016. The Company has engaged ERCOSPLAN Ingenieuresellschaft Geotechnik und Bergbau mbH to supervise the design and operation of the Program, the results of which are expected to improve project economics and further the progress of the detailed solution mine design.

Shareholders are invited to visit the Company's website at www.karnalyte.com to view an updated photo gallery displaying some of the work done at the site to date.

RESULTS OF OPERATIONS

General and administrative expenses (G&A)

G&A costs for the three and nine months ended September 30, 2015 amounted to \$1,549,000 and \$7,533,000 which is an increase of \$315,000 and \$3,896,000 from the comparative 2014 amount.

The key components of the G&A costs are as follows:

G&A Expenditures				
	Three months ended		Nine months ended	
	2015	2014	2015	2014
Salary, wages and benefits	\$ 148	\$ 622	\$ 858	\$ 1,867
Business development, investor relations, regulatory fees	152	149	692	398
Consulting	364	87	1,553	212
Accounting and legal	180	75	2,844	243
Directors Fees	108	42	503	174
Rent	60	72	183	216
Regulatory	-	-	-	58
Other	537	187	900	469
Total general and administrative	\$ 1,549	\$ 1,234	\$ 7,533	\$ 3,637

Salaries, wages and benefits for the three and nine month periods ended September 30, 2015 was \$148,000 and \$858,000 compared to \$622,000 and \$1,867,000 in 2014. The decrease is the result of a significant headcount reduction related to the corporate restructuring which took place during the first two quarters of 2015. During the restructuring nineteen employees were terminated or resigned which reduced salaries and wages significantly. During the current quarter ended September 30, 2015 the Company resumed operations and has hired five employees bringing the total headcount to six which is a significant reduction from the three and nine month periods 2014.

Business development and investor relations expenses for the three and nine month periods ended September 30, 2015 amounted to \$152,000 and \$692,000 compared to \$149,000 and \$398,000 in the 2014 comparative periods. The increase for the nine month period ended is mainly due to amounts incurred related to the proxy contest commenced in December 2014. In addition, other business development and investor relations activities incurred during the quarter were related to the evaluation and sourcing of potential future financing so that the Company can commence full-scale construction of the production facility.

Accounting and legal expenses for the three and nine month periods ended September 30, 2015 was \$180,000 and \$2,844,000 compared to \$75,000 and \$243,000 in the comparative periods. The increase of \$105,000 during the three month period is driven by accounting and CFO services, as well as the sourcing and evaluation activities related to potential future financing. The increase of \$2,601,000 during the nine month period was primarily driven by an increase in legal activities related to the proxy contest, and corporate restructuring activities under previous management.

Rent expense for the three and nine month periods ended September 30, 2015 amounted to \$60,000 and \$183,000 compared to \$72,000 and \$216,000 for the comparative periods. Rent has decreased due to the

change in location of the Company's offices from Okotoks to Calgary in late 2014 and then Calgary to Saskatoon in the period ended September 30, 2015.

Consulting expenses for the three and nine month periods ended September 30, 2015 amounted to \$364,000 and \$1,553,000 compared to \$87,000 and \$212,000 for the comparative 2014 periods. The increase during the three and nine month periods when compared to the same periods in 2014 were driven by consulting fees paid to former and current senior officers of the Company and the retention of numerous outside consultants in connection with the proxy contest during the three and nine month periods ended September 30, 2015.

Director fees for the three and nine month periods ended September 30, 2015 amounted to \$108,000 and \$503,000 compared to \$42,000 and \$174,000 for the 2014 comparative periods. The increase is due to an overall increase in the number of meetings held throughout the three and nine month period.

Other expenses for the three and nine month periods ended September 30, 2015 amounted to \$538,000 and \$900,000 compared to \$187,000 and \$469,000 for the comparative period representing an increase of \$351,000 and \$431,000 respectively. The primary factor for the increased spending was the increase in the corporate insurance charged during the three and nine month period. As well, there was an increase in incidental, travel and meal expenses during the three and nine month period as a result of increased board activity and the relocation of the Company's head office from Calgary to Saskatoon.

Depreciation and amortization for the three and nine month periods ended September 30, 2015 was consistent at \$191,000 and \$575,000 compared to \$202,000 and \$611,000 in the 2014 comparative period.

Share-based compensation expense for the three and nine month periods ended September 30, 2015, amounted to \$735,000 and \$703,000 compared to \$156,000 and \$340,000 in the 2014 comparative periods. Share based payments are all non-cash in nature. Due to Company restructuring in the current quarter, the majority of the outstanding options were forfeited and resulted in a reversal of previous expense on non-vested stock options in the second quarter 2015. Options were granted to directors, officers and management on July 14, 2015. The options vest immediately and the Company recognized share-based compensation expense of \$732,000 on the date of grant.

Restructuring expenses for the three and nine month periods ended September 30, 2015 was \$nil and \$3,451,000 compared to \$nil in the 2014 comparative periods. This amount represents severance and contract termination charges for senior officers and employees of the Company who were terminated or resigned in the period ended June 30, 2015. During the three month period ended September 30, 2015, no restructuring fees were incurred. In the first two quarters of 2015, nineteen employees were either terminated or resigned from their position with the Company. The Company has completed the restructuring activities and has resumed its operations on the development of the Wynyard property.

Impairment Expense of \$524,000 was recognized during the period ended September 30, 2015 related to costs incurred on the Wynyard Carnallite Project during the quarter. The costs incurred for the project were initially capitalized to the exploration and evaluation assets and subsequently impaired. Management has concluded that there has been no material change to the recoverability of mineral properties from December 31, 2014 and therefore all additions to the potash cash generating unit should be impaired.

Net finance income for the three and nine month periods ended September 30, 2015 was \$38,000 and \$171,000 compared to \$164,000 and \$514,000 in the 2014 comparative period. The funds related to finance income are a direct result of the amount of cash the Company is holding at a given time and the corresponding interest income the cash generates. As the cash amount decreases the interest income also decreases. Foreign exchange fluctuations are also captured in the net finance income amount. Foreign exchange losses incurred during the nine month period amount to \$119,000 and reflect the weakening of the Canadian dollar against the US dollar.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended September 30, 2015:

Selected Quarterly Results									
	2015			2014				2013	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Comprehensive loss	(2,961)	(6,824)	(2,816)	(63,500)	(1,480)	(1,347)	(1,254)	(1,410)	(2,006)
Basic and diluted loss per share	(0.11)	(0.25)	(0.10)	(2.31)	(0.05)	(0.05)	(0.05)	(0.05)	(0.07)
Total current assets	29,973	32,268	38,736	41,026	43,084	44,827	46,209	47,780	51,772
Total assets	33,853	36,276	42,935	45,417	107,669	109,109	110,220	111,457	114,100
Total liabilities	2,022	2,219	1,913	1,689	564	762	460	881	2,622
Total shareholders' equity	31,831	34,057	41,022	43,728	107,105	108,347	109,760	110,576	111,478

Comprehensive loss for the quarter ended December 2014 is not indicative of a typical quarter due to significant impacts from the asset impairment expense of \$59,149,000 and the expensing of the deferred financing costs and break fees of \$2,899,000. Additionally, another \$524,000 impairment was recognized during the three month period ended September 30, 2015. Excluding these impacts, the comprehensive loss was driven primarily by G&A expenses incurred to fund the day to day operations of the Company. A main component of the quarterly losses relates to non-cash share based payment expenses for amortizing stock option costs. Stock based compensation expenditures range from a high of an expense of \$735,000 in the current quarter, September 30, 2015 to a reversal of \$128,000 in June 2014 and a reversal of \$143,000 in June 2015 as a result of forfeited options from employees, consultants and directors no longer with the Company. Restructuring expense of \$2,553,000 was incurred in the three month period ended June 30, 2015 related to severance packages paid to senior officers and employees of the Company as well as contract termination penalties related to the consulting agreements of the Company's senior officers. Legal expenses of \$1,850,000 related to the proxy contest were incurred in the second quarter 2015.

Current assets principally reflect activity in the cash account. Cash outlays vary over the quarters depending on the Company's activities. In, September and December of 2013 the Company completed testing on water and disposal wells resulting in higher than normal cash spending. In addition, severance amounts throughout the last three quarters of 2014 and into the first two quarters of 2015 range from a

high of \$1,146,000 in June 2015 to a low of \$15,000 in December 2014. During the third quarter 2015, management has hired 5 employees as it resumes operations.

Total assets on a quarterly basis reflect two main components: cash from previous financings still available to the Company and capitalized expenditures on capital assets and mineral properties. Excluding the impairment expense and write-off of deferred financing fees in the quarter ended December 31, 2014, total assets remained relatively constant for the majority of the periods above. During the period ended September 30, 2015 the Company resumed operations, the costs incurred to date on this project were capitalized to the exploration and evaluation assets, and these costs were subsequently impaired at September 30, 2015. The quarterly fluctuations generally reflect cash expended on G&A expenses.

Total liabilities for the periods illustrated relate primarily to trade and other payables. These balances vary in the analysis due to timing of payments that are required on the work necessary to bring the Project to the current level of completion. The increase in September of 2013 is a result of drilling projects and site preparation activities which were in process over the quarter and a large amount of payables and accruals were generated as a result. The higher liabilities in the quarter ended December 2014, March 2015 and June 2015 is related to an accrual of potential break fees in relation to the cancellation of the debt financing contracts by previous executive officers of the Company. The liabilities at September 30, 2015 have increased from December 31, 2014 based on the restructuring activities which were completed in the year, as well as the resumption of operations which has led to increased spending when compared to the prior year.

INVESTING

The Company capitalizes costs incurred on projects that are determined to provide future benefit and charges other costs to operations including administrative salaries, support and office costs, community relations programs and other administrative related expenditures. Costs directly related to capital assets are capitalized to appropriate categories and depreciated over their useful lives. Costs of personnel related entirely to preparation of mineral properties on the Company's permit areas and for the future construction of facilities or product development were previously capitalized as part of the mineral properties or of the processing facilities.

Cumulative expenditures were focused on the completion of the Company's resource reports, including the Technical Report and EIS, confirming the resources and reserves through drilling wells on the initial focus area and preparing the Company for construction by advancing detailed engineering and completing initial site preparation.

For the period ending September 30, 2015, capitalization of expenditures related to the Wynyard Carnallite Project totalling \$524,000 have been capitalized to the mineral property. Management has concluded that there has been no material change to the recoverability of mineral properties from December 31, 2014 and therefore all additions to the potash cash generating unit should be impaired.

Intangible assets

During the period ended September 30, 2015, the Company recognized capitalized expenditures in relation to the following areas:

Exploration and Evaluation Assets			
	September 30, 2015		December 31, 2014
Mineral property			
Surface land	\$	2,142	\$ 2,142
Drilling		240	240
Balance, end of period	\$	2,382	\$ 2,382

*Expressed in thousands

Capital assets

During the period ended September 30, 2015, the Company capitalized \$64,000 to capital assets. The net balances classified as capital assets are as follows:

Capital Assets			
	September 30, 2015		December 31, 2014
Machinery and equipment	\$	702	\$ 1,240
Buildings		185	194
Land		125	125
Land improvements		35	35
Vehicles		1	25
Furniture and equipment		11	15
Assets Under Construction		64	-
Balance, end of period	\$	1,123	\$ 1,634

*Expressed in thousands

The decrease in Capital Assets is a result of depreciation taken during the nine month period in the amount of \$575,000.

The Company's ability to secure adequate financing for the development of the mine on economic terms could result in a material difference from the Company's estimate of the recoverable asset.

Segmentation Reporting

The Company's operating segments have been identified as the Company's individual mineral reserve streams. The Company has identified two operating segments, potash and magnesium, however due to materiality they are currently grouped as one segment for financial reporting purposes. As magnesium reserves are advanced to a material stage, costs will be allocated to separate reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2015, the Company had net working capital of \$28.1 million compared to \$39.5 million at December 31, 2014 including \$29.8 million and \$40.7 million, respectively, in cash. As at September 30, 2015 and 2014, the Company also had \$0.4 million in restricted cash due to a requirement from the Government of Saskatchewan to operate the test plant in Saskatchewan. The Company maintains cash in bank accounts for day to day operations and invests the excess in overnight financial instruments in high interest saving accounts that are highly liquid.

The Company has sufficient cash to meet its short-term corporate operating and capital requirements and has sufficient funds to finance care and maintenance and ongoing corporate functions.

CONTRACTUAL OBLIGATIONS

The following table summarizes the commitments of the Company as at September 30, 2015:

Contractual Obligations						
	Payments due by period					
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years	
Mineral lease and permit	\$ 2,625	\$ 74	\$ 318	\$ 340	\$ 1,893	
Trade and other payables	1,838	1,838	-	-	-	
Project contracts	333	333	-	-	-	
Office lease	256	146	\$ 110	-	-	
Total	\$ 5,052	\$ 2,391	\$ 428	\$ 340	\$ 1,893	

*Expressed in thousands

Mineral lease and permit obligations refer to the annual fees which are required to maintain the permit and lease areas the Company currently owns. The period between March 2014 to February 2015 represented the Company's second extension period of the permit which cost \$20,000 to maintain. There is one more extension period which was applied for during the current period and subsequently granted to the Company at a cost of \$40,000. This extension will expire on March 11, 2016 at which time the Company will need to convert the area to a lease in order to maintain the mineral rights for the property. All the required exploration on the property has been completed and no further spending will be required until such time as the property is converted to a lease. The Company expects to initiate conversion of the property from a permit to a lease in the fourth quarter of 2015.

Trade and other payables relate to operating and investing expenditures that were payable at the quarter ended September 30, 2015.

Project contracts are in place for various engineering, consulting and administrative services.

Office leases are in place for the Saskatoon office location. The Calgary space was under a lease with a monthly fee of \$5,000 and expired on August 31, 2015. The Saskatoon office is under a lease with a monthly fee of \$12,000 and will expire on August 31, 2017. During the period ended September 30, 2015, the Company has closed the Calgary office and consolidated operations to the Company's Saskatoon and Wynyard locations.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and expenses. The Company evaluates these estimates periodically. In making judgments about the carrying values, the Company uses estimates based on historical experience and various assumptions that are considered reasonable in the circumstances. Actual results may differ from those reported. The Company reviews significant areas subject to estimation with the Audit Committee and its independent auditors. Significant areas requiring estimate include the assessment of impairment indicators and any subsequent determination of impairment over mineral properties and capital assets, the related depletion and depreciation including the estimates of total depleted reserves and useful lives and the calculation of share-based payments.

Intangible Assets and Property, Plant and Equipment

The Company's expenditures relating to the acquisition of mineral properties, leases, permits and the exploration and development thereon are recorded at cost and include direct and indirect acquisition and exploration costs associated with specific mineral properties. These costs are capitalized on the basis of the potential realization from the underlying asset. Amortization of these amounts will be recognized using the unit-of-production method over the shorter of estimates of reserves or service life following the commencement of production, or written off if the properties are sold or abandoned.

Assets under construction, machinery and equipment, buildings, vehicles, furniture, land improvements and leasehold improvements are recorded at cost, less accumulated depreciation. Assets under construction will start being depreciated when the assets are available for use for their intended purpose and will be calculated on a unit of production basis. Capital assets are depreciated using the straight-line method over three to seven years. The Company also reviews capitalized amounts for impairment whenever events or changes in internal or external circumstances indicate that the carrying value may not be recoverable.

Upon indication that impairment may exist, carrying values of assets would be adjusted. Impairment conditions may result from any of the following items, but are not limited to: cessation of exploration activities; exploration results are not promising such that exploration will not be planned for the foreseeable future; permit or lease ownership rights expire; sufficient funding is not expected to be available to complete the exploration program; an exploration property is deemed to have no material economic value to the Company's business plan, or future development of the property becomes uneconomical.

The Company reviews capitalized amounts for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable. The carrying value of assets is assessed for indications that the carrying amounts recorded may not be recoverable from estimated current and future cash flows. As well, the Company reviews the recoverable amounts of all assets to determine whether a reversal of previously recorded impairments is appropriate. Estimating future cash flows requires assumptions about future business conditions and other developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Share-based payments

The Company has share-based payments expenses for stock option awards to employees, directors, officers and consultants, as explained in the Company's Financial Statements. IFRS requires that all

share-based awards be accounted for using the fair value method. Under this method, the Black-Scholes option pricing model requires estimates of the expected life of the option, forfeiture rates, stock volatility and the risk-free interest rate expected over the life of the option. A change in these assumptions could materially change the amount of share-based payments expenses recorded.

Income taxes

The Company accounts for income taxes in accordance with the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of substantive enactment. A deferred income tax asset is recognized only when it is more likely than not that the income tax asset will be realized. Currently, the Company is not recognizing its deferred tax asset.

FINANCIAL RISK FACTORS

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. The Company has no significant concentration of credit risk arising from operations. The Company's cash and restricted cash is held with large Canadian financial institutions and management believes the risk of loss to be remote. As at September 30, 2015 the Company had receivables from corporate banks and a limited number of customers such that management believes that the credit risk with respect to receivables is low or immaterial.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to meet liabilities when due. As at September 30, 2015 the Company had cash totalling \$29.8 million (September 2014 - \$42.9 million) to settle current liabilities of \$1.8 million (September 2014 - \$0.4 million). As at September 30, 2015 and 2014 the Company's trade and other receivables were all considered current and are subject to standard trade terms.

The Company has restarted engineering and development work in relation to the Wynyard Carnallite Project. The estimated costs of the Development Program are expected to be \$4.25 million. The Company has adequate cash reserves to cover the Development Program costs related to the Wynyard property and continue its current operations for the foreseeable future.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Currency risk

The Company's functional currency is the Canadian dollar with the majority of transactions denominated in Canadian dollars. At this time management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk. At September 30, 2015 the Company held the majority of its cash in Canadian dollars.

Interest rate risk

The Company's trade and other payables are non-interest bearing and have contractual maturities of less than 45 days. As at September 30, 2015, the Company's only interest bearing asset is cash in high interest saving accounts and a small amount of cash held in Guaranteed Investment Certificates. Cash earns interest at prevailing short-term interest rates. During the period ended September 30, 2015 the Company earned interest income of \$0.3 million (September 2014 - \$0.5 million) from its cash.

NEW STANDARDS NOT YET ADOPTED

IFRS 9 "Financial Instruments" – The standard is the first step in the process to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39. Financial instruments: recognition and measurement derecognition of financial assets and financial liabilities. The extent of the impact of adoption of these standards has not yet been determined.

IFRS 15 "Revenue" – On May 28, 2014, the IAS board issued IFRS 15 "Revenue", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements.

INTERNAL CONTROLS

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures for the timely and accurate preparation of financial and other reports. Such disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the periods specified by applicable securities regulations. In addition, the disclosure controls ensure that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's continuous disclosure filings.

As with most small or developing companies and consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these disclosure controls and procedures should not exceed their expected benefits. As a result, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

The President and Chief Financial Officer are responsible to evaluate the disclosure controls and procedures. They have concluded that the design and operation of these disclosure controls and

procedures were not effective due to the existence of material weaknesses in the internal controls over financial reporting noted in the following section.

The Company mitigates these weaknesses by using external consultants as appropriate; however, such mitigating procedures do not constitute compensating controls for the purposes of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

Internal Controls over Financial Reporting (ICFR)

The President and Chief Financial Officer of the Company are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting. They are also responsible for causing the internal controls to be designed and operated effectively under their supervision. They are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. An internal control system cannot prevent all errors or fraud.

The Company's management has assessed the design and operating effectiveness of internal controls over financial reporting for this period and identified material weaknesses in the control environment. Management sets the tone of the control environment, influences the control consciousness of its employees, and is the foundation of the other components of ICFR. The Company has concluded that certain members of senior management did not adequately establish and enforce a strong culture of compliance and controls during the period. This includes adherence to the Company's policies and procedures relating to the segregation of accounting roles in connection with the Company's internal accounting functions. Subsequent to this period the Company has taken appropriate steps to remedy segregation deficiencies.

The Company does not have adequate in-house personnel to address complex accounting and non-routine transactions that may arise. Such circumstances may involve complicated financial issues, tax planning, tax provision and compilation of corporate tax returns. When faced with unusual or non-routine accounting issues, the Company relies on external experts for review and advice.

These material weaknesses may increase the risk of material misstatements in the financial statements; the Company mitigates these weaknesses by using external consultants as appropriate; however, such mitigating procedures do not constitute compensating controls for the purposes of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

In the second quarter of 2015, the majority of the current directors and officers of the Company were appointed subsequent to a settlement following the proxy contest by the Concerned Shareholder Group. As a result, and due to a lack of continuity of personnel and business process, there is a material risk that current officers and directors of the Company are not aware of possible contractual arrangements, commitments, vendor invoices or other obligations to which the Company may have been committed by the former officers and directors. As a result, there is a risk that any such arrangements, commitments, vendor invoices or other obligations are not recorded or disclosed in the condensed interim financial statements. Management has undertaken a review of the accounting records, vendor invoices, minutes of meetings of the board of directors and its subcommittees, among other records of the Company, to partly mitigate the aforementioned risk.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements at the time of this MD&A.

OUTSTANDING SHARES

As at September 30, 2015, the Company has 27,478,000 common shares and 2,079,000 stock options issued and outstanding.

OUTLOOK

Industry Outlook

The Company's management observes that the long term prospects for the potash industry are promising. Historically, potash markets grew steadily between 2000 and 2008 at 2.5 to 3.5% per year, which was supported by a comparatively stable and growing global economy. In the short term, both demand and pricing may continue to trade in a narrow, but stable range, however, the rationale for investment in potash projects in the long term is clear in the face of growing demand. Global potash demand is expected to increase to almost 89 million tonnes in 2025, equating to growth at an average rate of approximately 2.9% per year. This is underpinned by global population growth and rising incomes in developing countries stimulating a change to more varied and meat-based diets. The Company predicts that investment in new potash capacity will continue to accelerate given current producers' and strategic partners' goals of securing future supply.

Of particular importance to Karnalyte is the distinction between standard and granular potash. Granular prices continue to trade at a premium to standard, and granular demand continues to grow at a faster rate than standard product. Overall, the Company believes that construction ready projects with significantly lower CAPEX, attractive OPEX, which produce a premium granular product will be favoured by the industry over traditional producers.

Capital Market Outlook

Access to the capital markets is crucial for all developing companies. Junior resource companies in the exploration phase continue to face challenges in gaining access to the capital markets, however, investment activity surrounding advanced projects continued to gain momentum during the third quarter of 2015. There are indications that the market will continue to strengthen for those companies with construction ready projects.

For Karnalyte, access to the capital markets will be important, but the Company is in ongoing discussions with its strategic partner, Gujarat State Fertilizers and Chemicals Ltd. ("GSFC") to secure the complete funding required to construct its full scale production facility. GSFC has indicated its willingness to support Karnalyte by arranging project financing based on GSFC's financial strength and relationships with Indian banking institutions. Such project financing may be available on significantly more attractive terms than offered by North American banks, specifically allowing the Company a substantial upfront debt disbursement without a corresponding initial equity infusion, the flexibility to raise required equity as a subordinated shareholder loan, and a commitment by GSFC or its affiliates to backstop required equity if needed. The Company's board continues to discuss and negotiate the terms of the possible

financing to fund the Project, which could be transformative for the Company. No assurance can be provided at this time that such financing will be secured for the funding to construct the Company's full scale production facility.

Company Outlook

The Company continues its operations at Wynyard, Saskatchewan to develop Karnalyte's Potash Project including its work on the previously announced program to optimize production from the underground caverns, confirm KCl concentration and confirm equipment design parameters (the "**Optimization Program**") in preparation for construction of the full-scale production facility.

The Company plans to conduct the Optimization Program in two Phases. Phase 1 consists of securing the necessary permitting, procuring and installing equipment, and developing the cavern by injection of cold water. The Company plans to run Phase 1 until freeze-up in late 2015. Phase 2 is scheduled to commence in 2016, and consists of the implementation of the full scale test program to test KCl concentration at elevated temperatures of 40 to 50 degrees Celsius over a period of approximately 6 months. The Company estimates that the total cost of the Optimization Program will be approximately \$4.25 million and could significantly enhance the Project's revenue projections and financial outlook.

FORWARD-LOOKING INFORMATION

Statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements may include, but are not limited to, statements regarding:

- expectations regarding the state of the global potash and magnesium industry;
- expectations regarding the Company's ability to finance the project;
- future extraction and exploitation of mineral deposits;
- capital expenditure requirements;
- expectations regarding prices and costs;
- development of mineral reserves and mineral extraction processes;
- the Company spending the funds available to it as stated in this MD&A;
- expectations regarding the Company's ability to subsequently raise capital;
- expenditures to be made by the Company to meet certain work commitments;
- expectations regarding the Company's strategic plan;
- discussions with potential strategic partners;
- work plans to be conducted by the Company, and
- reclamation and rehabilitation obligations and liabilities.

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 Company's current expectations regarding future events and operating performance and are current only as of the date of this MD&A.

Forward-looking statements in this MD&A include statements regarding:

- the future stability of potash prices and the cyclical nature of potash prices;
- the potential for partnerships in global potash marketing;
- the Company's ability to maintain a strong working capital position in the near term;
- the Company's ability to commence production at 625,000 tonnes per year, and ramp up to production of 2.125 million tonnes per year;
- further seismic exploration and drilling;
- time to completion of plant construction following receipt of satisfactory financing and regulatory approvals;
- brine field preparation estimates;
- production run rates achieving 625,000 tonnes per year within 10 months following the completion of the processing plant;
- total capital expenditure for a 625,000 tonne production;
- the ability of the Company's strategic plan to position the Company for future success;
- anticipated results of development and extraction activities and estimated future development, and
- the Company's ability to obtain additional financing on satisfactory terms.

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

- the global potash market stabilizes;
- execution of Optimization Program;
- GSFC backing of possible future financing;
- the Company is able to manage its working capital position and is able to act on appropriate strategies and opportunities to access the capital markets as they arise;
- the Company executes its project development plans in a manner consistent with its budgets, planning and its Technical Report;
- there is no adverse change to the price of potash that would adversely affect the prospects for developing the Project, or make it uneconomic to proceed;
- the Company's ability to execute its strategic plan;
- estimates of the Company's mineral resources and mineral reserves are accurate; and
- the Company obtains additional financing in the future.

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 under "Financial Risk Factors" elsewhere in this MD&A and under "Risk Factors" in the Company's Annual Information Form. Although the forward-looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company 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 MD&A and are expressly qualified in their entirety by this cautionary statement. Subject to applicable securities laws, the Company assumes no obligation to update or revise them to reflect new events or circumstances.