Karnalyte RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is intended to provide a summary of the operational and financial results of Karnalyte Resources Inc. ("Karnalyte" or the "Company") for the period ended March 31, 2013 and 2012. This MD&A should be read in conjunction with the unaudited financial statements of the Company and the related notes thereto for the period ended March 31, 2013. This commentary is dated May 10, 2013. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 Statements" section at the end of the MD&A.

OVERVIEW

The Company achieved several key milestones during the period ended March 31, 2013 and the period up to the date of this MD&A including;

- securing a partnership with Gujarat State Chemical and Fertilizer ("GSFC") where GSFC acquired a 19.98% interest in the Company for $45 million and committed to a further investment of at least $15 million in future equity raises of the Company;
- entered into a take-or-pay off-take agreement for approximately 20 years where GSFC will purchase approximately 350,000 tonnes of potash per year from Phase 1 of the Wynard Carnallite Project (the "Project") and an additional 250,000 tonnes per year with the commencement of Phase 2;
- received approval from the Saskatchewan Ministry of Environment for the Environmental Impact Study ("EIS") to initiate construction of the Project;
- progressed the debt financing initiative to a point where lead arrangers and commitment is expected in the second quarter of 2013;
- continued detailed engineering related to specifications for the major equipment components and determining the supplier for this equipment and further advancing the underground cavern design and planning;
- continued site preparation activities at the future production facility site, and
- drilled the first disposal well and prepared for the Company's second water source well that will be used ultimately in production.

The Company is now focused on the following key activities;

- finalize the project debt financing by engaging lead syndicate arrangers and securing commitment on the debt;
- continue to advance discussions with other potential strategic partners who would be complementary to Karnalyte and GSFC;
- pursue additional equity to help fund the launch of full construction;
- continue to advance detailed engineering and site preparation allowing the Company to design full construction activities at the site and,
- continue hiring key personnel required to construct the plant and mine and support corporate initiatives.

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RESULTS OF OPERATIONS

General and administrative expenses (G&A)

G&A costs for the period ended March 31, 2013 amounted to $1,081,671 which is an increase of $283,364 from the comparative 2012 amount.

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

G&A Expenditures		
	Period ended March 31,	
	2013	2012
Salary, wages and benefits	$ 406,753	$ 394,220
Accounting and legal	163,797	79,950
Rent	90,607	46,724
Directors Fees	89,500	60,750
Business development and investor relations	85,333	48,752
Consulting	55,318	17,243
Regulatory	54,391	65,011
Other	135,972	85,657
Total general and administrative	$ 1,081,671	$ 798,307

Salaries, wages and benefits for the period ended March 31, 2013 was $406,753 compared to $394,220 in 2012. The Company restructured certain positions in May 2012 and continued to add new positions where required to move the Project forward which includes staffing the Saskatoon office that was established in August 2012. Functions added to Saskatoon thus far include engineering, human resources, occupational health and safety as well as environmental administration. The Company capitalized employee remuneration of $254,375 (2012 – $227,495) and share-based payments of $169,713 (2012 – $32,309) during the period ended March 31, 2013 for employees who were working directly on the construction, engineering and product development.

Accounting and legal expenses for the period ended March 31, 2013 was $163,797 compared to $79,950 in the comparative period. The increase is associated to the legal fees incurred to set up the existing engineering, procurement and construction management (the "EPCM") contract as well as the off-take agreement with GSFC, executed in January 2013. There was also an increase in accounting fees related to various due diligence and tax matters.

Rent expense for the period ended March 31, 2013 amounted to $90,607 compared to $46,724 for the comparative period. The rent has increased due to the addition of the Saskatoon office in August 2012 to accommodate the additional engineers required for construction of the plant facility.

Director fees for the period ended March 31, 2013 amounted to $89,500 compared to $60,750 for the 2012 comparative period. The increase is due to the addition of a new director as well as changes to the pay structure to closer align the Company's Board with peer companies.

Business development and investor relations expenses for the period ended March 31, 2013 amounted to $85,333 compared to $48,752 in the 2012 comparative period. The increase travel in the current period related to travel to India to finalize the financing deal with GSFC, travel related to the board meeting and expenses incurred to pursue potential debt and equity financing.

Consulting expenses for the period ended March 31, 2013 amounted to $55,318 and compared to $17,243 in the comparative 2012 period. The increase is related mainly to fees paid to IT consultants who the Company is now using which offsets salary costs related to maintaining internal IT staff.

Regulatory expense for the period ended March 31, 2013 amounted to $54,391 compared to $65,011 for the comparative period. The regulatory fee structure is related to market capitalization and therefore fluctuates from year to year.

Other expenses for the period ended March 31, 2012 amounted to $135,972 compared to $85,657 for the comparative period representing an increase of $50,315. The increase in expenditures is mainly due to the addition of vehicles required for transport of goods and employees to the site and accordingly, the related motor vehicle expenses and insurance. There were also higher utility and office expenses related to the addition of the Saskatoon office space.

Other P&L costs

Depreciation and amortization for the period ended March 31, 2012 was $206,616 compared to $193,345 in the 2012 comparative period. The purchase and subsequent deprecation of four vehicles in 2012 has been the main source of the increased expense.

Share-based payments for the period ended March 31, 2013 was $424,286 compared to $130,521 in the 2012 comparative period. The increase relates to two sets of options granted to directors, officers and management on April 18, 2012 and March 21, 2013. The options are expensed over the two year vesting period.

Other income and expenses for the period ended March 31, 2013 was income of $12,195 compared to $25,678 in the 2012 comparative period. The income is related to rental of land that the Company has purchased for future production planning which will be leased out to various farmers in the area until such time as it is needed by the Company. The rental of land has been consistent however in the prior year there were also some drilling mats that were rented out. The Company did not rent out any mats in the quarter ended March 31, 2013.

Net finance income for the period ended March 31, 2013 was $50,140 compared to $114,746 in the 2012 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. During the quarter ended March 31, 2012 the funds remaining from the Company's initial public offering (the "IPO") and over-allotment were allocated to high interest savings accounts. The closing of the GSFC financing deal in the first quarter of 2013 injected cash to rejuvenate Company funds, however the closing and transfer of funds into high interest savings accounts occurred in the latter half of the quarter therefore interest income is not representative of these funds over an entire three month period.

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PREVIOUSLY DISCLOSED USE OF PROCEEDS

Analysis of Prospectus Use of Proceeds							
		Current Expectation		Prospectus		Variance	Notes
Geological Analysis	$	3,000,000	$	3,000,000	$	-	
Feasibility Study Costs		9,000,000		17,000,000		(8,000,000)	a
Additional Exploration Seismic and Drilling		16,000,000		10,000,000		6,000,000	b
Environmental Impact Assessment		2,000,000		2,000,000		-	
Infrastructure Preparation and Equipment Deposits		5,000,000		9,400,000		(4,400,000)	c
Magnesium Pre-Feasibility Study		350,000		-		350,000	d
Contingencies		15,050,000		9,000,000		6,050,000	e
General, Administrative and Corporate Purposes		5,046,300		5,046,300		-	
Total	$	55,446,300	$	55,446,300	$	-	

Notes

a) Feasibility Study Costs estimated in the Company's prospectus, dated December 6, 2010 (the "Prospectus"), were based on expectations of at least four additional drill cores being required to fully understand the rock mechanical properties and geological structure related to constructing the processing facility and preparing the solution mine area. Upon further review of existing information and considering the results of the two drill hole geological analysis drilling program conducted, the co-authors of the feasibility study determined the additional drill holes would not be required. The Company included an estimate of approximately $6 million for these holes in the $17 million feasibility study costs. In addition, the Company had included $2 million in additional contingencies for the surface facility and other portions of the feasibility study that are not required based on the proposals received and accepted.

b) The Company decided subsequent to the Prospectus to increase the drilling and exploration program. No additional 3D seismic activity was planned in the Prospectus but has since been determined to be important to gaining a better understanding of up to one-half of the total permit area under control, estimated at $2.5 million. This 3D is still being considered in 2013 and will be funded out of the proceeds of the IPO. As a result of the EIS, the Company is drilling a disposal well and a water well to test the injectivity of the disposal well and the productivity of the water wells. This drilling and testing program is expected to cost up to $3.5 million.

c) Given the results of the Company's technical report dated June 27, 2012 (the "Technical Report") and the recommendations contained therein, the expenditures allocated to infrastructure preparation and equipment deposits have been decreased. Significant expenditures on equipment deposits cannot be made until detailed engineering is progressed further. The funds have now been allocated to contingencies until such time that decisions are made on where the funds are required.

d) A contract has been completed with Lyntek Incorporated which resulted in a pre-feasibility study for magnesium compounds in the amount of $350,000.

e) The Company incurred some unanticipated expenditures including a failed financing that resulted in recognition of significant offering expenses together with expenditures made to support the Technical Report. In addition the Company believes other sensitivities could arise in 2013 related to the key initiatives highlighted in the Prospectus and has therefore increased the expected contingencies by $6 million to arrive at the same total as projected in the Prospectus. Expenditures against this contingency will be considered provided they allow for the Company to protect its ultimate timeline as much as possible.

The amounts above exclude gross proceeds of $4,042,000 ($3,799,480 net of commissions) related to the closing of the over-allotment option on January 13, 2011. These proceeds will be allocated to general, administrative and corporate purposes.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended as at March 31, 2013:

Selected Quarterly Results								
	2013	2012				2011		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive loss	(1,650,238)	(2,029,669)	(1,988,605)	(2,096,839)	(1,090,733)	(2,347,228)	(549,778)	(1,172,229)
Basic and diluted loss per share	(0.07)	(0.10)	(0.08)	(0.10)	(0.05)	(0.11)	(0.03)	(0.06)
Total current assets	63,162,528	26,313,146	29,703,131	32,271,738	32,644,537	35,166,003	38,184,599	45,131,091
Total assets	117,184,814	76,290,254	75,358,574	76,411,927	74,462,061	75,847,125	75,436,477	76,256,815
Total liabilities	3,783,272	4,145,975	1,844,825	1,961,900	1,435,257	2,558,416	3,619,114	4,579,036
Total shareholders' equity	113,401,542	72,144,279	73,513,749	74,450,027	73,026,804	73,288,709	71,817,363	71,677,779

Comprehensive loss was driven primarily by G&A expenses incurred to fund the continued growth of the Company. These expenses were offset by rental income for drilling mat rentals in June 2011, September 2011, June 2012 and September 2012 of $61,429, $449,957, $111,276 and $52,114 respectively. The losses also reflect non-cash components related to share based payment and depreciation expenses. Share based payments range from $130,521 in March 2012 to $751,671 in September 2012. The quarter ended December 2011 increased significantly due to writing off financing expenses of $696,408 as a result of pulling the bought-deal financing and therefore not representative of a typical quarter. In the quarter ended June 2012, the Company experienced a significant step up in comprehensive loss primarily due to a major corporate restructuring in May 2012. Restructuring expenses amounting to $735,199 were incurred relating to third party consulting fees combined with severance costs. In the quarter ended September 2012, the comprehensive loss was consistent with the prior quarter but the severance costs were replaced with expensing costs related to the pursuit of unsuccessful strategic partner initiatives. The loss for the quarter ended March 31, 2013 also contains costs related to legal, consulting and travel costs related to strategic partner initiatives that will continue as the Company continues to pursue further financing initiatives. As the Company continues its growth and moves into construction, additional resources and expenses will be incurred prior to entering the production phase.

Current assets trends principally reflect activity in the cash account. This account comprises the vast majority of current assets with relatively minor balances in prepaid expenses and miscellaneous receivables. Starting in the quarter ending June 30, 2011 the funds that were raised through the Company successfully completing its IPO were being used to continue work on the Project. During the quarters ending September 30, 2011 and December 31, 2011 spending continued to increase and therefore current assets decreased as a result of expenditures related to the feasibility study and a seven well drilling program. The quarter ended June 30, 2012, 309,053 broker warrants were exercised by various companies who belonged to the IPO syndicate for gross proceeds of $2,657,856 which offset expenditures for that period. The quarter ended March 31, 2013 the currents assets increased dramatically as a result of closing a financing deal with GSFC for gross proceeds of $44,745,994 which was partially offset by share issue fees in the amount of $2,432,492 as well as significant spending on drilling a disposal well and continuing the EPCM for the plant construction.

Total assets on a quarterly basis reflect two main components, cash from financings still available to the Company and capitalized expenditures on capital assets and mineral properties for moving the Project forward. Total assets remained relatively constant for the majority of the periods above. The quarterly fluctuations generally reflect cash expended on G&A expenses and cash injections as a result of options and broker warrants exercised as well as the closing of financing deals.

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 various work performed on bringing the Project to the current level. The large increase in the quarters ended June 2011, September 2011, December 2012 and March 2013 are a result of drilling projects, the feasibility study and site preparation activities which were in process over the quarter end dates and a large amount of payables and accruals were generated to account for the extra expenditures.

FINANCING

2011

The over-allotment related to the IPO was completed on January 14, 2011 where 470,000 common shares were issued at a price of $8.60 per share for total gross proceeds of $4,042,000. Share issue costs related to this offering were $325,472. The proceeds from the over-allotment will be used for general corporate purposes. Along with the over-allotment, the Company granted 28,200 non-transferable broker warrants to the agents with an exercise price of $8.60 per warrant that will expire on or about July 13, 2012.

In December 2011 a bought-deal financing was pulled due to insufficient time to gather additional information to respond to securities commissions' comments that were raised on the Company's technical report.

During the year ended December 31, 2011, there were 50,000 stock options issued to new directors of the Company. There were 609,500 stock options exercised by employees, directors or consultants and 245,296 broker warrants exercised for gross proceeds to the Company of $4,567,999.

2012

On April 18, 2012, the Company granted 945,000 options to employees, directors and officers. The options have an exercise price of $10.05 per option and will expire on April 18, 2017.

During the year ended December 31, 2012, there were 617,325 stock options exercised by employees, directors or consultants for gross proceeds to the Company of $735,874 and 309,053 broker warrants exercised by various companies who belonged to the IPO syndicate for gross proceeds of $2,657,856.

During the year ended December 31, 2012, the Company filed a short form base shelf prospectus (the “Shelf Prospectus”), which subject to securities regulatory requirements, will allow the Company to make offerings of up to $350 million common shares, units, preferred shares and notes or other types of unsecured debt securities during the 25 month period the Shelf Prospectus remains effective. The Company may determine the price and terms of any securities offered under the Shelf Prospectus at the time of sale to be set forth in a prospectus supplement.

During the year ended December 31, 2012, 253,875 stock options expired or were forfeited and 59,475 broker warrants expired.

2013

On March 7, 2013, the Company closed a non-brokered private placement financing with GSFC with 5,490,306 common shares being issued at a price of $8.15 per share for total gross proceeds of $44,745,994 which represents a 19.98% ownership stake in the Company. Share issue costs related to this financing amounted to $2,432,492 for net proceeds of $42,313,502. The Company is obligated to issue an additional 555,555 common shares to GSFC if commercial production has not commenced on or before October 1, 2016.

On March 21, 2013 the Company granted 1,014,000 stock options to employees, directors and officers. The options have an exercise price of $7.95 per options and will expire on March 21, 2018.

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 are capitalized as part of the mineral properties or of the processing facilities.

Expenditures to date were focused on the completion of the Company’s technical reports, including the Technical Report, finalizing the Company’s Environmental Impact Statement (“EIS”), confirming the resources and reserves on the initial focus area and preparing the Company for construction.

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Intangible assets

During the period ended March 31, 2013, the Company capitalized $2,892,427 to intangible assets in the following areas:

Intangible Assets				
Period ended		March 31, 2013		December 31, 2012
Mineral property				
Drilling	$	22,767,036	$	19,998,422
Feasibility study		10,827,683		10,827,683
Geophysics		4,262,672		4,262,672
Environmental Study		3,290,439		3,240,208
Surface land		2,017,352		2,017,352
Engineering		2,008,870		1,994,300
Product Development		414,596		373,064
Permits		284,637		269,697
Process patent		105,884		104,144
Computer software		110,809		110,009
Balance, end of period	$	46,089,978	$	43,197,551

Drilling expenditures of $2,768,614 incurred throughout the period ended March 31, 2013 related to drilling a disposal well and preparing to drill a water well to test the permeability and porosity of the future disposal site.

Environmental expenditures of $50,231 incurred throughout the period ended March 31, 2013 relate to ongoing environmental monitoring and testing that is required to conform to regulatory requirements.

Engineering expenditures in the amount of $14,570 incurred in the period ended March 31, 2013 related to engineering consulting work while the company hires the remaining engineering staff required for construction.

Product development expenditures in the amount of $41,532 relate mainly to the capitalization of salaries, benefits, bonuses and stock based compensation for employees who are analysing specific characteristics of our brine and products to facilitate construction and development of the cavern design and processing facility.

Permit expenditures of $14,940 for the period ended March 31, 2013 are the annual fees payable in order for the Company to maintain their current permit and lease areas.

Patent expenditures in the amount of $3,218 were incurred as the Company continue to revise and update existing patents while applying for new patents in Canada and the United States where applicable. The expenditure was partially offset with depreciation of $1,478 for the three months ending March 31, 2013.

Computer software expenditures of $26,910 were incurred throughout the period ended March 31, 2013 resulting from the company renewing software required for various mapping and geological functions. The expense was partially offset with depreciation of $26,110 for the three months ending March 31, 2013.

Deferred financing

Deferred financing costs were incurred as a result of the Company continuing to pursue debt financing. These costs will be deferred until the debt has been issued. Such financing costs will be recognized in profit or loss if the financing is no longer probable.

Capital assets

During the period ended March 31, 2013, the Company capitalized $1,152,751 to assets under construction, machinery and equipment, vehicles, land improvements, leasehold improvements and equipment and furniture. Expenditures were capitalized to the following areas:

Capital Assets				
		March 31, 2013		December 31, 2012
Assets under construction	$	4,770,146	$	3,466,078
Machinery and equipment		2,146,127		2,291,533
Buildings		213,381		216,086
Vehicles		118,248		130,073
Land		124,656		124,656
Furniture and equipment		78,374		88,367
Land improvements		56,753		60,297
Leasehold improvements		49,623		27,467
Balance, end of period	$	7,557,308	$	6,404,557

Assets under construction increased by $1,304,068 during the period ended March 31, 2013. This increase is a result of expenditures of $377,492 for the Company to continue site preparation on the location of the production facility and $926,576 to continue of detailed engineering required for plant construction. There has been no depreciation charges recorded for assets under construction.

Leasehold improvements increased by $22,156 related to moving the lab to the Saskatoon office. The cost was slightly offset by depreciation of $7,845 for the period ending March 31, 2013.

All other capital assets decreased this quarter as a result of limited expenditures and the offsetting depreciation.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2013, the Company had net working capital of $59,529,560 compared to $22,317,127 at December 31, 2012 including $61,909,274 and $25,114,959, respectively, in cash. 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. No investments are made in commercial paper instruments.

The Company has sufficient cash to meet its short-term corporate costs and existing capital plans and has sufficient funds to finance exploration and ongoing corporate functions. There is no certainty, however, that the Company will be able to raise additional funds to obtain the necessary capital to move the Project forward to the production stage.

CONTRACTUAL OBLIGATIONS

The following table summarizes the commitments of the Company as at March 31, 2013:

Contractual Obligations					
	Payments due by period				
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Trade and other payables	$ 2,352,723	$ 2,352,723	$ -	$ -	$ -
Office lease	$ 1,010,252	$ 300,143	$ 530,476	$ 179,633	$ -
Mineral lease and permit	$ 692,525	$ 41,983	$ 122,300	$ 73,967	$ 454,275
Project contracts	$ 1,392,482	$ 1,392,482	$ -	$ -	$ -
Total	$ 5,447,982	$ 4,087,331	$ 652,776	$ 253,600	$ 454,275

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 the 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. See note 2 to the December 31, 2012 financial statements.

Stage of development

The Company is in the development stage of its history and at this stage of the Company's growth, it is subject to the risks associated with early stage companies, including uncertainty of future revenues, developing acceptable markets and growth into established markets, profitability and the need to raise additional financing to continue to progress the Project.

Continued exploration and development of its property is dependent on Karnalyte's ability to obtain necessary financing. As the Company is not currently producing from its property, it will be necessary for the Company to seek additional equity or debt to finance its programs.

Intangible assets

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 shorter of estimates of reserves or service life following the commencement of production or written off, if the properties are sold or abandoned.

Upon indication that impairment may exist, carrying values of assets would be adjusted. Impairment conditions may result from any of the following items, but 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. 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.

Capital assets

Assets under construction, machinery and equipment, buildings, vehicles, furniture, land improvements and leasehold improvements are recorded at cost, less accumulated depreciation. Capital assets are depreciated using the straight-line method over three to seven years. Leasehold improvements are amortized on a straight line basis over the terms of the respective leases. 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.

Share-based payments

The Company has share-based payments expenses for stock option awards to employee, 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.

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 March 31, 2013 and 2012, the Company had GST receivables from the Canadian Government and a limited number of customers who rent mats on a short-term basis such that management believes that the credit risk with respect to receivables is low.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to meet liabilities when due. As at March 31, 2013, the Company had cash totalling $61,909,274 to settle current liabilities of $3,632,968. As at March 31, 2013 and 2012 the Company's trade and other receivables were all considered current and are subject to normal trade terms.

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. The Company will be exposed to price risk with respect to North American and international potash prices. A significant decrease in the price of potash could cause the continued exploration and future development of the Company's properties to be uneconomical.

Currency risk

The Company's functional currency is the Canadian dollar with the majority of transactions denominated in Canadian dollars. The Company has engaged third party experts to perform various reports on the future potential of its mineral properties where such contracts are denominated in United States dollars and Euros. As the Company moves into full construction the currency risk will be heightened as most of the major equipment components will be based in US dollars. Accordingly, the Company will employ additional procedures to mitigate this additional risk. 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.

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 March 31, 2013, 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 March 31, 2013 the Company earned interest income of $77,004 from its cash.

RECENT ACCOUNTING PRONOUNCEMENTS

During the first quarter of 2013, the Company adopted the following standards:

- IFRS 11 "Joint arrangements" outlines the accounting treatment for joint arrangements, notable joint operations and joint ventures, to be applied retrospectively. This new standard became effective on January 1, 2013. There was no impact to the Company on adoption of this standard.
- IFRS 13 "Fair value measurement" defines fair value, provides guidance on measuring fair value and outlines disclosure requirements for fair value measurements. This standard applies when another IFRS standard requires fair value measurements or disclosures, with some exceptions

including IFRS 2 "Share based payments" and IAS 17 "Leases". This new standard became effective and was applied prospectively on January 1, 2013. There was no measurement impact to the Company on adoption of this standard. Refer to note 12 for the additional disclosure required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)

The Company has designed and implemented disclosure controls and procedures and internal controls over financial reporting. In the section titled "Disclosure Controls & Procedures and Internal Control over Financial Reporting" of its annual Management's Discussion & Analysis dated December 31, 2012, the Company reported certain material weaknesses in internal controls over financial reporting as at December 31, 2012. There have been no changes during the period ended March 31, 2013 that have a material effect on the disclosure controls and procedures or the internal controls over financial reporting.

OFF BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARES

As of the date of this MD&A, the Company has 27,479,010 common shares and 2,301,500 stock options issued and outstanding.

OUTLOOK

Industry Outlook

World-wide demand for potash continues to be volatile with some major producers implementing short term plant shut downs to manage supply into the marketplace. Overall potash prices have seen some sensitivity over the past 12 months settling into a range of $400 - $450 per tonne. The Company feels that the price of potash will receive significant support at this level and ultimately will increase back to higher levels in the medium to long term. In addition, declining Indian Government subsidies could eventually impact the level of demand and/or price however the Company's recent partnership with GSFC included a take or pay contract that would help mitigate the impact on the Company. There are brownfield expansions planned in the near to medium term and perhaps some greenfield developments that may come to fruition. These expansions will alter the supply/demand characteristics of the marketplace in the short term. However, the general feeling is over the medium to long-term that the industry will come back into balance. The Company continues to see this current situation as temporary however and anticipates the market to revert back to one of future growth. Population growth and the erosion of arable land are the key factors that the Company believes will fuel future potash demand. The Company expects global fertilizer demand to continue to increase due to the expectations from this growing population base with the need to supplement soils to meet the growing demand. Potash prices have reflected this volatility recently but the Company believes the medium to long term pricing environment will revert to a position of strength as companies attempt to meet this demand.

Capital Market Outlook

Access to the capital markets is crucial for all developing companies. The current volatility in the capital markets presents challenges to all developing companies. The Company has a strong working capital position at the end of the quarter of $59.5 million with a manageable cash burn rate and capital programs. This working capital will provide some protection for a period of time, however the Company will need to access the capital markets further to enter into the full construction phase of the Project. The Company remains confident that initiatives under way are progressing towards the construction phase and the Company will continue to monitor the capital markets for opportunities to raise capital. Of primary importance is the strong financial market syndicate that supports the Company and its plans and the strong relationship it has with each member of the syndicate.

Company Outlook

The Company achieved a tremendous amount of key milestones throughout the prior year and the first quarter of 2013 which has allowed the Project to be moved forward. The Company is very pleased with this progress and has a high level of confidence that the stage is set to move ahead into the construction phase of the Project. Several key initiatives remain to be accomplished that are set out below.

The Company is in the pre-development stage and therefore access to capital markets is critical to continue to progress. In addition to the debt discussed above, the Company will require additional equity financing to fill out the total funding required for the Project. The Company is confident it will continue to have adequate access to capital to meet its short and medium term business plan of continuing to develop its initial phase of its operations. The Company will continue to focus on the following key initiatives;

- Finalize Project debt financing by engaging lead syndicate arrangers and securing commitment on project debt;
- further discussions with other potential strategic partners complementary to GSFC;
- pursue additional equity to help fund the launch of full construction;
- continue to advance detailed engineering and site preparation to the point allowing the Company to enter into full construction activities at the site;
- plan and apply for the array of permits required for the construction of the production facility, and
- continue to hire key personnel required to construct the plant and mine.

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:

- 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;
- 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 speak only as of the date of this MD&A.

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

- 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 of 18 to 24 months following receipt of satisfactory financing and regulatory approvals;
- brine field preparation taking between 24 and 30 months;
- 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 mine of $593 million;
- 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 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;
- 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.