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 six months ended June 30, 2016 and 2015. This MD&A should be read in conjunction with the condensed unaudited interim financial statements of the Company and the related notes thereto for the six months ended June 30, 2016. This commentary is dated August 9, 2016. 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, 2015 audited financial statements. These documents, 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.

OVERVIEW

The Company intends to develop and extract potash from a carnallite-sylvite mineral deposit through a solution mining process, at competitive cost and with minimal environmental impact. Using a staged approach to potash plant construction, the Company plans to operate the initial facility at Wynyard, Saskatchewan (the "**Project**") to produce 625,000 tonnes per year ("**TPY**") of potash ("**Phase I**"), increasing to 1,375,000 TPY of potash ("**Phase II**") and 2,125,000 TPY of potash ("**Phase III**").

Second Quarter 2016 Update

In the second quarter of 2016 the Company focused on the following three areas to advance the Project:

1) negotiating the definitive terms in connection with the agreement in principle (the "**Agreement in Principle**") relating to (a) the financing of the Project (the "**Proposed Financing**"), and (b) the spin-out of Karnalyte's secondary mineral assets and unexplored lands into one or more separate entities (the "**Proposed Spin-out Transactions**");
2) implementing the second phase of the development program designed to increase KCl concentration in the brine solution (the "**Optimization Program**"); and
3) updating the National Instrument 43-101 technical report prepared by ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH, Amec Foster Wheeler Canada Ltd., and North Rim Exploration Ltd. and dated effective June 23, 2016 (the "**Technical Report**") for the Project.

Subsequent to the second quarter of 2016, in a press release dated August 2, 2016, the Company announced the cessation of negotiations with Gujarat State Fertilizers and Chemicals Limited ("**GSFC**") of the definitive terms in connection with the Agreement in Principle, as Karnalyte and GSFC have been unable to reach an agreement on certain fundamental terms of the Proposed Financing including with respect to governance matters and the terms with respect to the Proposed Spin-Out Transactions.

For more information regarding the Agreement in Principle, the Optimization Program, and the Technical Report refer to the Company's most recent Annual Information Form available on SEDAR at www.sedar.com.

RESULTS OF OPERATIONS

General and administrative expenses

General and administrative ("**G&A**") costs for the period ended June 30, 2016 amounted to $4,380,000 which is a decrease of $1,530,000 from the comparative 2015 amount.

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

G&A Expenditures (CAD $ thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries, wages and benefits	$ 510	$ 239	$ 962	$ 711
Business development, investor relations, regulatory fees	17	228	118	540
Accounting and legal	1,337	2,393	2,254	2,663
Consulting	200	999	350	1,190
Rent	46	60	74	123
Directors Fees	73	209	157	396
Other	244	157	465	287
Total general and administrative	$ 2,427	$ 4,285	$ 4,380	$ 5,910

Salaries, wages and benefits for the six months ended June 30, 2016 were $962,000 compared to $711,000 in 2015 which is an increase of $251,000. At the end of June 30, 2015, the Company had one employee on payroll compared to June 30 2016 where the Company had 10 permanent employees on payroll. Also in the second quarter of 2016, the Company hired 12 additional temporary staff at the site in Wynyard to assist with the Optimization Program.

Business development, investor relations and regulatory fees for the six month period ended June 30, 2016 amounted to $118,000 compared to $540,000 in the 2015 comparative period, which is a decrease of $422,000. During the first and second quarters of 2015, a significant portion of expenditures incurred in this area related to the proxy contest. Since no such event was taking place during the first and second quarters of 2016, there was a significant decrease in expenses.

Accounting and legal expenses for the six months ended June 30, 2016 were $2,254,000 compared to $2,663,000 in the comparative period, which is a decrease of $409,000. During the first and second quarters of 2015, significant legal expenses were incurred relative to the proxy contest. Since no such event was taking place during the first and second quarters of 2016, there was a decrease in expenses. However significant legal expenses were incurred during the first and second quarters of 2016 as the Company continues to negotiate and evaluate the Agreement in Principle, the Proposed Financing, and the Spin-out Transactions as announced during the first quarter of 2016.

Consulting expenses for the six months ended June 30, 2016 amounted to $350,000 compared to $1,190,000 in the comparative 2015 period, which is a decrease of $840,000. The decrease is due to the higher number of consultants engaged during the first and second quarters of 2015 relating to the proxy contest. Consulting expenses incurred during the first and second quarters of 2016 primarily related to the evaluation of the Agreement in Principle, the Proposed Financing, and the Spin-out Transactions.

Rent expense for the six months ended June 30, 2016 amounted to $74,000 compared to $123,000 for the comparative period, which is a decrease of $49,000. Rent has decreased due to the change in location of the Company's offices from Calgary to Saskatoon in September of 2015.

Director fees for the six months ended June 30, 2016 amounted to $157,000 compared to $396,000 for the 2015 comparative period representing a decrease of $239,000. The decrease is due to an overall decrease in the number of meetings held during the first and second quarters of 2016 compared to the first and second quarters of 2015. A higher number of meetings were held in the first and second quarters of 2015 as a result of the proxy contest.

Other expenses for the six months ended June 30, 2016 amounted to $465,000 compared to $287,000 for the comparative period representing an increase of $178,000. The majority of this increase is a result of an increase in travel expenses incurred relating to management, directors and financial advisors travel for the negotiation and evaluation of the Agreement in Principle, the Proposed Financing, and the Spin-out Transactions.

Other costs impacting comprehensive loss

Depreciation and amortization for the six month period ended June 30, 2016 was $197,000 compared to $383,000 in the 2015 comparative period. Depreciation decreased over the period as certain assets have become fully depreciated.

Share-based payments for the six month period ended June 30, 2016 was $20,000 compared to a reversal of $32,000 in the 2015 comparative period. Due to the Company restructuring of management and the Board that took place during the second quarter of 2015, the majority of the outstanding options at that time were forfeited resulting in a reversal of previous expense on non-vested stock options. During the first and second quarters of 2016, activity affecting stock-based compensation expense mostly consisted of stock options granted on January 12, 2016, when 90,000 stock options were granted to employees. Share based payments recorded in the first and second quarters of 2015 and 2016 are all non-cash in nature and are expensed over a two year vesting period.

Restructuring costs for the six month period ended June 30, 2016 were nil compared to the period ended June 30, 2015 of $3,451,000. The large expenses in the first and second quarters of 2015 related to the severance and contract termination penalty charges for senior officers and employees of the Company terminated during the first and second quarters of 2015. During the six month period ended June 30, 2015 nineteen employees were either terminated or resigned. No such expenses were incurred during the first and second quarters of 2016.

Impairment expenses for the six month period ended June 30, 2016 were $1,249,000 compared to the period ending June 30, 2015 of 75,000. In 2014, previous management determined assets with a carrying amount of $63,165,000 were no longer recoverable. At June 30, 2016 the Company assessed whether there was any indication that this previously recognized impairment loss required reversal. The Company has achieved a significant milestone in renewing its Technical Report on the Project and has seen a partial recovery in its market capitalization. Nevertheless, the Company, and the industry on a whole, faces significant headwinds including recent pricing on international potash contracts (the lowest in a decade), leading to Canadian potash mine shut-ins and production curtailments. Management continues to monitor these factors closely for potential indicators of impairment reversal. Therefore, incremental expenditures incurred on intangible and mine development assets during the first and second quarters of 2016 of $1,249,000 were determined not to impact the previously determined recoverable amount. We believe the Company will be required to assess its assets for reversal of past impairment if the Company successfully secures committed financing. For additional information, refer to the notes to the financial statements dated December 31, 2015 available on SEDAR at www.sedar.com.

Net finance income for the six month period ended June 30, 2016 was $241,000 compared to $133,000 in the 2015 comparative period. The amounts recorded as net 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. Interest income included in net finance income decreased $104,000 in the first and second quarters of 2016 compared to the first and second quarters of 2015. This decrease is due to the decrease in cash. This decrease was offset by a large foreign exchange gain recorded due to the improvement of the Canadian dollar relative to the US dollar during the first two quarters of 2016 and hence the increase overall in net finance income.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended at June 30, 2016:

Selected Quarterly Results								
	2016		2015				2014	
	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total revenue	$ -		$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive loss	(3,221)	(2,157)	(2,369)	(2,961)	(6,824)	(2,816)	(63,500)	(1,480)
Basic and diluted loss per share	(0.12)	(0.08)	(0.09)	(0.11)	(0.25)	(0.10)	(2.31)	(0.05)
Total current assets	22,361	26,260	28,067	29,973	32,268	38,736	41,026	43,084
Total assets	26,594	30,046	31,962	33,853	36,276	42,935	45,417	107,669
Total liabilities	1,992	2,295	2,064	2,022	2,219	1,913	1,689	564
Total shareholders' equity	24,602	27,751	29,898	31,831	34,057	41,022	43,728	107,105

*Expressed in thousands except loss per share

Comprehensive loss for the quarter ended December 31, 2014 is not indicative of a typical quarter due to significant impacts from the asset impairment of $59,149,000 and the expensing of the deferred financing costs and break fees of $2,899,000. Additional impairment expenses were incurred throughout the quarters in 2015 with the exception of the first quarter when no impairment expenses were incurred. During the first and second quarters of 2016, $409,000 and $840,000 respectively of expenses were recognized relating to the Optimization Program as discussed in the Overview section above.

Excluding these impacts, the comprehensive loss in the first and second quarters of 2016 were driven primarily by G&A expenses and particularly legal and consulting expenses relating to the Proposed Financing as discussed in the "Overview" section of this MD&A. These expenses are also what drove the loss in the last quarter of 2015. Other notable items during the second quarter of 2015 include restructuring expenses of $2,553,000 in relation 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 and legal expenses of $1,850,000 related to the proxy contest. Finally, another 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 third quarter ending 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.

Current assets principally reflect activity in the cash account. Cash outlays vary over the quarters depending on the Company's activities and expenditures.

Total assets decreased significantly due to the impairment expense and write off of deferred financing fees in the fourth quarter of 2014 noted above. Total assets remained relatively constant for the majority of the other periods and generally reflect the ongoing expenditures for general and administrative costs and capital expenditures.

Total liabilities for the periods relate primarily to trade and other payables. These balances vary in the quarters due to timing of payments that are required and the various work performed on developing the Project. The increase in the fourth quarter of 2014 compared to the other quarters during that year are a result of the accrual of disputed break fees in relation to the cancellation of certain contracts. This accrual remained on the books throughout 2015 and during the first two quarters of 2016. Overall the increase in liabilities during all of the quarters of 2015 and the first quarter of 2016 are a result of the increased expenses during the first part of 2015 resulting from the proxy contest and during the last half of 2015 and into the first quarter of 2016 due to increased activity relating to the planning and preparation of the Optimization Program planned for 2016 and the negotiation and evaluation activities related to the Agreement in Principle, the Proposed Financing, and the Spin-out Transactions. The change in liabilities for the quarter ended June 30, 2016 is due to an improvement in the US dollar exchange rate used to convert USD provisions to CAD at June 30, 2016 resulting in an overall decrease in provisions offset by an increase in trade and other payables due to the increased activity relating to the Optimization Program and negotiation and evaluation activities related to the Agreement in Principle, Proposed Financing and Spin-out Transactions.

INVESTING

The Company capitalizes costs that are determined to provide future benefits and charges other costs to comprehensive loss 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 property 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 resource reports, including the prior technical report, the Technical Report and 2013 Environmental Impact Statement, 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.

Intangible assets

During the period ended June 30, 2016, $1,249,000 in additions to intangible assets were expensed. $489,000 in additions were capitalized and they related to the purchase of lands related to the Project. The net balances classified as intangible assets are as follows:

Intangible Assets (CAD $ thousands)		
	June 30, 2016	December 31, 2015
Mineral property		
Surface land	$ 2,777	$ 2,288
Drilling	240	240
Balance, end of period	$ 3,017	$ 2,528

Capital assets

The net balances classified as capital assets are as follows:

Capital Assets (CAD $ thousands)		
	June 30, 2016	December 31, 2015
Machinery and equipment	$ 457	$ 641
Buildings	178	183
Land	125	125
Land improvements	32	33
Vehicles	41	-
Furniture and equipment	8	10
Assets under construction	-	-
Balance, end of period	$ 841	$ 992

There were two additions to capital assets in the six months ending June 30, 2016. Both additions were for the purchase of vehicles. These increases were offset by depreciation expenses recorded during the three and six months ended June 30, 2016 of $71,000 and $197,000, respectively resulting in an overall decrease in capital assets.

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 streams. The Company has currently identified two operating segments, potash and magnesium, however due to materiality they are currently grouped as one segment for financial reporting purposes. If magnesium reserves were advanced to a material stage, the Company would disclose a separate reporting segment.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2016, the Company had net working capital of $20.5 million compared to $30.2 million at June 30, 2015 including $21.8 million and $32.0 million, respectively, in cash. As at June 30, 2016 and 2015, the Company also had $0.4 million in restricted cash that was set up as a requirement from the Government of Saskatchewan in order 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 costs and existing capital plans and has sufficient funds to finance development and ongoing corporate functions.

CONTRACTUAL OBLIGATIONS

The following table summarizes the commitments of the Company as at June 30, 2016:

Contractual Obligations (CAD $ thousands)					
	Payments due by period				
	Total	Less than one year	Two - three years	Four - five years	More than five years
Trade and other payables	$ 544	$ 544	$ -	$ -	$ -
Provisions	1,290	1,290			
Office lease	146	146	-	-	-
Permit/lease on mineral property	8,495	246	932	932	6,385
Project contracts	851	851	-	-	-
Total	$ 11,326	$ 3,077	$ 932	$ 932	$ 6,385

Trade and other payables relate to operating and investing expenditures that were payable at the period ended June 30, 2016.

Office lease refers to the lease for the Saskatoon office location. The Saskatoon office is under a lease containing a monthly fee of $12,000 and will expire on August 31, 2017.

Mineral lease and permit obligations refer to the annual fees which are required to maintain the permit and lease areas related to the Project. On March 12, 2016, the Company applied to the Saskatchewan Ministry of the Economy to convert the lands subject to Permit KP 360A to one or more leases. As part of its applications to the Saskatchewan Ministry of the Economy, the Company submitted application fees, deposits, and the estimated first year's rent payments for the leases. On June 23, 2016, the Company signed two new lease agreements covering the land previously held under Permit KP360A. KL246 for 22,554.401 hectares and KL 247 for 7,037.349 hectares. These leases have a term of 21 years expiring on March 13, 2037. The Company is required to pay annual lease payments of $10.00 per hectare on any area held under lease for a term of twenty-one years for a total cost of $466,168 per year. The Company is required to expend not less than $3,000,000 for work during the first three years of the term of the lease. Expenditures made to date on the property have satisfied this requirement.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Stands ("**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 independent auditors. Significant areas requiring estimation include the assessment of impairment indicators and any subsequent determination of impairment over mineral properties and capital assets, including the estimates of total depleted reserves and the calculation of share-based payments.

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 its Project.

Continued exploration and development of the 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 and Property, Plant and Equipment

The Company's expenditures relating to the acquisition of mineral properties, leases, 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. 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. The Company also reviews capitalized amounts for impairment whenever events or changes in internal or external circumstances indicated that the carrying value may not be recoverable.

Upon indication that impairment may exist, carrying values of assets would be assessed for impairment. 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.

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.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to meet liabilities when due. As at June 30, 2016, the Company had cash totalling $21,757,000 (2015 – 32,015,000) to settle current liabilities of $1,834,000 (2015 - $2,072,000). As at June 30, 2016 and June 30, 2015, 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's future potash sales are exposed to price risk with respect to North American and international potash prices.

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 June 30, 2016, 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 June 30, 2016, 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 six months ended June 30, 2016, the Company earned interest income of $133,000 (2015 - $237,000) from its cash.

NEW STANDARDS AND INTERPRETATIONS 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. Karnalyte is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements.

IFRS 16 "Leases" –On January 13, 2016 the IASB issued IFRS 16 "*Leases*". The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*. Karnalyte is currently evaluating the impact of adopting IFRS 16 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* ("**NI 52-109**").

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 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 committees, among other records of the Company, to partly mitigate the aforementioned risk.

The Company does not have adequate in-house personnel to properly implement segregation of duties with respect to complex accounting and non-routine transactions that may arise. It is not deemed economically feasible at this time to have such personnel. The volume of transactions and reporting requirements puts significant strain on the limited accounting personnel such that the Company relies on external experts and assistance to complete these activities on time. During the fourth quarter of 2015, the former Interim Chief Financial Officer, working on a consulting basis was replaced by a permanent Controller who is also acting Interim Chief Financial Officer and now oversees the accounting affairs of the Company. While this has significantly improved the control environment, management is still of the view that the Company has not remediated these material weaknesses. 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.

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 NI 52-109.

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 27,560,010 Common Shares and 2,018,000 stock options issued and outstanding.

OUTLOOK

In 2016, the Company is focused on the two key areas to move the Project forward: 1) securing financing to construct Phase I, and 2) completing the second phase of the Optimization Program.

As noted above under the heading *Overview* of this MD&A, subsequent to the second quarter of 2016, Karnalyte and GSFC have ceased negotiations of the definitive terms in connection with the Agreement in Principle.

Any further announcements regarding the proposed transactions contemplated under the Agreement in Principle and regarding the Optimization Program will be disclosed in accordance with all applicable legal and regulatory requirements.

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;
- the completion of the Proposed Financing and the Proposed Spin-out Transactions and the anticipated benefits to be derived therefrom;
- the terms of the Proposed Financing;
- 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;
- future reductions in general and administrative costs resulting in a lower burn rate;
- 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 future stability of potash prices and the cyclical nature of potash prices;
- the Company's ability to commence and ramp up production from 625,000 TPY, to 1.375 million TPY, and thereafter to 2.125 million TPY of potash;
- the capital expenditures related to the Project will be lower than conventional underground mines;
- the use of solution mining process;
- the Company's ability to economically extract and process mineralized material into potash;
- the Company's ability to maintain a strong working capital position in the near term;
- the Company's ability to obtain additional financing on satisfactory terms;
- future increases in global fertilizer demand and consumption;
- anticipated results of development and extraction activities and estimated future development; and
- the possible reversal of a portion, or all, of the impairment loss.

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

- the global potash market stabilizes and the stock prices of potash companies rebound above the current depressed market;
- 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 obtains additional financing in the future;
- the Company is able to successfully negotiate definitive documentation with respect to the Proposed Financing;
- the Company is able to receive, in a timely manner, the necessary regulatory approvals, Board of Directors approval, shareholder approval and other third party approvals;
- the Company is able to obtain the Proposed Financing on terms favourable to it;
- the Company is able to successfully spin-out its secondary mineral rights and unexplored lands;
- the Company continues to have title to its properties, and such title is not challenged or impacted in any material manner; and
- the Company is able to obtain required approvals, licenses, leases and permits, in a timely manner.

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 the following factors, which are discussed in greater detail under the "Risk Factors" section of the Company's most recent Annual Information Form available on SEDAR at www.sedar.com:

- exploration, development and operation risks related to the Project;
- the risks associated with the Proposed Financing and the Proposed Spin-out Transactions;
- additional funding requirements;
- the risks associated with the limited operating history of the Company;
- no assurance of titles, leases or maintenance of existing permits;
- permit and licensing requirements related to exploration and development activities;
- the risks associated with the enforcement of the Company's material agreements;
- the potential loss of key employees, technical experts or key suppliers;
- the potential for a volatile market for the Common Shares;

- the potential dilution of shareholders through future financings;
- failure to protect the Company's intellectual property rights;
- litigation and tax matters;
- adequacy of the Company's insurance coverage;
- adequacy of the Company's internal controls over financial reporting;
- environmental and regulatory risks;
- the volatility of potash prices;
- the cyclical nature of the potash industry;
- competition; and
- currency exchange rate fluctuations.

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.