MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2017

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 nine months ended September 30, 2017 and 2016. 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 nine months ended September 30, 2017. This commentary is dated November 13, 2017. 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, 2016 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

Karnalyte was incorporated under the *Business Corporations Act* (Alberta) on November 16, 2007 and is a Saskatchewan-headquartered company focused on exploration and development of potash and magnesium in Saskatchewan. The Company intends to develop and extract a carnallite-sylvite mineral deposit through a solution mining process, at a competitive cost and with minimal environmental impact. Using a staged approach to potash and magnesium plant construction, the Company plans to operate the initial facility at Wynyard, Saskatchewan (the "**Project**" or the "**Wynyard Carnallite Project**") to produce 625,000 tonnes per year ("**TPY**") of potash ("**Phase I**"), increasing to 1,375,000 and 2,125,000 TPY of potash in subsequent phases of the project.

THIRD QUARTER 2017 UPDATE

The Company continues to focus on seeking financing to develop the Wynyard Carnallite Project. During the quarter, the Company engaged the services of a financial advisor to assist in assessing strategic alternatives.

During the quarter, the Company undertook an internal project to review the previously updated NI 43-101 compliant technical report (the "**Technical Report**") for the Wynyard Carnallite Project. The objective of this review is to identify project cost savings in respect of capital, operating and financing costs. This project is on-going.

In order to conclude the work done during the optimization program in 2016 (the "**Optimization Program**"), the following activities have been taking place at the Wynyard Carnallite Project site:

1. Cavern Testing – To gain an understanding of the final shape and conditions in the cavern, the Company intends to take sonar and blanket oil level logs, and temperature readings in the test cavern. The Company intends to deliver these logs to the Company's consultant, ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH, for analysis and a final update to their report on the Optimization Program.
2. Magnesium Testing - production brine containing $MgCl_2$ was extracted from the Belle Plaine zone in the test cavern and taken to the Saskatchewan Research Council for further testing. The aim was to explore the potential of producing high purity 99% plus Magnesium Compounds in a variety of

specified formulations that could meet different industrial specifications. SRC completed the lab processing work in September and will provide data from the tests. Karnalyte also intends to perform an evaluation of the potential markets for $MgCl_2$ brine, Basic Magnesium Carbonate (BMC) and MgO and to incorporate this into a final report.

3. Decommissioning 2016 cavern testing site – Karnalyte has largely decommissioned the site of the Optimization Program in accordance with the operating permit from the Government of Saskatchewan. All rental equipment has been returned and Company owned equipment and material has been moved to the permanent storage yard. This cleanup also further prepares the site for Phase I construction.
4. Disposal Well Temperature Log – To fulfill a condition of the licence for the disposal well, the Company intends to carry out a routine temperature log in November to ensure that the continued integrity of the well is being maintained. The work is also expected to open up the allowed two disposal zones, increasing the well's disposal capacity; some extra regulatory work is being done to permit and secure the overall disposal system.
5. To comply with terms of the environmental impact statement, the Company has engaged a consultant to prepare an updated decommissioning and reclamation plan for the overall Wynyard Carnallite Project area.

On July 20th, 2017, the Company's Board of Directors appointed Mr. W. Todd Rowan as interim Chief Executive Officer of the Company. The Board has also engaged Harris Leadership Strategies to perform a search for a new Chief Executive Officer.

Effective on July 30th, 2017, Mr. Siu Ma resigned as Executive Vice-president and Chief Operating Officer.

Subsequent to September 30, 2017

On October 26th, 2017, the Company received a statement of claim filed by Mr. Siu Ma, in the amount of $728,750. Mr. Ma's claim is for an alleged breach of contract for failure to provide payments to Mr. Ma after he terminated the employment agreement alleging a change of control had occurred. The Company is thoroughly assessing the claim with legal counsel and is considering all available recourse.

RESULTS OF OPERATIONS

General and Administrative Expenses

General and administrative ("**G&A**") costs for the period ended September 30, 2017 amounted to $2,258,000 which is a decrease of $3,903,000 from the comparative 2016 amount.

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

G&A Expenditures (CAD $ thousands)				
	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Salaries, wages and benefits	$ 209	$ 619	$ 1,030	$ 1,581
Business development, investor relations, regulatory fe	7	258	79	375
Accounting and legal	146	424	415	2,678
Consulting	59	124	74	475
Directors Fees	85	76	195	233
Office and general	141	280	465	819
Total general and administrative	$ 647	$ 1,781	$ 2,258	$ 6,161

Salaries, wages and benefits for the period ended September 30, 2017 were $1,030,000 compared to $1,581,000 in 2016 which is a decrease of $551,000. Salaries, wages and benefits for the first three quarters of 2017 are down in comparison to the similar period in 2016 due to some restructuring that took place during the first and second quarters of 2017 which resulted in the termination or resignation of 4 staff members two of which were former officers of the Company. One of the executive officers resigned in the third quarter which also contributed to the decrease. This is in comparison to the prior year period where the Company hired an additional 12 temporary staff at the site in Wynyard to assist with the Optimization Program. These individuals were employed during part of the second quarter, all of the third quarter and part of the fourth quarter of 2017. Since there was no such program operating in the 2017, these temporary staff were not required and as such those wages expenses were not incurred.

Business development, investor relations and regulatory fees for the period ended September 30, 2017 amounted to $79,000 compared to $375,000 in the 2016 comparative period, which is a decrease of $296,000. In the first three quarters of 2016, the company incurred expenses relative to the engagement public relations consulting and expenses relative to the evaluation of the evaluation of an agreement in principle (the "**Agreement in Principle**"), a proposed financing (the "**Proposed Financing**"), and proposed spin-out transactions (the "**Proposed Spin-out Transactions**") each as discussed in the MD&A dated May 12, 2016 and August 9, 2016. No such services were contracted in the first three quarters of 2017.

Accounting and legal expenses for the period ended September 30, 2017 were $415,000 compared to $2,678,000 in the comparative period, which is a decrease of $2,263,000. The decrease from the prior year comparative period is a result of legal expenses incurred in the first two quarters of 2016 relative to the evaluation of the Agreement in Principle, the Proposed Financing, and the Proposed Spin-out Transactions as discussed in the MD&A dated May 12, 2016 and August 9, 2016. Since no such financing was contemplated in the first three quarters of 2017, legal expenses have decreased.

Consulting expenses for the period ended September 30, 2017 amounted to $74,000 compared to $475,000 in the comparative 2016 period, which is a decrease of $401,000. The decrease is due to the higher number of consultants engaged during the first three quarters of 2016 primarily related to the evaluation of the Agreement in Principle, the Proposed Financing, and the Proposed Spin-out Transactions as discussed in the MD&A dated May 12, 2016 and August 9, 2016. Since no such financing was contemplated in the first three quarters of 2017, consulting expenses have decreased.

Director fees for the period ended September 30, 2017 amounted to $195,000 compared to $233,000 for the 2016 comparative period representing a decrease of $38,000. The decrease is due to a decrease in director fee rates for the first quarter of 2017 and fewer meetings held in the third quarter of 2017 compared to the third quarter of 2016.

Office and general expenses for the period ended September 30, 2017 amounted to $465,000 compared to $819,000 for the comparative period representing a decrease of $354,000. The majority of this decrease is a result of a decrease in travel expenses incurred in the first three quarters of 2017 compared to the first three quarters of 2016. In the first three quarters of 2016, $145,000 in travel expenses were incurred relating to management, directors and financial advisors travel for the negotiation and evaluation of the Agreement in Principle, the Proposed Financing, and the Proposed Spin-out Transactions as discussed in the MD&A dated May 12, 2016 and August 9, 2016. Since no such financing was contemplated in the first quarter of 2017, travel expenses decreased.

Other Costs Impacting Comprehensive Loss

Depreciation and amortization for the period ended September 30, 2017 was $213,000 compared to $269,000 in the 2016 comparative period. Depreciation decreased over the period as certain assets have become fully depreciated.

Share-based compensation expense for the period ended September 30, 2017 was $6,000 compared to $25,000 in the 2016 comparative period. Stock based compensation expense in the first three quarters of 2017 and the first three quarters of 2016 mostly consist of expenses related to the granting of stock options to officers and employees on January 12, 2016 when 90,000 stock options were granted. These expenses are all non-cash in nature and stock options are expensed over a two-year vesting period.

Restructuring costs for the period ended September 30, 2017 were $1,238,000 compared to nil in the 2016 comparative period. Part of this expense relates to severance paid in the first quarter of 2017 to the Company's former Executive VP, Corporate Counsel. Following its annual general meeting on May 5th, 2017, the Company reviewed its strategy and restructured its operations. The restructuring resulted in the terminations and resignations of certain officers and employees. During the second and third quarters of 2017, the Company estimated and accrued an additional $848,000 for costs of restructuring of which $450,000 was paid. Actual amounts may vary from this amount. No such expenses were incurred during the first three quarters of 2016.

Recovery of provision for the period ended September 30, 2017 was $1,316,000 compared to nil in the period ending September 30, 2016. In prior years, a provision was recorded resulting from previous debt financing no longer being probable and previous financing contracts being cancelled by the Company. The Company disputed that this amount was owed but nonetheless, accrued a provision to conservatively account for the potential liability. The limitations period on the financing contracts cancelled to which this provision relates expired in the first quarter of 2017 and so the Company wrote-off the provision.

Impairment expenses for the period ended September 30, 2017 were $392,000 compared to the period ending September 30, 2016 of $1,726,000. In 2014, previous management determined assets with a carrying amount of $63,165,000 were no longer recoverable. At September 30, 2017, the Company assessed whether there was any indication that this previously recognized impairment loss required reversal. Management concluded no impairment reversal is required. The Company and the industry as a whole continue to face significant headwinds including depressed pricing on international potash contracts. 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 period of $392,000 were determined not to impact the previously determined recoverable amount. For additional information, refer to the notes to the financial statements dated December 31, 2015 available on SEDAR at www.sedar.com.

Net finance expense for the period ended September 30, 2017 was $157,000 compared to $254,000 of income in the 2016 comparative period. The amounts recorded as net finance expense are in part a 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 expense decreased $97,000 in the first three quarters of 2017 compared to the first three quarters of 2016. This decrease is due to the decrease in cash. Also included in net finance expense is an amount of $255,000 recognized for the unrealized loss on the long-term investment entered into by the Company during the second quarter as discussed under the heading "Long-term Investment" below. This loss was recognized in order to record this long-term investment at its market value as at September 30, 2017. This loss along with a decrease in the foreign exchange gain recorded in the first three quarters of 2017 compared to the first three quarters of 2016 and an accretion expense of $11,000 recorded in the first three quarters of 2017 due to an increase in the estimate of the decommissioning liability resulted in an overall net finance expense recognized at September 30th, 2017 compared to net finance income recognized at September 30th, 2016.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended at September 30, 2017:

Selected Quarterly Results								
	2017			2016				2015
	Sep 30	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Total revenue	$ -	$ -		$ -	$ -	$ -	$ -	$ -
Comprehensive loss	(2,855)	(1,581)	(7)	(1,245)	(2,229)	(3,221)	(2,157)	(2,369)
Basic and diluted loss per sha	(0.10)	(0.06)	-	(0.04)	(0.08)	(0.12)	(0.08)	(0.09)
Total current assets	8,552	9,685	15,724	17,156	19,276	22,361	26,260	28,067
Total assets	19,235	20,557	21,521	23,024	24,392	26,594	30,046	31,962
Total liabilities	946	1,003	388	1,886	2,014	1,992	2,295	2,064
Total shareholders' equity	18,289	19,554	21,133	21,138	22,378	24,602	27,751	29,898

*Expressed in thousands except loss per share

The comprehensive loss in the first three quarters of 2017 was positively impacted by the recovery of provision as discussed above. Otherwise, the net loss for the third quarter was driven primarily by G&A expenses and particularly salaries and wages and office and general expenses incurred during the quarter.

In the first three quarters of 2017, the Company also estimated $1,268,000 in severance expenses due to some restructuring that took place in the first three quarters of 2017. Actual amounts may vary from this amount.

The comprehensive losses in the first, second and third quarters of 2016 were driven primarily by G&A expenses and particularly legal and consulting expenses relating to the evaluation of the Agreement in Principle, the Proposed Financing, and the Proposed Spin-out Transactions as discussed in the MD&A dated May 12, 2016 and August 9, 2016. Since the negotiations ceased in August of 2016, these activities did not take place in the fourth quarter of 2016 thereby resulting in a decrease in comprehensive loss in the fourth quarter of 2016 and the first quarter of 2017. The comprehensive loss in the fourth quarter of 2015 was also driven by legal and consulting expenses related to the negotiation and evaluation of the Agreement in Principle, the Proposed Financing, and the Proposed Spin-out Transactions as discussed in the MD&A dated May 12, 2016 and August 9, 2016.

Current assets principally reflect activity in the cash account. Cash outlays vary over the quarters depending on the Company's activities. There was a decrease in cash during the second quarter of 2017 as the Company invested $5,000,000 into a Bank of Montreal S&P/TSX Composite Low Volatility Index Principal Protected Deposit Note which is classified as a long-term investment as it has a maturity date of May 10th, 2022.

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 Wynyard Carnallite Project forward. Total assets remained relatively constant for most the periods above. The quarterly fluctuations generally reflect cash expended on G&A expenses.

Total liabilities for the periods relate primarily to trade and other payables. These balances vary in the analysis due to the timing of the payments required relative to the work performed in bringing the Wynyard Carnallite Project its current level. Balances have remained relatively consistent over the quarters presented with the exception of the first and second quarters of 2017 due to a consistent level of activity during most of those quarters. During the last part of 2015 activity related to the planning and preparation of the Optimization Program planned for 2016. During the first three quarters of 2016 activity relating to the planning, preparation and execution of the Optimization Program and the negotiation and evaluation of the Agreement in Principle, the Proposed Financing, and the Proposed Spin-out Transactions as discussed in the MD&A dated May 12, 2016 and August 9, 2016 which overall resulted in consistent levels of total liabilities. The decrease in the fourth quarter of 2016 is due to the conclusion of the negotiations related to the financing and the conclusion of the Optimization Program in that quarter. The decrease in the first quarter of 2017 is due to the write-off of the provision as discussed above and a decrease in overall activity compared to the other quarters presented. The increase in the second and third quarters of 2017 is due to the accrual of an estimate of the costs of restructuring that took place during the quarters.

INVESTING

The Company capitalizes costs that are determined to provide future benefits and charges other costs to comprehensive loss including 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.

Expenditures to date were focused on the completion of the Company's resource reports, including updating the Company's prior technical reports, 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 September 30, 2017, $392,000 in additions to intangible assets were impaired. $283,000 in additions were capitalized and they related to the purchase of lands related to the Wynyard Carnallite Project. The net balances classified as intangible assets are as follows:

Intangible Assets (CAD $ thousands)		
	Sept 30, 2017	December 31, 2016
Mineral property		
Surface land	$ 4,826	$ 4,543
Drilling	240	240
Balance, end of period	$ 5,066	$ 4,783

Capital Assets

The net balances classified as capital assets are as follows:

Capital Assets (CAD $ thousands)		
	Sept 30, 2017	December 31, 2016
Machinery and equipment	$ 141	$ 331
Buildings	165	173
Land	125	125
Land improvements	29	31
Vehicles	21	32
Furniture and equipment	6	7
Computer hardware	10	11
Assets under construction	-	-
Balance, end of period	$ 497	$ 710

There were no additions to capital assets in the nine months ending September 30, 2017. The decrease in capital assets is a result of depreciation expenses of $213,000 recognized in the period.

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.

Long-term Investment

On May 5th, 2017, the Company invested $5,000,000 into a Bank of Montreal S&P/TSX Composite Low Volatility Index Principal Protected Deposit Note, Series 76 (the "**BMO Note**"), with a closing date of May 10th, 2017. The BMO Note has a maturity date of May 10, 2022. During the quarter, the Company reviewed its options to cancel or otherwise dispose of the BMO Note. In late October 2017, BMO Nesbitt Burns Inc. agreed to redeem the BMO Note and refund the $5,000,000 which was then deposited into a high interest savings account.

If the Company had been unable to cancel or otherwise dispose of the BMO Note before maturity, at maturity, the Company would have received the deposit amount of $5,000,000 plus a variable return, if any, that would have been determined based on the price performance of the S&P/TSX Composite Low Volatility Index over the term of the BMO Note. The S&P/TSX Composite Low Volatility Index is designed to measure the performance of the 50 least volatile stocks within the S&P/TSX Composite Index.

At September 30th, 2017, the BMO Note is classified as a financial asset at fair value through profit or loss and as such is measured at fair value with any gains or losses arising from a change in fair value recognized in the statement of comprehensive loss. At September 30th, 2017, the BMO Note had a fair value of $4,745,000 and so an unrecognized loss was recorded of $255,000.

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 September 30, 2017, the Company had net working capital of $7.8 million compared to $17.4 million at September 30, 2016 including $8 million and $18.8 million, respectively, in cash. As at September 30, 2017 and 2016, 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 September 30, 2017:

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	$ 799	$ 799	$ -	$ -	$ -
Office lease	193	101	92	-	-
Permit/lease on mineral property	6,601	50	738	738	5,075
Project contracts	262	262	-	-	-
Total	$ 7,855	$ 1,212	$ 830	$ 738	$ 5,075

Trade and other payables relate to operating and restructuring expenditures that were payable at the period ended September 30, 2017.

Office lease refers to the lease for the Saskatoon office location. The Saskatoon office is under a lease containing a monthly fee of $8,000 that expires on August 31, 2019.

Leases on mineral property refer to the annual fees which are required to maintain the mineral leases related to the Wynyard Carnallite Project. The Wynyard Carnallite Project comprises 3 mineral leases. KLSA 010 has a term of 21 years and expires on September 7, 2031. KL246 and KL247A also have terms of 21 years and both expire on April 24, 2037. The Company is required to pay annual lease payments of $10.00 per hectare on any area held under lease for the term of the lease for a total cost of $368,900 per year. The Company is also 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 a financial advisor and an executive search firm.

Restrictions on Disposition of the Wynyard Carnallite Project

Pursuant to the terms of the subscription agreement (the "**Subscription Agreement**") and the offtake agreement (the "**Offtake Agreement**") between the Company and Gujarat State Fertilizer & Chemicals Limited ("**GSFC**"), each dated January 10, 2013, the Company must not divest, sell, assign, transfer or otherwise dispose of any part of its interests in the Wynyard Carnallite Project without the prior written consent of GSFC until the third anniversary of the date on which the first shipment for delivery of products is dispatched by the Company in accordance with the terms of the Offtake Agreement (the "**Project Lock In Period**"). After the expiry of the Project Lock In Period, a person may acquire an interest in the Wynyard Carnallite Project subject to GSFC's right to terminate the Offtake Agreement at that time. The Subscription Agreement provides that, subject to certain conditions, the above-described restrictions on disposition do not apply to a creation or grant of a security interest to a lender providing financing for the Wynyard Carnallite Project (including for an expansion thereof). The Offtake Agreement provides that following the expiry of the Project Lock In Period, the Company may dispose of any part of the Wynyard Carnallite Project that is not part of the Company's subsurface mineral lease KLSA 010 or that is not intended or reasonably required for the three phases of the Wynyard Carnallite Project.

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 are 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 indicate 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 September 30, 2017, the Company had cash totalling $8,029,000 (2016 – 18,821,000) to settle current liabilities of $799,000 (2016 - $1,855,000). As at September 30, 2017 and September 30, 2016, 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 BMO Note exposes the Company to risk factors relating to the market price of the BMO Note at the time of disposition due to changes in the price performance of the S&P/TSX Composite Low Volatility Index. The Company may also incur transactional and other expenses in the course of such potential disposition.

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 September 30, 2017, 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, 2017, the Company held the majority of its 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, 2017, the Company earned interest income of $86,000 (2016 - $183,000) from its cash.

During the quarter, the Company invested $5,000,000 of its cash in a Bank of Montreal S&P/TSX Composite Low Volatility Index Principal Protected Deposit Note. The principal on this investment is protected if held to maturity which is May 10, 2022. At that time, the deposit amount of $5,000,000 will be received along with a variable return, if any, determined based on the price performance of the S&P/TSX Low Volatility Index designed to measure the performance of the 50 least volatile stocks within the S&P/TSX Composite Index.

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, 2017. Application of the standard is mandatory and early adoption is permitted. Karnalyte is currently evaluating the impact of adopting IFRS 15 on its 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 financial statements.

Amendments to IAS 7 – In January 2016, the IASB issued amendments to IAS 7 "Statements of Cash Flows" as part of its "Disclosure Initiative". These amendments are required to be applied prospectively and are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Karnalyte does not expect the amendments to have a material impact on its 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 Interim Chief Executive Officer and Interim 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 Interim Chief Executive Officer and the Interim 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 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 and also to prevent and monitor the potential for management override. 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. In order to mitigate some of the risk of management override, the Company is now updating investment policies and investment decisions will now be approved by two members of management one of whom must be the Chief Financial Officer.

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 28,116,565 Common Shares and 915,000 stock options issued and outstanding.

FORWARD-LOOKING INFORMATION

Certain 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 information is often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "plan", "intend", "forecast", "future", "guidance", "may", "predict", "project", "should", "strategy", "target", "will" or the negative or similar words or phrases suggesting future outcomes or language suggesting an outlook.

Forward-looking statements may include, but are not limited to, management's expectations, intentions, and beliefs concerning:

- the development and operation of the Wynyard Carnallite Project;
- future extraction and exploitation of mineral deposits;
- capital expenditure requirements;
- future commodity prices;
- expectations regarding prices and costs;
- expectations regarding the Company's ability to obtain additional financing necessary to develop the Wynyard Carnallite Project;
- expectations regarding the production capacity of the Wynyard Carnallite Project;
- expectations regarding markets for potash in North America and globally;
- expectations regarding the distinction between standard-grade and high-grade potash;
- expectations regarding markets for magnesium;
- the effectiveness of the Company's anticipated solution mining methods;
- expenditures to be made by the Company to meet certain work commitments;
- work plans to be conducted by the Company;
- reclamation and rehabilitation obligation and liabilities;
- treatment under governmental regulatory regimes with respect to environmental matters;
- treatment under governmental taxation regimes;
- impact of foreign governments and regulation on the Company's operations;
- future development of infrastructure;
- government regulation of mining operations;
- dependence on key personnel; and
- competitive conditions.

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

- the Company's ability to commence and increase production from 625,000 TPY, to 1.375 million TPY, and thereafter to 2.125 million TPY of potash;
- the production of potash or magnesium;

- the costs related to the operation of the plant and facilities will be consistent with other solution mining operations subject to differences in the Company's mineral body and processing;
- the implementation and ongoing use of solution mining process;
- further seismic exploration and drilling;
- global fertilizer demand and consumption;
- Capital expenditure and operational expenditure estimates;
- anticipated results of development and extraction activities and estimated future developments;
- the Company's ability to produce sufficient potash to meet its obligations under the Offtake Agreement;
- the Company's ability to obtain additional financing on satisfactory terms;
- the market prices for potash and magnesium;
- the Company's ability to pump the waste underground to eliminate surface salt tail piles;
- the Company's ability to economically extract and process mineralized material into potash;
- the improvements that the Company has developed for the solution mining process are as effective as expected by the Company; and
- the potential cancellation or disposition of the Company's long-term investment.

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

- the stabilization of the global potash industry and market;
- the Company obtains additional financing in the future;
- the Company executes its project development plans in a manner consistent with the Company's technical report filed on July 15, 2016 (the "**2016 Technical Report**");
- the Company executes its discounted cash flow model assumptions as described in the 2016 Technical Report;
- estimates of mineral resources and mineral reserves in the 2016 Technical Report are accurate;
- full potash production is reached;
- that the Company continues to have rights to the property subject to subsurface mineral leases KL 246, KL 247A and KLSA 010, and such rights are not challenged or impacted in any material manner;
- that the Company is able to obtain required approvals, licences and permits, in a timely manner;
- the Company is able to successfully develop and market magnesium products;
- the Company's key senior management continue in their respective roles with the Company;
- the Company's intellectual property is not challenged;
- the Company does not become subject to litigation;
- the Company's ability to meet its obligations under the Offtake Agreement;
- environmental and other applicable law and other regulations are not amended, repealed or applied in a manner that impacts the development and operation of the Wynyard Carnallite Project as currently anticipated;

- there are no adverse changes to the price of potash or magnesium that would adversely affect the prospects for developing and operating the Wynyard Carnallite Project, or making it inadvisable or uneconomic to proceed with development;
- the future mining operations operate as anticipated;
- the Company's ability to maintain and develop positive relationships with foreign governments and future business partners;
- the Company is able to develop and maintain the infrastructure required to export, store and transport its potash or magnesium production;
- there are no comparable mining companies targeting carnallite in North America;
- the continued existence and operation of the primary potash production facility; and
- the Company will earn reasonable proceeds from the disposition of its long-term investment if sold prior to maturity.

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 Annual Information Form:

- exploration, development and operation risks related to the Wynyard Carnallite Project;
- the ability to secure adequate financing to implement the Company's strategic and development objectives;
- the ability to maintain adequate capital to meet the Company's financial commitments;
- the successful execution of the Company's project plans;
- the uncertainty regarding the estimation of mineral resources and mineral reserves in the 2016 Technical Report;
- the lack of current revenues and uncertainty about future revenues;
- the risks associated with the limited operating history of the Company;
- the lack of developed markets for the Company's magnesium products;
- the unproven nature of solution mining of carnallite in Saskatchewan;
- no assurance of titles, leases, or maintenance of existing permits;
- permit and licensing requirements related to exploration and development activities;
- the Company's ability to satisfy its material agreements, including the Offtake Agreement;
- the risks associated with the enforcement of the Company's material agreements, including the Offtake Agreement;
- the potential loss of key employees, technical experts or key suppliers;
- the potential for a volatile market for the Common Shares of the Company;
- 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 and magnesium prices;
- the cyclical nature of the potash and magnesium industries;
- availability and cost of labour and materials required for the construction of Phase I;
- 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.

Further information about the factors affecting forward-looking statements is available in Karnalyte's Annual Information Form and the audited annual financial statements for the year ended December 31, 2016, which have been filed with Canadian provincial securities commissions and are available on SEDAR at www.sedar.com.