MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 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 year ended December 31, 2017 and 2016. This MD&A should be read in conjunction with the audited financial statements of the Company and the related notes thereto for the year ended December 31, 2017. This commentary is dated March 24, 2018. The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). 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

General Overview

Karnalyte was incorporated under the *Business Corporations Act* (Alberta) on November 16, 2007 and is a Saskatchewan-headquartered company focused on the development of potash and magnesium operations in Saskatchewan. The Company's potash project in Wynyard, Saskatchewan (the "**Wynyard Project"**) is a proposed 2.125 tonnes per year ("**TPY"**) potash mine utilizing conventional solution mining methods for potash production. The Company proposes to develop the Wynyard Project in three phases using a modular approach, with a first phase ("**Phase I**") consisting of a potash production facility capable of producing 625,000 TPY of potash, increasing to 1,375,000 TPY of potash in the second phase, and ultimately to 2,125,000 TPY of potash in the third phase.

2017 – The Year in Review

2017 was a challenging year for the Company, both from a potash industry perspective, as well as from a corporate perspective. Potash markets in 2017 witnessed strong global demand, with major potash producers reporting record shipments, together with an increase in potash prices in all major markets. Notwithstanding the strong demand for potash, and an improving potash price environment, potash prices have not yet recovered to a level where the Wynyard Project is economically viable. As a result, it is still not possible for the Company to finance and profitably construct and operate a potash mine and production facility at the Wynyard Project site at the present time.

The Wynyard Project remains a construction ready potash project. All permits remain in place, preliminary detailed engineering is complete, and the existing offtake agreement with Gujarat State Fertilizers & Chemicals Limited ("**GSFC**") remains in place. Management believes that if potash prices continue to improve, then there will come a point where the Wynyard Project becomes economically viable and financeable, and the Company will then be in a position to pursue the construction and operation of the Wynyard Project.

The Company's strategic partner, GSFC, remains committed to both the Company and the Wynyard Project. GSFC has confirmed to the Company that it will continue to support the structuring of the most cost-effective financing package for the development of the Wynyard Project, similar to the support GSFC offered to the Company in 2016. See the Company's material change report filed on March 18, 2016 and MD&A dated March 14, 2017, both available on SEDAR at www.sedar.com.

Karnalyte RESOURCES

Wynyard Project

During 2017, the Company continued to undertake additional test-work flowing from the optimization and de-risking program completed during 2016 (the "**Optimization Program**"). The Optimization Program was designed to confirm the design parameters in the National Instrument 43-101 Technical Report dated June 23, 2016 (the "**Technical Report**"). For more information about the Technical Report, including a more detailed analysis and the assumptions and qualifications on which the Technical Report authors rely, see the Technical Report available on SEDAR at www.sedar.com. The Optimization Program included the following:

1. *Cavern Testing* – The Company measured the brine concentration, temperature, and blanket oil level in the Belle Plaine zone pilot test cavern to further match actual operating conditions to the ERCOSPLAN laboratory work and verify their modeling of the test cavern. This verification work was successful and confirmed brine design concentration and temperature set out in the Technical Report. In addition, the Company prepared a new sonar map of the test cavern for comparison with the initial sonar mapping done before the test cavern was created. Management believes that these two sonar maps will assist in analyzing the test results, improving the future detailed engineering design and optimizing the project economics. Further testing of the Patience Lake Member and the development of a dual well cavern was determined not to be necessary and will not be undertaken.

2. *Decommissioning 2016 Test Cavern Site* – Karnalyte largely decommissioned the test cavern site in accordance with the operating permit from the Government of Saskatchewan. All rental equipment was returned and most of the Company-owned equipment and material was moved to the permanent storage yard. These activities also prepared the site for Phase I construction.

3. *Disposal Well Temperature Log* – To fulfill a condition of the licence for the disposal well requiring a well temperature log every 5 years, the Company contracted North Rim Exploration Ltd. to carry out a routine temperature log in November, 2017 to ensure that the continued integrity of the disposal well is being maintained. In addition, this work included opening up the two disposal zones, thereby increasing the well's disposal capacity. The test work was interrupted by very early cold winter conditions on November 1, 2017 that interfered with the logistics of the water-based testing, and the decision was made to complete the temperature log in the spring of 2018.

4. *Magnesium Testing* – The Company extracted samples of the production brine containing $MgCl_2$ from the Belle Plaine zone pilot test cavern and provided those samples to the Saskatchewan Research Council ("**SRC**") for further lab scale testing. The purpose of the test work was to further verify Karnalyte's process to produce high purity 99% plus Basic Magnesium Carbonate ("**BMC**") in a specified variety of formulations to meet various industrial specifications for varying uses. SRC also completed testing to convert the BMC to high grade Magnesium Oxide ("**MgO**") under various calcination conditions. The Company also undertook an evaluation of the potential markets for $MgCl_2$ brine, BMC and MgO, which evaluation management believes confirmed the existence of viable markets for such products.

5. *EIS Compliance* - To comply with terms of the approved Environmental Impact Statement ("**EIS**") for the Wynyard Project, the Company engaged Dillon Consulting Limited, who had originally prepared the EIS, to prepare an updated decommissioning, reclamation and financial assurance plan for the Government of Saskatchewan. This is a standard requirement of the Government of Saskatchewan performed every 5 years. This plan defines the work and calculates costs that would be required to decommission and reclaim all existing site work undertaken, and facilities constructed, to date for the Wynyard Project, in the event that the project does not proceed. A draft plan has been provided to the

Saskatchewan Environment Ministry for review, and the updated plan is expected to be completed and accepted during 2018.

6. *Review of Project Economics* – The Company undertook a review of the economics of the Wynyard Project, which included a review of: a) alternate throughput levels; b) capital expenditure ("**capex**") and operating expenses ("**opex**") for the various throughput levels; and c) a review of the capex and opex for the Wynyard Project as presently designed, with a view towards identifying any potential cost savings.

a) The Company reviewed a variety of throughput levels for the Wynyard Project, ranging from 200,000 TPY potash production, through 250,000 TPY, 312,500 TPY up to the current Phase I design basis of 625,000 TPY potash production. Management believes that the results of this exercise confirmed that the current Phase I design basis of 625,000 TPY of potash production provides superior economics, as well as superior per tonne capex and per tonne opex, to any of the other throughput scenarios investigated.

b) During 2018, the Company plans to continue the review of the various throughput scenarios as part of an ongoing exercise to explore opportunities to improve the capex and opex for the Wynyard Project.

c) The Company also investigated the potential to find significant savings on capex and opex for the current Phase I design basis of 625,000 TPY of potash production through a review of all front-end engineering and solution mining design. While this investigation did reveal some potential savings in both capex and opex, management believes that they were not of such a magnitude as to materially affect either the current economics, or the ability to finance, the Wynyard Project in the current potash price environment.

7. *Review of Alternate Technologies* – The Company is aware of a number of conceptual ideas for novel solution mining and processing techniques and technology. The Company has spent considerable time investigating these ideas, and at present, management understands that none of these ideas have been progressed beyond the conceptual stage. Given none of these ideas has been the subject of any comprehensive program of test work whether bench scale, pilot scale, or industrial scale test work, these ideas remain untested and unproven for potash production. In designing the potash operations for the Wynyard Project, the Company has relied on conventional, industry standard, proven and workable technology. The Company plans to continue to monitor research and development programs regarding novel potash mining techniques and technologies.

Corporate Matters

2017 was also a challenging year for the Company from a corporate perspective. A number of senior executives resigned or were terminated, and the Company continues to face legal proceedings related thereto.

The Company engaged an executive search firm to undertake a global executive search for a new Chief Executive Officer. After a comprehensive six-month process, in February 2018 the Company announced the appointment of Frank Wheatley as President of the Company. The Company intends for Mr. Wheatley to become the permanent Chief Executive Officer, replacing Interim Chief Executive Officer, W. Todd Rowan, upon the Company arranging successful financing for the Wynyard Project.

Karnalyte RESOURCES

Outlook

During 2018, the Company will continue to ensure that it is in a position to make a final investment decision on the Wynyard Project if the improving potash price environment results in the Wynyard Project becoming economically viable and financeable.

With new senior management in place, the Company is undertaking a comprehensive review of its business, operations and strategy, and plans to have completed that review concurrently with the release of the 2018 first quarter financial results.

SELECTED ANNUAL INFORMATION

The information has been summarised from the Company's audited financial statements.

Selected Annual Results (CAD $ thousands)			
	Year ended December 31		
	2017	2016	2015
Total revenue	$ -	$ -	$ -
Interest and other income	114	296	160
Net and comprehensive loss	(3,395)	(8,852)	(14,536)
Basic and diluted per share	(0.12)	(0.32)	(0.53)
Total current assets	12,757	17,156	28,067
Total assets	18,602	23,024	31,962
Total current liabilities	691	1,750	1,883
Total liabilities	846	1,886	2,064
Total shareholders' equity	17,756	21,138	29,898

During the year ended December 31, 2017, the Company's focus was on seeking and analyzing financing alternatives for the Wynyard Project as discussed in the "Overview" section.

During the comparative year ended December 31, 2016, the Company's focus was on 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.

RESULTS OF OPERATIONS

General and administrative expenses ("G&A")

G&A costs for the year ended December 31, 2017 amounted to $2,838,000, which is a decrease of $4,148,000 from the comparative 2016 amount.

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

G&A Expenditures (CAD $ thousands)		
	Year ended December 31,	
	2017	2016
Salary, wages and benefits	$ 1,211	$ 2,129
Business development, investor relations, regulatory fees	84	385
Accounting and legal	540	2,659
Consulting	155	496
Directors Fees	267	273
Office and general	581	1,044
Total general and administrative	$ 2,838	$ 6,986

Salaries, wages and benefits for the year ended December 31, 2017 was $1,211,000 compared to $2,129,000 in 2016 which is a decrease of $918,000. The decrease from the prior year is due to some restructuring that took place during the year which resulted in the termination or resignation of 5 staff members, three of which were former officers of the Company. This is in comparison to the prior year where the Company hired an additional 12 temporary staff at the site in Wynyard to assist with the Optimization Program. Since there was no such program operating in 2017, these temporary staff were not required and as such those wage expenses were not incurred.

Business development, investor relations and regulatory fees for the year ended December 31, 2017 amounted to $84,000 compared to $385,000 in the 2016 comparative period, which is a decrease of $301,000. In 2016, the Company incurred expenses in the engagement of public relations consulting and expenses relative to the evaluation of the Agreement in Principle, the Proposed Financing, and 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 2017.

Accounting and legal expenses for the year ended December 31, 2017 were $540,000 compared to $2,659,000 in the 2016 comparative period, which is a decrease of $2,119,000. The decrease from the prior year 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 2017, legal expenses decreased.

Consulting expenses for the year ended December 31, 2017 amounted to $155,000 compared to $496,000 in the 2016 comparative period, which is a decrease of $341,000. The decrease is due to the higher number of consultants engaged in 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 2017, consulting expenses decreased. In 2017, consulting expenses were incurred for the engagement of a financial advisor to assist the Company in assessing potential strategic alternatives for the Company.

Director fees for the year ended December 31, 2017 amounted to $267,000 compared to $273,000 for the 2016 comparative period representing a decrease of $6,000. The slight decrease was 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 year ended December 31, 2017 amounted to $581,000 compared to $1,044,000 for the 2016 comparative period representing a decrease of $463,000. Most of this decrease is due to overall less activity at the project site in 2017 compared to 2016. A significant portion of this decrease also relates to a decrease in travel expenses incurred in 2017 compared to 2016. In 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 2017, travel expenses decreased. There was also a significant decrease in travel expenses relative to the departure of some executive officers that were previously being reimbursed for travel from Alberta to the Company's headquarters in Saskatoon.

Other costs impacting comprehensive loss

Depreciation and amortization for the year ended December 31, 2017 was $284,000 compared to $340,000 in the 2016 comparative period. Depreciation decreased over the year as certain assets have become fully depreciated.

Share-based compensation expense for the year ended December 31, 2017 was $13,000 compared to $30,000 in the 2016 comparative period which amounts to a decrease of $17,000. Stock based compensation expense in 2017 and 2016 mostly consisted of expenses related to the granting of stock options to employees on January 12, 2016 when 90,000 stock options were granted. A small amount of the expense in 2017, relates to the granting of stock options to directors, officers and employees on December 15th, 2017. These expenses are all non-cash in nature and stock options are expensed over a two-year vesting period.

Restructuring costs for the year ended December 31, 2017 were $1,238,000 compared to $nil in the period ended December 31, 2016. 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 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. Subsequent to year-end one of the outstanding claims was settled for an undisclosed amount. No such expenses were incurred in 2016.

Recovery of provision for the period ended December 31, 2017 was $1,316,000 compared to nil in the period ended December 31, 2016. In 2017, a recovery was recorded relating to a provision recorded in prior years as a result of a previous debt financing arrangement. The limitations period to which this provision relates expired in 2017 and so the Company reversed the provision as it is no longer probable a loss will be incurred.

Impairment expenses for the year ended December 31, 2017 were $597,000 compared to the year ending December 31, 2016 of $1,980,000. In 2014, previous management determined assets with a carrying amount of $63,165,000 were no longer recoverable. At December 31, 2017, the Company determined those impairment indicators continue to impact recoverability. The Company and the industry as a whole continue to face significant headwinds including depressed pricing on international potash contracts. Therefore, incremental expenditures incurred on intangible and mine development assets during the year of $597,000 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.

Gain on sale of asset for the year ended December 31, 2017 was $50,000 compared to $88,000 in the 2016 comparative period. During the year, the Company sold several swamp mats that were no longer required. These assets were fully depreciated and so proceeds on their sale resulted in a gain of $50,000. In 2016, the Company also sold several swamp mats that were no longer required. Again, since these assets were fully depreciated, proceeds on their sale resulted in a gain of $62,000. Also in 2016, one of the Company's vehicles was involved in an accident resulting in the insurance provider deeming the damages to be a total loss for which $26,000 in proceeds was received. This vehicle was fully depreciated and so these proceeds resulted in a gain.

Other income and expenses for the year ended December 31, 2017 amounted to $95,000 of income compared to $100,000 of income in the 2016 comparative period. The major item making up this amount in both periods is rental income from the leasing out of some of the Company's land holdings to local area farmers.

Net finance income for the year ended December 31, 2017 was $114,000 compared to $296,000 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 income decreased $115,000 in 2017 compared to 2016. This decrease along with an accretion expense of $19,000 recorded in 2017 due to an increase in the estimate of the decommissioning liability resulted in the overall decrease in net finance income from 2016 to 2017.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended at December 31, 2017:

Selected Quarterly Results
(CAD $ thousands)

	2017				2016			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive loss	(541)	(1,266)	(1,581)	(7)	(1,245)	(2,229)	(3,221)	(2,157)
Basic and diluted loss per share	(0.02)	(0.10)	(0.06)	-	(0.04)	(0.08)	(0.12)	(0.08)
Total current assets	12,757	8,552	9,685	15,724	17,156	19,276	22,361	26,260
Total assets	18,602	19,235	20,557	21,521	23,024	24,392	26,594	30,046
Total liabilities	846	946	1,003	388	1,886	2,014	1,992	2,295
Total shareholders' equity	17,756	18,289	19,554	21,133	21,138	22,378	24,602	27,751

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

In 2017, the Company also estimated $1,238,000 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.

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 and third quarters 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 was classified as a long-term investment as it had a maturity date of May 10th, 2022. In October 2017, the Bank of Montreal agreed to cancel the Company's investment in this deposit note. Upon cancellation, the Company received a refund of $5,000,000 which was deposited into a high interest savings account and thereby resulting in an increase in the cash account in the fourth quarter of 2017.

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 Project forward. Total assets remained relatively constant for the majority of the periods above.

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 Project to 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 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, third and fourth quarters of 2017 is due to the accrual of an estimate of the costs of restructuring that took place during the quarters.

Stock Options

2017

On December 15, 2017, the Company granted 530,000 stock options to employees, officers and directors. The options have an exercise price of $0.75 per option and will expire on June 15th, 2023, December 15th, 2023, June 15th, 2024 and December 15th, 2024.

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 year ended December 31, 2017, $597,000 in additions to intangible assets were impaired. $261,000 in additions were capitalized and they relate to the purchase of lands related to the Wynyard Project. The net balances classified as intangible assets are as follows:

Intangible Assets (CAD $ thousands)		
	Year ended December 31, 2017	2016
Mineral property		
Surface land	$ 4,804	$ 4,543
Drilling	240	240
Balance, end of period	$ 5,044	$ 4,783

All categories of intangible assets have been recognized with a $nil value with the exception of land and drilling for the years ended December 31, 2017 and 2016 as a result of the impairment losses. The identification of a potential buyer of the Wynyard Project in its entirety, or 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 current estimate of the recoverable asset. Such a situation would require the Company to review the impairment in future periods and could result in recovering a portion or all of this impairment.

Capital assets

The net balances classified as capital assets are as follows:

Capital Assets (CAD $ thousands)		
	Year ended December 31, 2017	2016
Machinery and equipment	$ 77	$ 331
Buildings	162	173
Land	125	125
Land improvements	29	31
Vehicles	18	32
Furniture and equipment	5	7
Computer hardware	10	11
Assets under construction	-	-
Balance, end of period	$ 426	$ 710

There were no additions to capital assets in 2017. The changes in capital assets from 2016 to 2017 are a result of depreciation expenses.

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.

Decommissioning obligations

The Company's decommissioning obligations are based on the Company's ownership in wells and facilities. Management estimates the costs to abandon and reclaim the wells and the facilities and the estimated time period during which these costs will be incurred in the future. The majority of these costs are expected to be incurred over the next 30 years. The undiscounted amount of estimated costs required to settle the obligations at December 31, 2017 is $212,000 (2016 – $212,000). The estimated costs have been inflated at 2.0 percent and discounted at a risk free rate of 2.16 percent (2016 - 2.08 percent) for the year ending December 31, 2017.

Segmentation Reporting

The Company's operating segments have been identified as the Company's individual mineral reserve 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, costs would be allocated to separate reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2017, the Company had net working capital of $12.1 million compared to $15.4 million at December 31, 2016 including $12.3 million and $16.8 million, respectively, in cash. As at December 31, 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. There is no certainty, however, that the Company will be able to raise additional funds to obtain the necessary capital to move the Wynyard Project forward to the production stage. See "Risk Factors" in the Annual Information Form.

CONTRACTUAL OBLIGATIONS

The following table summarizes the commitments of the Company as at December 31, 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	$ 691	$ 691	$ -	$ -	$ -
Office lease	201	121	80	-	-
Leases on mineral property	6,601	248	738	738	4,877
Project contracts	185	185	-	-	-
Total	$ 7,678	$ 1,245	$ 818	$ 738	$ 4,877

Trade and other payables relate to operating, investing and financing expenditures that were payable at the year ended December 31, 2017.

Office lease refers to the lease for the Saskatoon office location. The Saskatoon office is under a lease containing a monthly fee of $10,000 and will expire 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 Project. The Wynyard 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 various engineering and consulting services.

Restrictions on Disposition of the Wynyard Project

Pursuant to the terms of the subscription agreement (the "**Subscription Agreement**") and the offtake agreement (the "**Offtake Agreement**") between the Company and 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 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 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 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 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 Project.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and expenses. The Company evaluates the estimates periodically. In making judgments about the carrying values, the Company uses estimates based on historical experience and various assumptions that are considered reasonable in the circumstances. Actual results may differ from those reported. The Company reviews significant areas subject to estimation with the Company's Audit Committee. 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 Wynyard 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, permits and the exploration and development thereon are recorded at cost and include direct and indirect acquisition and exploration costs associated with specific mineral properties. These costs are capitalized on the basis of the potential realization from the underlying asset. Amortization of these amounts will be recognized using the unit-of-production method over the shorter of estimates of reserves or service life following the commencement of production or written off, if the properties are sold or abandoned.

Assets under construction, machinery and equipment, buildings, vehicles, furniture, land improvements and leasehold improvements are recorded at cost, less accumulated depreciation. 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 adjusted. Impairment conditions may result from any of the following items, but not limited to: cessation of exploration activities; exploration results are not promising such that exploration will not be planned for the foreseeable future; permit or lease ownership rights expire; sufficient funding is not expected to be available to complete the exploration program; an exploration property is deemed to have no material economic value to the Company's business plan or future development of the property becomes uneconomical.

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

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 are 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 December 31, 2017, the Company had cash totalling $12,265,000 (2016 – 16,752,000) to settle current liabilities of $691,000 (2016 - $1,750,000). As at December 31, 2017 and December 31, 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 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 December 31, 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 December 31, 2017, 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 year ended December 31, 2017, the Company earned interest income of $0.1 million (2016 - $0.2 million) from its cash. Had the interest rate been 100 basis point higher (or lower) throughout the year ended December 31, 2017, comprehensive loss would have been lower (or higher) by approximately $0.1 million (2016 - $0.2 million).

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IFRS 9 "*Financial Instruments*" – This standard introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the previous requirements. The Company will adopt IFRS 9 on January 1, 2018. The Company does not expect adoption of the new standard to have a material impact on the financial statements, however there may be some impact on disclosures.

IFRS 15 *"Revenue"* – This standard 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 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the new standard to have a material impact on the financial statements.

IFRS 16 "Leases" – This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease ability representing its obligation to make lease payments. IFRS 16 will replace IAS 17, Leases and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. Karnalyte is currently evaluating the impact of adopting IFRS 16 on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" – This standard provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 is effective for periods beginning on or after January 1, 2019 with early adoption permitted. Karnalyte is currently evaluating the impact of adopting IFRIC 23 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 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 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 820,000 stock options issued and outstanding.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the fourth quarter of 2017, Karnalyte received a statement of claim filed at the Court of Queen's Bench of Alberta by Mr. Siu Ma, the Company's former Executive Vice-president and Chief Operating Officer, in the amount of $728,750. Mr. Ma's claim is for an alleged breach of contract for the Company's failure to provide payments to Mr. Ma after he terminated the employment agreement alleging a change of control had occurred. The Company has denied Mr. Ma's allegations and filed a statement of defence.

Karnalyte is not aware of any other legal proceedings to which the Company is or was a party, or of which any of its property is or was the subject, during the financial year ended December 31, 2017. The Company is not aware of any contemplated proceedings.

During the financial year ended December 31, 2017, management is not aware of any penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority, nor any other penalties or sanctions imposed by a court or regulatory body against the Company. During the financial year ended December 31, 2017 the Company did not enter into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority.

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 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 Project;

- expectations regarding the production capacity of the Wynyard 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; and
- the improvements that the Company has developed for the solution mining process are as effective as expected by the Company.

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 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 Project as currently anticipated;
- there are no adverse changes to price of potash or magnesium that would adversely affect the prospects for developing and operating the Wynyard 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; and
- the continued existence and operation of the primary potash production facility.

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 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.