Karnalyte RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is intended to provide a summary of the operational and financial results of Karnalyte Resources Inc. ("Karnalyte" or the "Company") for the period ended June 30, 2015 and 2014. This MD&A should be read in conjunction with the unaudited financial statements of the Company and the related notes thereto for the period ended June 30, 2015. This commentary is dated August 12, 2015. The financial statements have been prepared in accordance with International Accounting Standard 34, interim financial statements and should be read in conjunction with the year-end December 31, 2014 financial statements. These documents, including the Annual Information Form and additional information about the Company are available on SEDAR at www.sedar.com. Some of the statements made herein contain "forward-looking information" and accordingly please refer to the "Forward-Looking Statements" section at the end of the MD&A.

OVERVIEW

This last year has been an exciting one for Karnalyte Resources. In 2015 shareholders witnessed competing visions for the company and voted overwhelmingly in favour of a reconstituted board of directors and their vision to develop Karnalyte's Wynyard Potash Project (the "Project"). We are pleased to announce that the Development Program is on track to optimize production from the underground caverns in preparation for the full-scale production facility.

Karnalyte's Potash Project is truly unique and ready to move forward. We have a proven solution mining method with low environmental impact, projecting low capital costs, low operating costs and a high-purity granular product. We are located in close proximity to necessary infrastructure, in a politically stable environment, with huge potential for expansion and a secondary product line that could significantly reduce potash operating expenses.

Most importantly, we have a strategic partnership with Gujarat State Fertilizers & Chemicals Limited ("GSFC"), one of the largest fertilizer companies in India. GSFC has signed a significant offtake agreement for up to 56% of the potash production from Karnalyte's 625,000 tonne per year facility. GSFC has indicated its willingness to assist Karnalyte by arranging funding for the Project which may be available on significantly more attractive terms than offered by North American Banks. Having a strong strategic partner in GSFC gives Karnalyte a significant competitive advantage in the marketplace.

Management believes that the outlook for potash demand is positive and that Karnalyte is well positioned to capitalize on this opportunity. Both demand and prices for granular potash are increasing and we have observed recent takeover activity with the majors looking to acquire advanced greenfield projects. With over $30 million in the treasury, only 27.479 million shares outstanding, and a strong relationship with GSFC, the next year will be a defining chapter for Karnalyte.

RESULTS OF OPERATIONS

General and administrative expenses (G&A)

G&A costs for the three and six months ended June 30, 2015 amounted to $4,319,000 and $5,985,000 which is an increase of $2,860,000 and $3,582,000 from the comparative 2014 amount.

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

G&A Expenditures				
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Salary, wages and benefits	$ 239	$ 830	$ 711	$ 1,246
Business development, investor relations, regulatory fees	228	193	540	307
Consulting	999	60	1,190	125
Accounting and legal	2,393	96	2,663	168
Directors Fees	209	55	396	132
Rent	60	70	123	144
Other	191	155	362	281
Total general and administrative	$ 4,319	$ 1,459	$ 5,985	$ 2,403

Salaries, wages and benefits for the three and six month periods ended June 30, 2015 was $239,000 and $711,000 compared to $830,000 and $1,246,000 in 2014. The decrease is a result of a significant headcount reduction related to the corporate restructuring. At the end of June 30, 2015 Karnalyte had one employee on payroll which was a reduction of 11 employees from March 31, 2015; as at March 31, 2015, there were 12 employees on payroll which was a reduction of 8 employees when compared to March 31, 2014.

Business development and investor relations expenses for the three and six month periods ended June 30, 2015 amounted to $228,000 and $540,000 compared to $193,000 and $307,000 in the 2014 comparative periods. The increase is mainly due to an amount of $185,000 incurred in the current quarter to respond to the proxy contest commenced in December 2014. In addition, other business development and investor relations costs were incurred during the quarter in connection with the evaluation and sourcing of potential future financing so that the company can commence full-scale construction of the production facility.

Accounting and legal expenses for the three and six month periods ended June 30, 2015 was $2,393,000 and $2,663,000 compared to $96,000 and $168,000 in the comparative periods. The increase was primarily driven by an increase in legal activities related to the proxy contest which was resolved during the quarter, as well as the sourcing and evaluation activities related to potential future financing which took place throughout the three and six month period ended June 30, 2015

Rent expense for the three and six month periods ended June 30, 2015 amounted to $60,000 and $123,000 compared to $70,000 and $144,000 for the comparative periods. Rent has decreased due to the change in location of the head office from Okotoks to Calgary with lower rental.

Consulting expenses for the three and six month periods ended June 30, 2015 amounted to $999,000 and $1,190,000 compared to $60,000 and $125,000 for the comparative 2014 periods. The increase in the current periods when compared to the same periods in 2014, were driven by prior management's retention of numerous outside consultants in connection with the proxy contest, which was ultimately resolved in Q2 2015. The increase in the 2015 period is predominately attributable to payments to previous senior officers of the Company whose services were provided under consulting arrangements.

Director fees for the three and six month periods ended June 30, 2015 amounted to $209,000 and $396,000 compared to $55,000 and $132,000 for the 2014 comparative periods. The increase is due to the creation of a committee of directors independent of Gujarat State Fertilisers and Chemicals Limited ("GSFC") to

evaluate the financing proposals with Indian counter-parties with which GSFC had a relationship and an overall increase in the number of meetings held throughout the period.

Other expenses for the three and six month periods ended June 30, 2015 amounted to $191,000 and $362,000 compared to $155,000 and $281,000 for the comparative period representing an increase of $36,000 and $81,000 respectively. The primary factor for the increased spending was the increase in the corporate insurance charged during the period. As well, there was an increase in travel and meal expenses during the period as a result of increased board activity.

Depreciation and amortization for the three and six month periods ended June 30, 2015 was consistent at $191,000 and $383,000 compared to $192,000 and $409,000 in the 2014 comparative period.

Share-based compensation expense for the three and six month periods ended June 30, 2015, there was a reversal of previously recognized share-based compensation expense of $142,000 and $32,000 compared to a reversal of $128,000 and expense of $184,000 in the 2014 comparative periods. Share based payments are all non-cash in nature. Due to company restructuring in the current quarter, the majority of the outstanding options forfeited resulted in a reversal of previous expense on non-vested stock options. Options were granted to directors, officers and management on March 21, 2013 and June 24, 2013. The options are expensed over a two year vesting period. No new options were issued in the current period ended June 30, 2015

Restructuring expenses for the three and six month periods ended June 30, 2015 was $2,553,000 and $3,451,000 compared to $nil in the 2014 comparative periods. This amount represents severance and contract termination penalty charges for senior officers and employees of the company terminated in the period ended June 30, 2015. During the three month period ended, there were eleven employees whom were either terminated or resigned, in the six month period ended, nineteen employees were either terminated or resigned. As at June 30, 2015, there was one employee on payroll at the company.

Net finance income for the three and six month periods ended June 30, 2015 was $97,000 and $133,000 compared to $162,000 and $350,000 in the 2014 comparative period. The funds related to finance income are a direct result of the amount of cash the Company is holding at a given time and the corresponding interest income the cash generates. As the cash amount decreases the interest income also decreases. Foreign exchange fluctuations are also captured in the net finance income amount. In the current period ending June 30, 2015 there were a higher amount of payables in US currency than in the comparative quarter and there was a significant fluctuation in foreign exchange rates over the past six months resulting in a negative impact of $99,000 in the statement of comprehensive loss.

SUMMARY OF QUARTERLY RESULTS

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

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Selected Quarterly Results									
	2015		2014				2013		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive loss	(6,824)	(2,816)	(63,500)	(1,480)	(1,347)	(1,254)	(1,410)	(2,006)	(1,676)
Basic and diluted loss per share	(0.25)	(0.10)	(2.31)	(0.05)	(0.05)	(0.05)	(0.05)	(0.07)	(0.06)
Total current assets	32,268	38,736	41,026	43,084	44,827	46,209	47,780	51,772	57,672
Total assets	36,276	42,935	45,417	107,669	109,109	110,220	111,457	114,100	114,865
Total liabilities	2,219	1,913	1,689	564	762	460	881	2,622	2,183
Total shareholders' equity	34,057	41,022	43,728	107,105	108,347	109,760	110,576	111,478	112,682

*Expressed in thousands except loss per share

Comprehensive loss for the quarter ended December 2014 is not indicative of a typical quarter due to significant impacts from the asset impairment expense of $59,149,000 and the expensing of the deferred financing costs and break fees of $2,899,000. Excluding these impacts, the comprehensive loss was driven primarily by G&A expenses incurred to fund the day to day operations of the Company. A main component of the quarterly losses relates to non-cash share based payment expenses for amortizing stock option costs. Stock based compensation expenditures range from a high of an expense of $684,000 in June 2013 to a reversal of $128,000 in June 2014 and a reversal of $143,000 in June 2015 as a result of forfeited options from employees, consultants and directors no longer with the Company. Restructuring expense of $2,553,000 was incurred in the three month period ended June 30, 2015 related to severance packages paid to senior officers and employees of the Company as well as contract termination penalties related to the consulting agreements of the company's senior officers. Legal expenses of $1,850,000 related to the proxy contest were incurred in the current quarter.

Current assets trends principally reflect activity in the cash account. Cash outlays vary over the quarters depending on the Company's activities. In June, September and December of 2013 the Company completed testing on water and disposal wells resulting in higher than normal cash spending. In addition severance amounts throughout the last three quarters of 2014 and into the first two quarters of 2015 range from a high of $1,146,000 in June 2015 and 899,000 in March 2015 to a low of $15,000 in December 2014.

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. Excluding the impairment expense and write off of deferred financing fees in the quarter ended December 31, 2014, total assets remained relatively constant for the majority of the periods above. The quarterly fluctuations generally reflect cash expended on G&A expenses.

Total liabilities for the periods illustrated relate primarily to trade and other payables. These balances vary in the analysis due to timing of payments that are required on the work required to bring the Project to the current level of completion. The increase throughout June and September of 2013 is a result of drilling projects and site preparation activities which were in process over the quarter ends and a large amount of payables and accruals were generated as a result. The higher liabilities in the quarter ended December

2014, March 2015 and June 2015 is related to an accrual of potential break fees in relation to the cancellation of the debt financing contracts by previous executive officers of the Company. The Company disputes that any such termination fees are owing. Additionally, the increase in total liabilities in the quarters ended March and June 2015 compared to December 2014 are related to increased payments in legal fees, consulting fees and severance payments related to the restructuring and proxy contest.

INVESTING

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

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

For the period ending June 30, 2015, capitalization of all expenditures have ceased.

Intangible assets

During the period ended June 30, 2015, the Company recognized expenses in relation to the following areas:

Intangible Assets		
	June 30, 2015	December 31, 2014
Mineral property		
Surface land	$ 2,142	$ 2,142
Drilling	240	240
Balance, end of period	$ 2,382	$ 2,382

*Expressed in thousands

Capital assets

During the period ended June 30, 2015, the Company capitalized $nil to capital assets. The net balances classified as capital assets are as follows:

Capital Assets		
	June 30, 2015	December 31, 2014
Machinery and equipment	$ 882	$ 1,240
Buildings	189	194
Land	125	125
Land improvements	34	35
Vehicles	10	25
Furniture and equipment	11	15
Balance, end of period	$ 1,251	$ 1,634

*Expressed in thousands

The decrease is a result of depreciation taken during the second quarter in the amount of $383,000.

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

Segmentation Reporting

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2015, the Company had net working capital of $30.3 million compared to $44.0 million at June 30, 2014 including $32.0 million and $45.0 million, respectively, in cash. As at June 30, 2015 and 2014, the Company also had $0.4 million in restricted cash due to a requirement from the Government of Saskatchewan to operate the test plant in Saskatchewan. The Company maintains cash in bank accounts for day to day operations and invests the excess in overnight financial instruments in high interest saving accounts that are highly liquid.

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

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations

	Payments due by period				
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Mineral lease and permit	$ 2,633	$ 74	$ 318	$ 340	$ 1,901
Trade and other payables	2,072	$ 2,072	-	-	-
Project contracts	434	$ 434	-	-	-
Office lease	303	$ 157	$ 146	-	-
Total	$ 5,442	$ 2,737	$ 464	$ 340	$ 1,901

*Expressed in thousands

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

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

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

Office leases are in place for both the Calgary and Saskatoon office locations. The Calgary space is under a lease with a monthly fee of $5,000 and will expire on August 31, 2015. The Saskatoon office is under a lease with a monthly fee of $12,000 and will expire on August 31, 2017. Subsequent to June 30, 2015, the Company has taken steps to close the Calgary office and consolidate all operations to the Company's Saskatoon and Wynyard locations.

CRITICAL ACCOUNTING ESTIMATES

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

Intangible assets and Property, Plant and Equipment

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

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

Upon indication that impairment may exist, carrying values of assets would be adjusted. Impairment conditions may result from any of the following items, but 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 employees, directors, officers and consultants, as explained in the Company's financial statements. IFRS requires that all share-based awards be accounted for using the fair value method. Under this method, the Black-Scholes option pricing model requires estimates of the expected life of the option, forfeiture rates, stock volatility and the risk-free interest rate expected over the life of the option. A change in these assumptions could materially change the amount of share-based payments expenses recorded.

Income taxes

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

FINANCIAL RISK FACTORS

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. The Company has no significant concentration of credit risk arising from operations. The Company's cash and restricted cash is held with large Canadian financial institutions and management believes the risk of loss to be remote. As at June 30, 2015 and 2014, the Company had receivables with a public insurance company, corporate banks and a limited number of customers who rent rig mats on a short-term basis such that management believes that the credit risk with respect to receivables is low.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to meet liabilities when due. As at June 30, 2015 the Company had cash totalling $32.0 million (2014 - $44.4 million) to settle current liabilities of $2.1 million (2014 - $0.6 million). As at June 30, 2015 and 2014 the Company's trade and other receivables were all considered current and are subject to standard trade terms.

The Company has determined to implement the Development Program in relation to the Wynyard Karnalyte Project, the estimated development costs are expected to be $4.25 million. The Company has adequate cash reserves cover the development costs related to the Wynyard property and continue operations for the foreseeable future.

Market risk

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

Currency risk

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

Interest rate risk

The Company's trade and other payables are non-interest bearing and have contractual maturities of less than 45 days. As at June 30, 2015, the Company's only interest bearing asset is cash in high interest saving accounts and a small amount of cash held in Guaranteed Investment Certificates. Cash earns interest at prevailing short-term interest rates. During the period ended June 30, 2015 the Company earned interest income of $237,000 (2014 - $360,000) from its cash.

NEW STANDARDS NOT YET ADOPTED

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

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

INTERNAL CONTROLS

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures for the timely and accurate preparation of financial and other reports. Such disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the periods specified by applicable securities regulations. In addition, the disclosure controls ensure that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's continuous disclosure filings. As with most small or developing companies and consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these disclosure controls and procedures should not exceed their expected benefits. As a result, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met. The President and Chief Financial Officer are responsible to evaluate the disclosure controls and procedures. They have concluded that the design and operation of these disclosure controls and procedures were not effective due to the existence of material weaknesses in the internal controls over financial reporting noted in the following section.

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

Internal Controls over Financial Reporting (ICFR)

The President and 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, not absolute, assurance that the objectives of the control system are met. An internal control system cannot prevent all errors and fraud.

The Company's management has assessed the design and operating effectiveness of internal controls over financial reporting. They have concluded that the design and operation of these disclosure controls and

procedures were not effective in the past due to the existence of material weaknesses in the internal controls over financial reporting. During the design and operating effectiveness assessment a material weaknesses in internal controls over financial reporting was identified, namely that, the Company does not have personnel to address complex accounting and non-routine transactions that may arise. It is not deemed as economically feasible at this time to have such personnel. When faced with unusual or non-routine issues, the Company relies on external experts for review and advice. Such circumstances may involve complicated financial issues and for tax planning, tax provision and compilation of corporate tax returns.

The Company mitigates these weaknesses through 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.

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

OFF BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARES

As of the date of this MD&A, the Company has 27,478,000 common shares and 3,025,000 stock options issued and outstanding.

OUTLOOK

Industry Outlook

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

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

Capital Market Outlook

Access to the capital markets is crucial for all developing companies. While junior companies in the exploration phase continue to face challenges in gaining access to the capital markets, investment activity surrounding advanced projects gained significant momentum during the second quarter. There are indications that the market will continue to strengthen for those companies with construction ready projects. For Karnalyte, access to the capital markets will be important but the Company is in ongoing discussions with its strategic partner, GSFC, to secure the necessary funding required to construct the full scale production facility.

Company Outlook

Following the election of six new directors at the Company's Annual Meeting of shareholders held on June 23, 2015, on July 14, 2015 the Company announced that it had restarted operations at Wynyard, Saskatchewan to develop the Wynyard Carnallite Project (the "Project). The Company has reopened its Saskatoon office, has re-hired key engineering and technical personnel, and has restarted the critical engineering and development work necessary to implement the planned Development Program which is designed to optimize production from the underground caverns, confirm KCl concentration and confirm equipment design parameters in preparation for construction of the full-scale production facility.

The Company plans to conduct the 2015 / 2016 Development Program in two Phases. Phase 1 has already begun and consists of securing the necessary permitting, procuring and installing equipment, and developing the cavern by injection of cold water. The Company plans to run Phase 1 until freeze-up in late 2015. Due to the large footprint of the ore body there is a significant distance between the water well, production well and disposal wells. While the full scale production facility is designed to operate in severe winter conditions, conducting the Development Program over such a large area in severe winter conditions is not practical.

Phase 2 is scheduled to commence in 2016, and consists of the implementation of the full scale test program to test KCl concentration at elevated temperatures of 40 to 50 degrees Celsius over a period of approximately 6 months. The Company estimates that the total cost of the Development Program will be approximately $4.25 million and could significantly enhance the Project's revenue projections and financial outlook.

The Company's largest shareholder, Gujarat State Fertilizers and Chemicals Limited. ("GSFC") has indicated its willingness to support Karnalyte by arranging Project financing based on GSFC's financial strength and relationships with Indian banking institutions. Such Project Financing may be available on significantly more attractive terms than offered by North American banks, specifically allowing the Company a substantial upfront debt disbursement without a corresponding initial equity infusion, the flexibility to raise required equity as a subordinated shareholder loan, and a commitment by GSFC or its affiliates to backstop required equity if needed.

The Company is in continuous discussions with GSFC regarding the terms for financing from the investment arm of one of India's largest banks. The Company's board of directors has formed a Finance Committee to negotiate the terms of the financing to fund the Project, which could be transformative for the Company.

FORWARD-LOOKING INFORMATION

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

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

In certain cases, forward-looking statements can be identified by the use of such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology. These statements reflect the Company's current expectations regarding future events and operating performance and are current only as of the date of this MD&A.

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

- the future stability of potash prices and the cyclical nature of potash prices;
- the potential for partnerships in global potash marketing;
- the Company's ability to maintain a strong working capital position in the near term;
- the Company's ability to commence production at 625,000 tonnes per year, and ramp up to production of 2.125 million tonnes per year;
- further seismic exploration and drilling;
- time to completion of plant construction of approximately 24 months following receipt of satisfactory financing and regulatory approvals;
- brine field preparation taking between 24 and 30 months;
- production run rates achieving 625,000 tonnes per year within 10 months following the completion of the processing plant;
- total capital expenditure for a 625,000 tonne production facility of approximately $600 million;

- the ability of the Company's strategic plan to position the Company for future success;
- anticipated results of development and extraction activities and estimated future development, and
- the Company's ability to obtain additional financing on satisfactory terms.

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

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

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Financial Risk Factors" elsewhere in this MD&A and under "Risk Factors" in the Company's Annual Information Form. Although the forward-looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Subject to applicable securities laws, the Company assumes no obligation to update or revise them to reflect new events or circumstances.