Karnalyte RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is intended to provide a summary of the operational and financial results of Karnalyte Resources Inc. ("Karnalyte" or the "Company") for the period ended March 31, 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 March 31, 2015. This commentary is dated May 13, 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

The year ended December 31, 2014 and the period since then to the date of this MD&A has been a challenging time for commodity based companies, including those in potash sector. In particular, there has been a weak international pricing environment for potash precipitated by the decision of Uralkali to break their marketing arrangement with JSC Belarusian Potash Company ("BPC").

The Company announced on January 2, 2015 that discussions with Indian banks to pursue financing were ongoing. These discussions, which began in the second half of 2014 and continued up to mid-April 2015, were focussed on obtaining the funds required to complete construction of the Wynyard Carnallite Project. However, in mid-April discussions were terminated as the Company could not obtain a financing proposal that the Company considered to be in its best interests and its shareholders.

In December 2014, Mr. Robin Phinney launched a dissident proxy fight. The Company has now set the date for its 2015 Annual General Meeting to be held June 23, 2015. Results from the meeting could see a significant change to the Company's board of directors and senior management. Such a change could have a material adverse effect on the Company's business, financial condition or results of operations. The Company is of the opinion that the current actions of Mr. Phinney have eroded and will continue to erode shareholder value. The Company believes that if Mr. Phinney and his proposed slate of directors gain control of the board further erosion of shareholder value would result.

The Company is required by IFRS to assess whether there are any external or internal indications that its assets may be impaired. If the Company determines that indicators exist, then an asset may be impaired and the assets recoverable amount must be calculated. As at December 31, 2014, the Company determined that there were indicators of impairment. As a result, the Company recognized a significant impairment and wrote-down the Wynyard Carnallite Project to $4,016,000. There can be no assurance that circumstances will change or that the market for potash will improve to the point where the Wynyard Carnallite Project would have a value in excess of its salvage value.

In recognizing the impairment, the Company determined fair value of the relevant assets less cost to sell based on the Company's estimate of the amount it would receive for the salvage value of individual assets. The Company's estimates were determined based on a third party valuation as well as recent transactions for comparable or similar assets. This impairment loss has no impact on cash resources or future tax shields that will be available to shelter taxable income.

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Concurrently with the required recognition of the impairment loss under accounting regulations, the Company's Board of Directors unanimously agreed to suspend all activity in relation to the Wynyard Project, other than the minimum required to maintain title to the Project, secure the site on a care and maintenance basis, and otherwise preserve intact the Wynyard Project. The Company also determined not to undertake any further development work at the Wynyard Project. The Company intends to review whether there is any possibility of finding a buyer for the Wynyard Project or whether it can be otherwise disposed of on reasonable terms, consistent with the restrictions to which the Company and the Wynyard Project are subject in the Company's various agreements with Gujarat State Fertilizers and Chemicals Limited.

Given the significant negative change in pricing for potash and magnesium, the Company no longer considers the Wynyard Carnallite Project to have a mineral reserve. The mineral reserves previously reported by the Company should therefore not be relied upon. This includes the mineral reserves reported in the Technical Report of the Company titled "*KCl and $MgCl_2$ Reserve and Resource Estimate for the Wynyard Carnallite Project, Subsurface Mineral Permit KP 360A and Subsurface Mineral Lease KLSA 010, Saskatchewan, Canada*" and dated 27 June 2012 and in the Technical Report of the Company titled "*Amended and Restated Reserve and Resource Estimate for the Wynyard Carnallite Project, Subsurface Mineral Permit KP 360A and Subsurface Mineral Lease KLSA 010, Saskatchewan, Canada*" and dated 30 March 2012. The Company has further determined that although it remains the Company's sole material non-cash asset, the Wynyard Project should no longer be considered to be a material mineral property of the Company.

Subsequent to March 31, 2014, the company terminated eight employees, to further reduce ongoing general and administrative costs and control cash flows. These terminations will have annual cost reductions of $1,078,000 and an anticipated severance cost of $915,000.

Subsequent to March 31, 2015 the Company decided to take steps to close the Saskatoon office.

RESULTS OF OPERATIONS

General and administrative expenses (G&A)

Primarily as a result of the efforts related to pursuing project financing, the proxy fight with Mr. Phinney and the work needed to determine the amount of the impairment of the Company's assets, G&A costs for the period ended March 31, 2015 amounted to $1,666,000 which is an increase of $722,000 from the comparative 2014 amount.

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

G&A Expenditures		
	Period ended March 31,	
	2015	2014
Salary, wages and benefits	$ 472	$ 416
Business development and investor relations	312	69
Consulting	190	65
Accounting and legal	270	72
Directors Fees	187	77
Rent	63	74
Other	172	171
Total general and administrative	$ 1,666	$ 944

*Expressed in thousands

Salaries, wages and benefits for the period ended March 31, 2015 were $472,000 compared to $416,000 in 2014 which is an increase of $56,000. The increase is as a result of salaries no longer being capitalized during the current quarter. Throughout the first quarter of 2014, of the total of 20 employees, the salaries and benefits of 8 of those individuals were previously being capitalized, with the salaries and benefits of the remaining 12 being expensed. In the current quarter there were a total of 12 employees with the salaries and benefits for all employees being expensed. The Company capitalized employee remuneration of $nil (2014 – $330,000) and share-based payments of $nil (2014 – $125,000) during the period ended March 31, 2015 for employees who were working directly on engineering, construction and product development.

Business development and investor relations expenses for the period ended March 31, 2015 amounted to $312,000 compared to $69,000 in the 2014 comparative period. The increase is mainly due to an amount of $185,000 incurred in the current quarter to respond to the proxy battle initiated by Mr. Phinney in December 2014. In addition, there was more travel required in the current quarter in connection with the evaluation of the potential financing with Indian counter-parties.

Consulting expenses for the period ended March 31, 2015 amounted to $190,000 compared to $65,000 in the comparative 2014 period. The increase in the 2015 period is partly attributable to payments to a senior officer of the Company whose services are provided under a consulting arrangement.

Accounting and legal expenses for the period ended March 31, 2015 was $270,000 compared to $72,000 in the comparative period. The increase mainly resulted from legal fees incurred pertaining to the evaluation of the potential Indian financing that took place throughout the first quarter of 2015. In addition legal fees were incurred responding to the proxy battle initiated by Mr. Phinney.

Director fees for the period ended March 31, 2015 amounted to $187,000 compared to $77,000 for the 2014 comparative period. The additional expenditure is mostly 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.

Rent expense for the period ended March 31, 2015 amounted to $63,000 compared to $74,000 for the comparative period. The rent has decreased due to the change in location of the head office from Okotoks to Calgary with lower rental fees due to a significantly smaller space.

Other expenses for the period ended March 31, 2015 remained consistent at $172,000 compared to $171,000 for the comparative period.

Depreciation and amortization for the period ended March 31, 2015 was $192,000 compared to $217,000 in the 2014 comparative period. These non-cash expenses were related to the purchase and subsequent depreciation of machinery and equipment and are proportionate to the capital assets the Company owned at the periods ending March 31, 2015 and 2014. There was no capital spending in the quarter ended March 31, 2015.

Stock-based compensation expense for the period ended March 31, 2015 was $110,000 compared to $312,000 in the 2014 comparative periods. Share based payments are all non-cash in nature. Options were granted to directors, officers and management on March 21, 2013, June 24, 2013 and July 4, 2014. As well on July 4, 2014 employee's options were repriced. The new options and the incremental benefits are expensed over a two year vesting period. No new options were issued in the current period.

Restructuring expenses for the period ended March 31, 2015 was $899,000 compared to $nil in the 2014 comparative periods. This amount represents a severance and change of control payment to a senior officer of the Company.

Other income and expenses for the period ended March 31, 2015 was income of $15,000 compared to $31,000 in the 2014 comparative period.

Net finance income for the period ended March 31, 2015 was $36,000 compared to $188,000 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 March 31, 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 three months resulting in a negative impact of $108,000 in the statement of comprehensive loss.

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SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended March 31, 2015:

Selected Quarterly Results								
	2015	2014				2013		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive loss	(2,816)	(63,500)	(1,480)	(1,347)	(1,254)	(1,410)	(2,006)	(1,676)
Basic and diluted loss per share	(0.10)	(2.31)	(0.05)	(0.05)	(0.05)	(0.05)	(0.07)	(0.06)
Total current assets	38,736	41,026	43,084	44,827	46,209	47,780	51,772	57,672
Total assets	42,935	45,417	107,669	109,109	110,220	111,457	114,100	114,865
Total liabilities	1,913	1,689	564	762	460	881	2,622	2,183
Total shareholders' equity	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 $684,000 in June 2013 to a credit of $128,000 in June 2014 as a result of forfeited options from employees, consultants and directors no longer with the Company. Restructuring expense of $899,000 was incurred in the March 2015 period related to severance paid to a senior officer of the Company. In addition an amount of $736,000 was incurred in relation to restructuring expenses incurred throughout 2014, primarily in the second quarter, relating to third party consulting fees combined with severance costs. The loss for the quarter ended September 2013 is inflated due to the inclusion of $392,000 for costs associated with a termination payment of a contract with a drilling company.

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 quarter of 2015 range from a high of $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, 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 various work performed on bringing the Project to the current level. The increase throughout the 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 and March 2015 is related to an accrual of potential break fees in relation to the cancellation of the

debt financing contracts that were negotiated by previous executive officers of the Company. The Company disputes that any such termination fees are owing.

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.

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 March 31, 2015, capitalization of all expenditures have ceased. The Company has taken measures to curtail all such expenditures except those required to maintain the Wynyard lease in good standing.

Intangible assets

During the period ended March 31, 2015, the Company capitalized $nil to intangible assets as represented below:

Intangible Assets				
		March 31, 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

There were no additions to intangible assets during the quarter ended March 31, 2015.

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Capital assets

During the period ended March 31, 2015, the Company capitalized $nil to capital assets. The net balances classified as capital assets are as follows:

Capital Assets		
	March 31, 2015	December 31, 2014
Machinery and equipment	$ 1,061	$ 1,240
Buildings	192	194
Land	125	125
Land improvements	34	35
Vehicles	17	25
Furniture and equipment	13	15
Balance, end of period	$ 1,442	$ 1,634

*Expressed in thousands

There were no additions to capital assets in the quarter ending March 31, 2015. The decrease is as a result of depreciation taken over the quarter in the amount of $192,000.

The identification of a potential buyer of the project in its entirety, or the Company's ability to secure adequate financing for the development of the mine on economic term, could result in a material difference from the Company's estimate of the recoverable asset.

Segmentation Reporting

The Company's operating segments have been identified as the Company's individual mineral streams. The Company has currently identified two operating segments, potash and magnesium, however due to materiality they are currently grouped as one segment for financial reporting purposes.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2015, the Company had net working capital of $37.0 million compared to $45.9 million at March 31, 2014 including $38.5 million and $45.8 million, respectively, in cash. As at March 31, 2015 and 2014, 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 care and maintenance and ongoing corporate functions.

CONTRACTUAL OBLIGATIONS

The following table summarizes the commitments of the Company as at March 31, 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	$	2,641	$	74	$	215	$	340	$ 2,012
Trade and other payables		1,733		1,733		-		-	-
Project contracts		426		426		-		-	-
Office lease		350		167		183		-	-
Total	$	5,150	$	2,400	$	398	$	340	$ 2,012

*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 year ended March 31, 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 containing a monthly fee of $5,000 and will expire on August 31, 2015. The Saskatoon office is under a lease containing a monthly fee of $12,000 and will expire on August 31, 2017. Subsequent to March 31, 2015, the Company has taken steps to close the Saskatoon office.

CRITICAL ACCOUNTING ESTIMATES

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

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. 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 is held with large Canadian financial institutions and management believes the risk of loss to be remote. As at March 31, 2015 and 2014, the Company had receivables with a public insurance company, corporate banks and a limited number of customers who rent mats on a short-term basis such that management believes that the credit risk with respect to receivables is low.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to meet liabilities when due. As at March 31, 2015 the Company had cash totalling $38,503,000 (2014 - $45,779,000) to settle current liabilities of $1,733,000 (2014 - $317,000). As at March 31, 2015 and 2014 the Company's trade and other receivables were all considered current and are subject to normal trade terms.

The Company has determined to suspend all activity in relation to the Wynyard Carnallite Project, other than the minimum required to maintain title to the Project, secure the site on a care and maintenance basis, and otherwise preserve intact the Project. The Company has adequate cash reserves to continue to satisfy the required permit and licensing fees to maintain the Wynyard lease in good standing 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 March 31, 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 March 31, 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 March 31, 2015 the Company earned interest income of $134,000 (2014 - $192,000) from its cash.

NEW STANDARDS NOT YET ADOPTED

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

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

Internal Controls over Financial Reporting (ICFR)

The 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 them 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. 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 due to the existence of material weaknesses in the internal controls over financial reporting noted below. An internal control system cannot prevent all errors and fraud. 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.

During the design and operating effectiveness assessment a material weaknesses in internal controls over financial reporting was identified. The weakness related to the Company not having full-time in-house 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.

OFF BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARES

As of the date of this MD&A, the Company has 27,479,010 common shares and 1,702,500 stock options issued and outstanding.

OUTLOOK

The Company continues to evaluate alternative opportunities to enhance shareholder value. The success of the Company's initiatives will be dependent in part on the state of the capital markets. Access to the capital markets is crucial for all developing companies and the current weakness in the capital markets for resource companies presents challenges to all such companies.

However, the on-going litigation between the Company and Mr. Robin Phinney and the outcome of Mr. Phinney's attempts to replace the majority of the Board of Directors of the Company will have a significant effect on the business of the Company and on the Company's strategic direction.

The Company's working capital position will be negatively impacted by the substantial expenditures the Company is being forced to incur related to the proxy situation and litigation with Mr. Phinney. The Company is continuing to pursue its plans to minimize regular expenditures.

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

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

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

- the Company's ability to maintain a strong working capital position in the near term; and
- the Company's ability to obtain additional financing on satisfactory terms.

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

- the Company 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; 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.