



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2022

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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 nine months ended September 30, 2022 and 2021. This MD&A should be read in conjunction with the condensed unaudited interim financial statements of the Company and the related notes thereto for the nine months ended September 30, 2022. This commentary is dated November 10, 2022. 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, 2021 audited financial statements. These documents, the Annual Information Form dated March 28, 2022 (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.

THIRD QUARTER UPDATE

COMPANY 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 "Potash Project") is a proposed 2.125 million tonnes per year ("TPY") potash mine that would utilize conventional solution mining methods, with a vision of ultimately becoming the next greenfield, environmentally innovative mine. The Company proposes that the Potash Project, key to Karnalyte's goal of becoming a low-cost, sustainable producer of high-quality product, be developed in three phases using a modular approach, with a first phase ("Phase I") consisting of a 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.

UPDATE TO THE NATIONAL INSTRUMENT 43-101 COMPLIANT TECHNICAL REPORT

The Company is providing a status report on the update to the NI 43-101 Compliant Technical Report ("Technical Report") or "Report", led by global consulting and engineering firm Wood PLC ("Wood").

Karnalyte has made diligent progress on this important step toward construction of its Wynyard Potash Project, despite unforeseen challenges that have resulted in delays.

In the later part of October, Wood provided Karnalyte with preliminary capital cost and operating cost estimates using budgetary pricing for mechanical equipment, mechanical bulks, and tanks that take into account the changes to Saskatchewan's tax regime, currency exchange rates and cost of labour. Karnalyte is reviewing these capital and operating cost quotes, while Wood works toward the completion of a financial model and final compilation of the report, expected in the new year.

The recent increase in potash prices has resulted in significant growth in Western Canada's economic activity, and this, in conjunction with supply chain constraints impacting suppliers worldwide is, among other factors, causing delays to the update to the Technical Report. Karnalyte will provide a further update as appropriate once the Technical Report is finalized.

“Karnalyte remains focused on advancing the update to the NI 43-101 Compliant Technical Report and has continued making steady progress, despite challenges the mining industry is facing beyond our control” said Danielle Favreau, interim Chief Executive Officer of Karnalyte. “The Company is committed to following best practices as we work through this critical step, which will ultimately serve as a strong foundation for our Wynyard Potash Project.”

To date, Karnalyte has achieved a number of key milestones in relation to the update to the Report. This includes engaging industry leading solution mining and engineering firm ERCOSPLAN ingenieurgesellschaft Geotechnik und Bergbau mbH (“ERCOSPLAN”), which provided Karnalyte with a positive review of core samples, and confirmation from Saskatchewan’s Ministry of Environment that Karnalyte’s previous Environmental Impact Study approval from 2013 remains valid.

RIGHTS OFFERING

On June 22, 2022, the Company announced the launch of a rights offering (the “Rights Offering”) as part of its capital raise strategy in order to provide a viable and attractive investment opportunity for existing shareholders. On August 3rd, the Company announced the successful completion of this Rights Offering, following its expiry on July 29, 2022, raising a total of \$3,862,000 in proceeds as additional capital for, among other things, the development of the Potash Project.

Karnalyte is pleased to announce the participation of Gujarat State Fertilizers and Chemicals Limited (“GSFC”) in the Rights Offering, a major agriculture sector business in India, providing additional investment in Karnalyte and further demonstrating its ongoing commitment and support for the Company and the Potash Project.

ESG STRATEGY DEVELOPMENT

In line with Karnalyte’s environmental advantages and governance advancements, the Company engaged with Karri Howlett Consulting Inc. (“Karri Howlett Consulting” or “KHCI”) earlier this year to prepare an Environmental, Social and Governance (“ESG”) strategy report. In October 2022, Karnalyte received a first draft of the report analyzing key focus areas per Karnalyte stakeholders, with practical recommendations under each of the Environmental, Social and Governance categories.

Karnalyte is in the process of reviewing the recommendations as it seeks to enhance its existing policies and practices, ensuring the Company is up to date and in line with current and peer ESG trends. Karnalyte maintains its ultimate goal of operating the business in the best interests of shareholders and relevant stakeholders to further strengthen its strategic position in the potash sector.

OUTLOOK FOR 2022

In the fourth quarter of 2022, the Company will continue to focus on the completion of the update to the NI 43-101 compliant technical report and efforts to further support the raising of project financing and project development.

RESULTS OF OPERATIONS

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative (“G&A”) costs for the nine-month period ended September 30, 2022 amounted to \$1,013,000 which is a decrease of \$674,000 from the comparative 2021 amount.

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

	G&A Expenditures (CAD \$ thousands)			
	Three months ended Sept 30,		Nine months ended Sept 30,	
	2022	2021	2022	2021
Salaries, wages and benefits	64	64	194	234
Business development, investor relations, regulatory fees	2	7	94	61
Accounting and legal	(6)	2	159	328
Consulting	30	67	117	261
Directors Fees	58	63	179	161
Office and general	90	114	270	342
Total general and administrative	238	317	1,013	1,387

Salaries, wages and benefits for the nine-month period ended September 30, 2022 were \$194,000 compared to \$234,000 in 2021 which is a decrease of \$40,000. Salaries, wages and benefits decreased as the Company implemented some restructuring at the end of the second quarter of 2021. The resulting cost savings are reflected here and in future quarters.

Business development, investor relations and regulatory fees for the nine-month period ended September 30, 2022 amounted to \$94,000 compared to \$61,000 in the 2021 comparative period, which is an increase of \$33,000 largely relating to website and brand update efforts.

Accounting and legal expenses for the nine-month period ended September 30, 2022 were \$159,000 compared to \$328,000 in the comparative period which is a decrease of \$169,000. In the first three quarters of 2021, accounting and legal efforts were required as a result of the originating application filed by Messrs. Peter Matson and Gregory George Szabo and the statement of claim filed by Mr. Dan Brown. While the originating application legal action remains outstanding, fewer costs were incurred in the first three quarters of 2022 as compared to 2021 along with an insurance reimbursement received in the third quarter of 2022. Subsequent to September 30, 2022, the Company reached a final settlement with Mr. Dan Brown for which the Company had received a statement of claim filed against the Company, Frank Wheatley, Mark Zachanowich, Peter Matson, Todd Rowan, Gregory Szabo, Sanjeev Varma and Vishvesh Nanavaty in the first quarter of 2021. The Company has recognized the amount owing to Mr. Dan Brown and a related insurance recovery in the third quarter of 2022.

Consulting expenses for the nine-month period ended September 30, 2022 amounted to \$117,000 compared to \$261,000 in the 2021 comparative period, which is a decrease of \$144,000. In the first three quarters of 2021, the expenses in this category related to the completion of the strategic review and a consulting

contract with the interim CFO. Since the strategic review concluded in 2021, the costs in this category for the first three quarters of 2022 are lower than the comparative period.

Director fees for the nine-month period ended September 30, 2022 amounted to \$179,000 compared to \$161,000 for the 2021 comparative period, which is an increase of \$18,000. Expenses have increased as the number of directors increased from three in the first two quarters of 2021 to five in the third quarter of 2021. The number of directors remains at five in the first three quarters of 2022.

Office and general expenses for the nine-month period ended September 30, 2022 amounted to \$270,000 compared to \$342,000 for the comparative period representing a decrease of \$72,000. The majority of this decrease is due to the expiration of the Saskatoon office lease in the third quarter of 2021, which also decreased the utilities expense in 2022.

OTHER COSTS IMPACTING COMPREHENSIVE LOSS

Depreciation for the nine-month period ended September 30, 2022 was \$9,000 compared to \$46,000 in the 2021 comparative period. Since the Saskatoon office lease expired on August 31, 2021, expenses in this category decreased as there is no longer a right of use asset to depreciate.

Share-based compensation expense for the nine-month period ended September 30, 2022 was \$32,000 compared to \$21,000 in the 2021 comparative period. Share-based compensation expenses in the first three quarters of 2021 related to the granting of 460,000 stock options granted in July 2020. In the first three quarters of 2022, share-based compensation expenses related to both the 460,000 stock options granted in July 2020 as well as the 300,000 stock options granted in November 2021. These expenses are all non-cash in nature and stock options are expensed over a two-year vesting period using a declining balance method.

Restructuring costs for the nine-month period ended September 30, 2022 were \$nil compared to \$124,000 in the 2021 comparative period representing a decrease of \$124,000. In the second quarter of 2021, an accrual of \$124,000 was made to account for the costs of restructuring that took place during the quarter. There was no restructuring in the first three quarters of 2022.

Impairment expenses for the nine-month period ended September 30, 2022 were \$759,000 compared to the period ending September 30, 2021 of \$410,000. In 2014, previous management determined assets with a carrying amount of \$63,165,000 were no longer recoverable. At September 30, 2022, the Company determined that those impairment indicators continue to exist. Therefore, incremental expenditures of \$759,000 incurred on intangible and mine development assets in the first three quarters of 2022 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.

Other income for the nine-month period ended September 30, 2022 was \$474,000 compared to \$196,000 in the 2021 comparative period. While there is some rental income in this category from leasing the Company's land holdings to local Wynyard area farmers, the majority relates to a \$459,000 recovery recorded as a result of a change in estimate of the Company's decommissioning liability, as compared to the \$183,000 recovery recorded in the first three quarters of 2021.

Gain on disposal of capital assets for the nine-month period ended September 30, 2022 was \$nil compared to \$99,000 in the 2021 comparative period. In the third quarter of 2021, the Company sold some non-strategic assets for proceeds of \$101,000, resulting in a \$99,000 gain on disposal of capital assets.

Gain on disposal of mineral properties and intangible assets for the nine-month period ended September 30, 2022 was \$66,000 compared to \$1 in the 2021 comparative period. During the second quarter of 2022, the Company disposed of a mineral properties and intangible asset for net proceeds of \$275,000 which had a net book value of \$209,000 at the time of sale.

Net finance expense for the nine-month period ended September 30, 2022 was \$1,000 compared to \$2,000 in the 2021 comparative period. Finance income relates to the corresponding interest income that the cash and cash equivalents generate. Finance expense relates to the accretion of the decommissioning liability, which was higher in the first three quarters of 2022 as compared to 2021.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected financial information of the Company for each of the last eight quarters ended at September 30, 2022:

	Selected Quarterly Results							
	2022			2021		2020		
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Total revenue	-	-	-	-	-	-	-	-
Comprehensive (loss)	(432)	(424)	(419)	(498)	(279)	(839)	(577)	(1,290)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.03)
Total current assets	4,628	1,504	1,934	2,498	2,793	3,388	4,177	5,291
Total assets	10,306	7,185	7,826	8,393	8,695	9,305	10,110	11,241
Total liabilities	1,976	2,225	2,468	2,630	2,438	2,774	2,748	3,311
Total shareholders' equity	8,330	4,960	5,358	5,763	6,257	6,531	7,362	7,930

*Expressed in thousands except loss per share

The comprehensive losses in all of the quarters were driven primarily by G&A expenses, particularly accounting and legal expenses, consulting expenses, salaries and wages and office and general expenses.

The fourth quarter of 2020 was negatively impacted by an increase in legal expenses, investor relations and consulting fees largely due to the December 15, 2020 special meeting, as well as increased accounting fees relating to the year end audit. These negative impacts were slightly offset by the receipt of land rental income in the fourth quarter of 2020. The first quarter of 2021 was negatively impacted by legal, accounting and consulting expenses as compared to the first quarter of 2020. In the second quarter of 2021,

consulting, office and general and restructuring expenses negatively impacted comprehensive loss as compared to the second quarter of 2020. The third quarter of 2021 was positively impacted by a reduction in salaries, a reduction in legal expenses, reduction in consulting, and the gains from selling non-strategic assets as compared to the comparative quarter of 2020. The loss in the fourth quarter of 2021 largely relates to expenditures in the normal course of business relating to mineral leases, directors fees, audit accrual, legal fees, consulting fees, salaries, and insurance. During the first three quarters of 2022, impairment expenditures increased due to the update of the NI 43-101 technical report.

Past performance is not a guarantee of future performance and the information in this MD&A is not necessarily indicative of results for any future period. Factors expected to impact general and administrative expenses in future periods have been described throughout this MD&A.

Current assets principally reflect activity in the cash and cash equivalents account. Cash outlays vary over the quarters depending on the Company's activities. On August 3, 2022, the Company's Rights Offering was completed which resulted in an issuance of 11,034,135 common shares at a price of \$0.35 per share for gross proceeds of \$3,862,000.

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 Potash Project forward. Total assets remained relatively constant for most of the periods above, with the exception of the increase in the third quarter of 2022 due to the Rights Offering.

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 Potash Project to its current level. Balances in all the quarters presented include the accrual of an estimate of the costs of restructuring that took place in the second and third quarters of 2017. In the fourth quarter of 2020, legal, consulting and investor relation activities increased in response to the receipt of the requisition of a special meeting by a group of dissident shareholders. Balances in the first quarter of 2021 decreased as compared to the fourth quarter of 2020 as the 2018 originating application was fully resolved and awarded costs were paid, which was partially offset with increased liabilities resulting from the 2021 originating application and statement of claim filed against the Company. Balances in the second quarter of 2021 increased slightly due to the restructuring that took place during that quarter. This restructuring was paid in the third quarter of 2021, reducing the total liabilities from the prior quarter end balance. In the fourth quarter of 2021, the balance increased due to the advancement of the technical report update. While the advancement of the technical report update was paid in the first quarter of 2022, it was offset by the annual mineral lease invoices. Total liabilities reduced in the first three quarters of 2022 as a recovery was recorded on the decommissioning liability due to increases in the average bond and inflation rates.

Total shareholders' equity is impacted by the quarterly comprehensive losses and the share-based compensation expense as the number of shares outstanding usually remains unchanged. However, in the second quarter of 2022, share options were exercised and, as a result, the Company issued 75,000 common shares for proceeds of \$14,000. Also, on August 3, 2022, the Company's Rights Offering was completed which resulted in an issuance of 11,034,135 common shares at a price of \$0.35 per share for gross proceeds of \$3,862,000. The Company did not pay any commission on the Rights Offering. The Company paid \$67,000 in

legal, regulatory and printing costs in relations to the Rights Offering. As at September 30, 2022, the Company had 53.28 million common shares outstanding.

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 nine-month period ended September 30, 2022, \$759,000 in additions to intangible assets were impaired. The additions to intangible assets all related to the Potash Project. The net balances classified as intangible assets are as follows:

	Intangible Assets (CAD \$ thousands)	
	September 30, 2022	December 31, 2021
Mineral property		
Surface land	4,804	4,804
Drilling	245	453
Balance, end of period	5,049	5,257

During the second quarter of 2022, the Company disposed of a mineral properties and intangible asset for net proceeds of \$275,000 which had a net book value of \$209,000 at the time of sale.

CAPITAL ASSETS

The net balances classified as capital assets are as follows:

	Capital Assets (CAD \$ thousands)	
	September 30, 2022	December 31, 2021
Machinery and equipment	2	2
Buildings	107	115
Land	125	125
Land improvements	20	21
Furniture and equipment	-	-

Computer hardware	-	-
Assets under construction	-	-
Balance, end of period	254	263

There were no additions to capital assets in the first three quarters of 2022. The decrease in capital assets is a result of depreciation expenses of \$9,000 recognized during the first three quarters of 2022.

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

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2022, the Company had net working capital of \$4.0 million compared to \$2.0 million at September 30, 2021 including \$4.1 million and \$2.2 million, respectively, in cash and cash equivalents.

As at September 30, 2022 and 2021, the Company also had \$0.4 million in restricted cash that was set up as a requirement from the Government of Saskatchewan with respect to reclamation obligations regarding the Potash Project. The Company has updated its reclamation program for the Potash Project in accordance with Government of Saskatchewan regulations. This update may result in the requirement to increase the amount held as restricted cash in order to satisfy the financial assurance requirements of the Government of Saskatchewan in future periods.

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 as well as treasury bills that are highly liquid.

On August 3, 2022, the Company's Rights Offering was completed which resulted in an issuance of 11,034,135 common shares at a price of \$0.35 per share for gross proceeds of \$3,862,000. The Company did not pay any commission on the Rights Offering. The Company paid \$67,000 in legal, regulatory and printing costs in relations to the Rights Offering. The total number of issued and outstanding common shares upon completion of the Rights Offering is 53,283,982 common shares.

The Company has sufficient cash to meet its short-term corporate operating and capital requirements but does not currently have adequate funds to proceed with full-scale development of the solution mining facility. The ability of the Company to continue as a going concern is dependent upon obtaining further equity issuances or other forms of financings.

CONTRACTUAL OBLIGATIONS

The following table summarizes the commitments of the Company as at September 30, 2022:

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	661	661	-	-	-
Leases on mineral property	4,734	367	735	735	2,897
Project contracts	187	187	-	-	-
Total	5,582	1,215	735	735	2,897

Trade and other payables relate to operating and investing expenditures that were payable at the period ended September 30, 2022. Subsequent to September 30, 2022, the Company reached a final settlement with Mr. Dan Brown, for which the Company had received a statement of claim filed against the Company, Frank Wheatley, Mark Zachanowich, Peter Matson, Todd Rowan, Gregory Szabo, Sanjeev Varma and Vishvesh Nanavaty in the first quarter of 2021. The Company has recognized the amount owing to Mr. Dan Brown in the third quarter of 2022.

Leases on mineral property refer to the annual fees which are required to maintain the mineral leases related to the Potash Project. The Potash Project comprises three 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 \$367,300 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 investor relations and consulting services.

RELATED PARTY TRANSACTIONS

There were no material changes to management compensation arrangements and no other related party transactions for the nine months ended September 30, 2022.

Upon closing of the Rights Offering on August 3, 2022, Gujarat State Fertilizers and Chemicals (“GSFC”), a related party, acquired 9,100,000 common shares in the Company. This brought GSFC’s ownership to 25,434,558 common shares representing approximately 47.73% of the issued and outstanding common shares of the Company.

RESTRICTIONS ON DISPOSITION OF THE POTASH 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 Potash 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 Potash 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 Potash 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 Potash 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 Potash Project.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, income and expenses. The Company evaluates judgments and estimates periodically 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 judgment and estimation with the Audit Committee and independent auditors. Significant areas requiring judgment and estimates include:

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 Potash Project.

Continued exploration and development of the property is dependent on the Company'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 exploration and evaluation expenditures relating to the acquisition of mineral properties, leases, and the exploration and development thereon are recorded at cost and include direct and indirect acquisition and exploration costs associated with specific mineral properties. These costs are capitalized on the basis of the potential realization from the underlying asset and will be amortized 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. Capital assets are depreciated over their estimated useful lives.

The Company reviews exploration and evaluation assets, capital assets and other non-financial assets for indicators of impairment at each reporting period. Impairment indicators are used to determine whether carrying values of assets should be assessed for impairment or whether a reversal of impairment may be required.

Internal and external indicators of impairment for capital and other non-financial assets are considered, including significant changes in the extent or manner in which an asset is expected to be used. The use of a significant portion of the Company's capital assets is related to exploration and evaluation activity.

Indicators of impairment for exploration and evaluation assets include the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive exploration and evaluation expenditures on mineral properties are budgeted, and results of exploration and evaluation activities on the exploration and evaluation assets. Management also considers whether sufficient data exists to indicate that the carrying amount of capital assets and exploration and evaluation and other assets is unlikely to be recovered in full from successful development or by sale.

In measuring impairment, estimates of future cash flows require assumptions about future business conditions and other developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

DECOMMISSIONING PROVISIONS

Amounts are recorded for decommissioning provisions that will be incurred by the Company at the end of the operating life of the facilities and properties, and upon retirement of its mining assets. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The provision and related asset and expense are impacted by estimates with respect to the costs and timing of decommissioning.

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.

CONTINGENT LIABILITIES

Contingent liabilities are reviewed continuously to assess whether an outflow of cash has become probable. If the recognition criteria are met, then a provision is recorded in the period in which the change in probability occurs. Assessing whether a contingent liability is probable requires the Company to make judgments about the existence of past events and the application of applicable laws, contractual or constructive obligations. There have been no changes in contingent liabilities as disclosed in the annual financial statements during the nine month period ended September 30, 2022, except subsequent to September 30, 2022, the Company reached a final settlement with Mr. Dan Brown, for which the Company had received a statement of claim filed against the Company, Frank Wheatley, Mark Zachanowish, Peter Matson, Rodd Rowan, Gregory Szabo, Sanjeev Varma and Vishvesh Nanavaty in the first quarter of 2021. The Company has recognized the amount owing to Mr. Dan Brown and a related insurance recovery in the third quarter of 2022.

FINANCIAL RISK FACTORS

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. The Company has no significant concentration of credit risk arising from operations. The Company's cash and restricted cash is held with large Canadian financial institutions and management believes the risk of loss to be remote.

LIQUIDITY RISK AND GOING CONCERN

The Company manages liquidity risk by maintaining sufficient cash balances to meet liabilities when due. As at September 30, 2022, the Company had cash and cash equivalents totalling \$4,088,000 (2021 - \$2,167,000) to settle current liabilities of \$661,000 (2021 - \$790,000). As at September 30, 2022 and September 30, 2021, the Company's trade and other receivables are subject to normal trade terms.

Management is aware of material uncertainties related to events and conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company is in its pre-development phase and therefore there is material uncertainty that the Company will be able to raise additional funds to move forward to the production stage. As at September 30, 2022, the Company had working capital (current assets less current liabilities) of \$3,967,000. In addition to ongoing operating expenses, the Company is committed to expenditures in 2022 and subsequent years on its regulatory spending requirements and mineral properties to keep the Company in good standing. The Company also expects to provide funding to settle the decommissioning liability. The Company has sufficient cash to meet its short-term corporate operating and capital requirements but does not currently have adequate funds to proceed with full-scale development of the solution mining facility. The ability of the Company to continue as a going concern is dependent upon obtaining further equity issuances or other forms of financings. There is no assurance that the Company will be successful in obtaining required funding at an acceptable cost as and when needed or at all. Failure to obtain additional funding on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or reduce or terminate its operations.

The financial statements do not include any adjustments to carrying values of asset amounts and liabilities, or reported expenses that may be necessary if the going concern assumption were not appropriate.

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 September 30, 2022, 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. As at September 30, 2022, the Company's only interest bearing asset is cash in high interest saving accounts, short-term treasury bills and a small amount of cash equivalents held in Guaranteed Investment Certificates. Cash and cash equivalents earn interest at prevailing short-term interest rates. During the nine-month period ended September 30, 2022, the Company earned interest income of \$27,000 (2021 - \$15,000) from its cash and cash equivalents.

INTERNAL CONTROLS

DISCLOSURE CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures for the timely and accurate preparation of financial and other reports. Such disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the periods specified by applicable securities regulations. In addition, the disclosure controls ensure that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's continuous disclosure filings.

As with most small or developing companies and consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these disclosure controls and procedures should not exceed their expected benefits. As a result, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

The Interim Chief Executive Officer and Interim Chief Financial Officer are responsible for evaluating 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 Interim Chief Financial Officer of the Company are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting. They are also responsible for causing the internal controls to be designed and operated effectively under their supervision. They are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. An internal control system cannot prevent all errors or fraud.

The Company does not have adequate in-house personnel to properly implement segregation of duties with respect to complex accounting and non-routine transactions that may arise and also to prevent and monitor the potential for management override. It is not deemed economically feasible at this time to have such

personnel. The volume of transactions and reporting requirements puts significant strain on the limited accounting personnel such that the Company relies on external experts and assistance to complete these activities on time.

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.

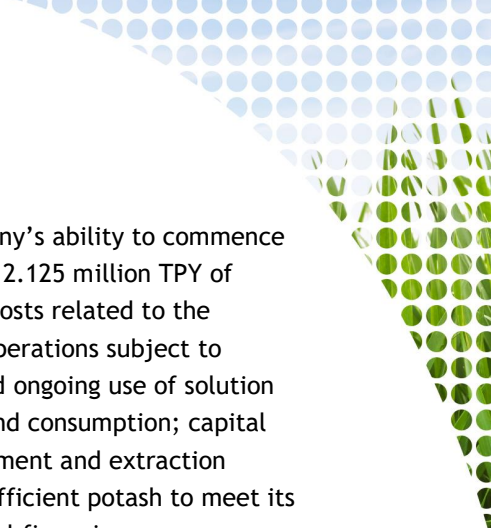
OUTSTANDING SHARES

As of the date of this MD&A, the Company has 53,283,982 Common Shares and 855,000 stock options issued and outstanding.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “plan”, “intend”, “forecast”, “future”, “guidance”, “may”, “predict”, “project”, “should”, “strategy”, “target”, “will” or the negative or similar words or phrases suggesting future outcomes or language suggesting an outlook.


Forward-looking statements may include, but are not limited to, management’s expectations, intentions, and beliefs concerning: the development and operation of the Potash Project or the Nitrogen 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 Potash Project or the Nitrogen Project; expectations regarding the production capacity of the Potash Project and the Nitrogen Project; expectations regarding markets for potash in North America and globally; expectations regarding markets for nitrogen fertilizer products; 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, nitrogen fertilizer products, 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, nitrogen fertilizer products, 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 Company's technical report filed on July 15, 2016 (the "**2016 Technical Report**"); the Company executes its discounted cash flow model assumptions as described in the 2016 Technical Report; estimates of mineral resources and mineral reserves in the 2016 Technical Report are accurate; full potash production is reached; that the Company continues to have rights to the property subject to subsurface mineral leases KL 246, KL 247A and KLSA 010, and such rights are not challenged or impacted in any material manner; that the Company is able to obtain required approvals, licences and permits, in a timely manner; the Company is able to successfully develop and market nitrogen fertilizer products; 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 Potash Project or the Nitrogen Project as currently anticipated; there are no adverse changes to the price of potash, nitrogen fertilizer products, or magnesium that would adversely affect the prospects for developing and operating the Potash Project or the Nitrogen 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, nitrogen fertilizers, 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 Potash Project and the Nitrogen 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, 2021, which have been filed with Canadian provincial securities commissions and are available on SEDAR at www.sedar.com.