



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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For the year ended December 31, 2025

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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 years ended December 31, 2025 and 2024. This MD&A should be read in conjunction with the audited financial statements of the Company and the related notes thereto for the years ended December 31, 2025 and 2024. This commentary is dated March 26, 2026. The financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board. These documents, the annual information form for the year ended December 31, 2025 (the "Annual Information Form"), and additional information about the Company are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). Some of the statements made herein contain forward-looking information and accordingly please refer to the "Forward-Looking Information" section at the end of the MD&A.

## OVERVIEW

### GENERAL OVERVIEW

Karnalyte was incorporated under the Business Corporations Act (Alberta) on November 16, 2007 and is a Saskatchewan-headquartered company focused on the development of potash and magnesium operations in Saskatchewan. The Company's potash project in Wynyard, Saskatchewan (the "Wynyard Project") is a proposed 2.175 million tonnes per year ("TPY") potash mine utilizing conventional solution mining methods for potash production, 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 675,000 TPY of potash, increasing to 1,425,000 TPY of potash in the second phase, and ultimately to 2,175,000 TPY of potash in the third phase. Also under consideration is the secondary magnesium compounds, on Canada's critical minerals list.

### 2025 - YEAR IN REVIEW

In March 2025, the Company paused the Proteos Nitrogen Project to focus on the Wynyard Potash Project and the review of its development strategy. Also in 2025, the Company resolved its outstanding legal matters, eliminating previously disclosed contingent liabilities.

In November 2025, the Company achieved a significant milestone in the advancement of its Wynyard Project through the completion of its updated feasibility study and National Instrument 43-101 ("NI 43-101") technical report entitled "NI 43-101 Technical Report on the Feasibility Study of the Wynyard Project, Saskatchewan, Canada" (the "Feasibility Study").

### COMPLETION OF THE FEASIBILITY STUDY

In 2025, the Company completed its Feasibility Study, a major milestone in demonstrating the value of Karnalyte's mineral assets and advancing the project toward development. The Feasibility Study, effective November 26, 2025, was prepared by Wood Canada Limited, ERCOSPLAN Ingenieurgesellschaft, RESPEC Consulting Inc., and March Consulting Associates Inc.

The Feasibility Study, effective November 26, 2025, and filed on SEDAR+ on January 7, 2026, confirmed a projected 70-year mine life and positive project economics, providing a strong foundation for the future development of the Wynyard Project. The study demonstrated an after-tax net present value of \$2.04 billion at an 8% discount rate and an after-tax internal rate of return of 12.5%, supporting the long-term value proposition of the Company's potash and magnesium-bearing resource.

The Feasibility Study includes updated mineral resource and mineral reserve estimates for the Wynyard deposit. Proven and probable mineral reserves were estimated at 777.1 million tonnes grading 53.8% carnallite and 5.2% sylvite, equivalent to average grades of 12.4% K<sub>2</sub>O and 7.8% MgO.

The Feasibility Study outlines planned production of 142.2 million tonnes of potash over the life of mine, equivalent to 2.175 million tonnes per annum at full production, together with 7.0 million tonnes of hydromagnesite, equivalent to 104,000 tonnes per annum. The study contemplates total capital costs of \$4.19 billion, including potash processing facilities developed in three phases and a hydromagnesite production facility.

The study highlights the strategic advantages of the Wynyard Project, including its location in Saskatchewan, access to infrastructure and established potash transportation routes, and the support of the Company's secured offtake agreement with Gujarat State Fertilizers and Chemicals Limited ("GSFC"). The Company believes the completion of the Feasibility Study marks a pivotal step in advancing the Wynyard Project toward development and supporting future corporate development, financing and partnership opportunities.

## **POTASH MARKET UPDATE**

Global fertilizer markets have been experiencing volatility in 2026 due to geopolitical developments and supply chain disruptions. Escalating conflict in the Middle East has affected global fertilizer trade and contributed to increases in natural gas prices, an important input in fertilizer production. The region plays a significant role in global fertilizer markets and disruptions to exports and shipping routes, such as the Strait of Hormuz, have raised concerns about supply availability during a critical agricultural period.

While these developments primarily affect nitrogen and phosphate fertilizer supply chains, they underscore the importance of stable potash supply from jurisdictions such as Saskatchewan. Potash remains an essential nutrient for crop production and global food security. Long-term demand continues to be supported by population growth, the need to increase agricultural productivity, and the ongoing requirement to replenish soil nutrients.

In February 2026, the Governments of Canada and India announced a renewed commitment to strengthen collaboration in the fertilizer sector to support long-term agricultural and food security objectives. Karnalyte believes this collaboration highlights the strategic importance of Canadian potash in global markets and reinforces the long-term demand outlook for potash, including supply to key markets such as India. The Company believes its strategic relationship with GSFC, a leading Indian fertilizer company and major shareholder of Karnalyte, positions the Wynyard Project to participate in this growing demand.

## **NITROGEN - THE PROTEOS NITROGEN PROJECT**

In March 2025, the Company paused the Proteos Nitrogen Project to focus on the Wynyard Potash Project and the review of its development strategy. The Proteos Nitrogen Project remains under consideration as a

potential future initiative, subject to prevailing market conditions and the Company's strategic priorities, but the Company is not currently committing resources to its advancement.

## **REVIEW OF DEVELOPMENT STRATEGY**

Karnalyte's review of its development strategy, initiated in 2024, continued throughout 2025. This strategic review focuses on assessing the economic potential of expanding magnesium-related production at the Wynyard Project by developing magnesium resources alongside the potash project.

The Feasibility Study confirms the Wynyard Project's ability to produce hydromagnesite from a portion of the magnesium chloride-rich end brine generated through potash production, with planned capacity of up to 104,000 tonnes per annum of hydromagnesite. In addition, the Company continues to evaluate the potential for other magnesium-based products, including magnesium chloride brine, magnesium chloride hexahydrate, magnesium hydroxide and magnesium oxide, and the possible future production of magnesium metal, subject to further analysis and market evaluation.

The Company believes the Wynyard Project's underlying carnallite resource presents an opportunity to unlock additional long-term value through the integration of magnesium products alongside potash production. While the timeline for completing the broader development strategy review was extended during the year to prioritize the Feasibility Study, the completion of that report now provides an enhanced technical and economic basis for continued strategic evaluation.

## **ASSET SALES**

In April 2025, the Company completed the sale of three parcels of farmland that were not core to its focus on advancing the Wynyard Project. The parcels were sold for net proceeds of approximately \$1.4 million.

The proceeds from the sale were directed toward supporting the Company's development activities, advancing project planning and funding working capital requirements.

The Company intends to sell additional parcels of farmland in compliance with an updated exemption order the Company received from the Saskatchewan Farm Land Security Board on March 24, 2026.

## **OUTLOOK FOR 2026**

In 2026, Karnalyte will focus on advancing the Wynyard Project. Key priorities for the Company include:

- advancing project development planning and operational readiness activities.
- progressing the development strategy review for magnesium-related opportunities.
- pursuing strategic partnerships, financing initiatives and business development opportunities to support project advancement; and
- continuing to optimize operations and capital allocation.

Recent announcements regarding enhanced fertilizer sector collaboration between Canada and India further highlight the strategic importance of potash in supporting global food security and agricultural productivity. The Company believes that these developments, together with its strategic partnership and offtake agreement with GSFC, reinforce the long-term market opportunity for the Wynyard Project.

Karnalyte believes the Feasibility Study provides a strong technical and economic foundation for the next stage of development of the Wynyard Project. The Company will continue to build on this milestone by advancing commercial, technical and strategic initiatives intended to move the Wynyard Project toward development and deliver long-term value to stakeholders.

## SELECTED ANNUAL INFORMATION

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

### Selected annual results (CAD \$ thousands)

	Year ended December 31		
	2025	2024	2023
Total revenue	-	-	-
Interest and other income	27	67	133
Net and comprehensive loss	(992)	(1,724)	(1,448)
Basic and diluted loss per share	(0.02)	(0.03)	(0.03)
Total current assets	701	1,225	2,716
Total assets	5,918	6,875	8,378
Total current liabilities	551	721	572
Total liabilities	2,293	2,292	2,108
Total shareholders' equity	3,625	4,583	6,270

During the year ended December 31, 2025 the Company's focus was on (1) completing the Feasibility Study update, of which summary results were released on November 26, 2025, and (2) the development strategy to evaluate the economic potential of increasing magnesium chloride production at the same time as the development of the potash project.

During the year ended December 31, 2024, the Company's focus was on the Feasibility Study and reviewing the development strategy to evaluate the economic potential of increasing magnesium chloride production at the same time as the development of the potash project.

## RESULTS OF OPERATIONS

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") costs for the year ended December 31, 2025 amounted to \$1,383,000 which is a decrease of \$65,000 from the comparative 2024 amount.

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

**G&A Expenditures  
(CAD \$ thousands)**

	Year ended December 31,	
	2025	2024
Salaries, wages and benefits	260	264
Business development, investor relations, regulatory fees	139	165
Accounting and legal	323	222
Consulting	202	206
Directors fees	254	260
Office and general	205	331
<b>Total general and administrative</b>	<b>1,383</b>	<b>1,448</b>

**Salaries, wages and benefits** for the year ended December 31, 2025 amounted to \$260,000 compared to \$264,000 in 2024, which is a decrease of \$4,000 due to year end vacation accrued but not utilized and consideration paid to the CEO in 2024 resulting from the permanent appointment to the role. The Company currently does not have plans to significantly increase the number of full-time equivalent employees.

**Business development, investor relations and regulatory fees** for the year ended December 31, 2025 amounted to \$139,000 compared to \$165,000 in 2024, which is a decrease of \$26,000. The decrease is largely due to changing one investor relations firm's fee structure from flat monthly rates to hourly rates.

**Accounting and legal** for the year ended December 31, 2025 were \$323,000 compared to \$222,000 in 2024, which is an increase of \$101,000. With the assistance from the Company's legal counsel, a settlement was reached during the fourth quarter of 2025 with the Company's former Executive Vice-President and Chief Operating Officer, for which the Company had received a statement of claim filed in the Court of King's Bench in Alberta in the fourth quarter of 2017. Also contributing to the increase was additional costs incurred by the Company's auditors in order to restate the 2024 financial statements due to the provision discrepancy on the decommissioning liability.

**Consulting** for the year ended December 31, 2025 amounted to \$202,000 compared to \$206,000 in 2024, which is a decrease of \$4,000. Expenses in this category are largely due to a consulting contract with the CFO.

**Director fees** for the year ended December 31, 2025 amounted to \$254,000 compared to \$260,000 in 2024, which is a decrease of \$6,000 largely due to two less Board meetings, partially offset by one additional Compensation, Corporate Governance and Nominating Committee meeting, in the comparative year. The compliment of five directors and the associated fees remain unchanged from prior year.

**Office and general** for the year ended December 31, 2025 amounted to \$205,000 compared to \$331,000 in 2024, which is a decrease of \$126,000 largely due to 2024 travel costs incurred to conduct in-person strategic planning meetings and seek out investment and strategic partners. While coverage levels remain unchanged, there was also a decrease in the cost of the directors and officers liability insurance due to overall market premium rate reductions.

## OTHER COSTS IMPACTING COMPREHENSIVE LOSS

**Depreciation** for the year ended December 31, 2025 was \$13,000 compared to \$12,000 in the 2024 comparative period.

**Share-based compensation** for the year ended December 31, 2025 was \$34,000 compared to \$37,000 in 2024. Share-based compensation in 2025 was derived from 470,000 stock options granted in July 2025, 230,000 stock options granted in June 2024 and 280,000 stock options granted in August 2023. Whereas, share-based compensation in 2024 related to 230,000 stock options granted in June 2024 and 380,000 stock options granted in August 2023. These expenses are all non-cash in nature and stock options are expensed over a two year vesting period using a declining balance method.

**Impairment** for the year ended December 31, 2025 was \$779,000 compared to \$732,000 in 2024. In 2014, previous management determined that \$59,149,000 of the \$63,165,000 total carrying amount of capital assets and exploration and evaluation and other assets were no longer recoverable. As at December 31, 2025, the Company determined that those impairment indicators continue to exist. Therefore, in addition to the impairment losses recognized in prior years, the Company recorded an impairment loss of \$779,000 (2024 - \$732,000) for additions to exploration and evaluation assets to their estimated recoverable amount. For additional information, refer to the notes to the financial statements dated December 31, 2015 available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

**Other income** for the year ended December 31, 2025 was \$255,000 compared to \$227,000 in 2024. While there is rental income in this category from leasing the Company's land holdings to local Wynyard area farmers, the majority of the increase relates to a \$67,000 recovery recorded as a result of a change in estimate of the Company's decommissioning liability, as compared to a \$15,000 recovery recorded in 2024.

**Gain on disposal of capital assets** for the year ended December 31, 2025 was \$nil compared to \$256,000 in 2024. In the third quarter of 2024, the Company sold some idle assets for net proceeds of \$256,000, resulting in a gain on disposal of capital assets.

**Gain on disposal of exploration and evaluation and other assets** for the year ended December 31, 2025 was \$988,000 compared to \$5,000 in 2024. In the second quarter of 2025, the Company sold three parcels of farmland that are not core to the business in order to focus on advancing the Potash Project. The net proceeds totaling \$1,408,000 supported the Company's development activities, advanced its project plan and funded working capital requirements.

**Net finance expense/(income)** for the year ended December 31, 2025 was \$26,000 expense compared to \$17,000 income in the 2024 comparative year. 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.

## SUMMARY OF QUARTERLY RESULTS

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

Selected Quarterly Results

	2025				2024			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	-	-	-	-	-	-	-	-
Comprehensive (loss)/income	(430)	(509)	511	(564)	(425)	(265)	(510)	(524)
Basic and diluted (loss)/income per share	(0.01)	(0.01)	0.01	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Total current assets	701	1,075	1,562	1,464	1,225	1,537	1,739	2,589
Total assets	5,918	6,295	6,786	6,691	6,875	7,190	7,395	8,248
Total liabilities	2,293	2,255	2,247	2,667	2,292	2,193	2,142	2,492
Total shareholders' equity	3,625	4,040	4,539	4,024	4,583	4,997	5,253	5,756

\*Expressed in thousands except loss per share

The comprehensive losses in three of the four quarters of 2025 were driven primarily by both G&A expenses and impairment of exploration and evaluation and other assets relating to efforts on the Feasibility Study, of which summary results were press released on November 26, 2025. In the second quarter of 2025, the comprehensive income was due to the gain on sale of three parcels of land which was partially offset by G&A as well as impairment. The comprehensive loss in the first quarter of 2025 was driven primarily by G&A and impairment of exploration and evaluation and other assets relating to efforts on both the Feasibility Study as well as the magnesium study. Also, since there was no recovery from the change in estimate on the decommissioning liability, that also attributed to a greater comprehensive loss in the first quarter of 2025.

The comprehensive losses in all of the 2024 quarters were driven primarily by both G&A expenses, particularly office and general expenses, salaries and wages, directors fees and accounting and legal expenses, as well as impairment. Additionally, in the third quarter of 2024, the expenditures were partially offset by the gain on disposal of processing and other equipment, mineral properties and computer software as a result of the sale of idle assets in Wynyard.

The first quarter of 2024's loss increased as travel expenditures were incurred for an in-person strategic planning session and seeking investment and strategic partners. The second quarter of 2024's loss increased due to office and general expenses incurred for the investor relations firm, additional Board meetings and trips to Wynyard for asset sale preparations. In the third quarter of 2024, the comprehensive loss was positively impacted by the Wynyard idle assets sale. In the third and fourth quarters of 2024 and the first quarter of 2025, the comprehensive loss was negatively impacted as the Company reviewed its development of the magnesium assets at the same time as the Potash Project which, in turn, increased the impairment expense. In the second quarter of 2025, the comprehensive income was positively impacted by the sale of three parcels of land, which more than offset the increased expenditures relating to the Feasibility Study. In the third quarter of 2025, the comprehensive loss was negatively impacted as the Company continued to work on the Feasibility Study, which increased the impairment expense. While work on the Feasibility Study continued in the fourth quarter of 2025, these expenditures were partially offset by the Wynyard farm land rental income.

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. In the second quarter of 2025, the Company sold three parcels of land for net proceeds totaling \$1,408,000. In the first quarter of 2025, the three same three parcels of land were reclassified to a current asset as assets held for sale in the amount of \$420,000, which is the lower of cost and fair value.

**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 the periods above.

**Total liabilities** for the periods above relate to trade and other payables and the decommissioning liability. 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, as well as adjustments to the decommissioning liability due to changes in the average bond and inflation rates. Balances in all the quarters presented include the accrual of restructuring costs that took place in the second and third quarters of 2017, of which the Company reached a settlement in the fourth quarter of 2025.

**Total shareholders' equity** is impacted by the quarterly comprehensive (losses)/income and the share-based compensation as the number of shares outstanding remains unchanged. As at December 31, 2025, 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.

### EXPLORATION AND EVALUATION AND OTHER ASSETS

During the year ended December 31, 2025, \$779,000 in additions to exploration and evaluation and other assets were impaired. The additions related to the Potash Project and magnesium study. In the second quarter of 2025, the Company sold three parcels of land with a net book value of \$420,000, for a net gain on sale of \$988,000. The net balances classified as exploration and evaluation and other assets are as follows:

**Exploration and Evaluation and Other Assets  
(CAD \$ thousands)**

	December 31, 2025	December 31, 2024
Mineral property		
Surface land	4,384	4,804
Drilling	245	245
<b>Balance, end of period</b>	<b>4,629</b>	<b>5,049</b>

**CAPITAL ASSETS**

The net balances classified as capital assets are as follows:

	December 31, 2025	December 31, 2024
Machinery and equipment	-	-
Buildings	75	86
Land	125	125
Land improvements	13	15
Computer hardware	-	-
Assets under construction	-	-
<b>Balance, end of period</b>	<b>213</b>	<b>226</b>

There were no additions or disposals to capital assets in 2025. The decrease in capital assets is a result of \$13,000 depreciation recognized in 2025.

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 December 31, 2025, the Company had working capital of \$0.2 million compared to \$0.5 million at December 31, 2024 including \$0.4 million and \$0.9 million, respectively, in cash and cash equivalents.

As at December 31, 2025 and 2024, 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 that are highly liquid.

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 maintain sufficient financial resources to fund ongoing operating and required exploration expenditures and to move forward to the production stage. The ability of the Company to continue as a going concern is dependent upon obtaining further equity issuances or other forms of financings. Please refer to the Liquidity Risk and Going Concern section under the Financial Risk Factors heading below.

## CONTRACTUAL OBLIGATIONS

In addition to the minimum regulatory expenditure requirements, the following table summarizes the commitments of the Company as at December 31, 2025:

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	551	551	-	-	-
Other payables	185	-	185	-	-
Leases on mineral property	3,632	367	735	735	1,795
Contracts	13	13	-	-	-
<b>Total</b>	<b>4,381</b>	<b>931</b>	<b>920</b>	<b>735</b>	<b>1,795</b>

**Trade and other payables** relate to operating and investing expenditures that were payable at the period ended December 31, 2025 as well as an accrual of restructuring costs that took place in the second and third quarters of 2017, of which the Company reached a settlement in the fourth quarter of 2025.

**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.

**Contracts** relate to fixed-amount consulting services agreed upon but not fully invoiced.

## RELATED PARTY TRANSACTIONS

The aggregate payroll expense of key management personnel and directors was as follows:

	December 31, 2025	December 31, 2024
Salaries, benefits and other compensation arrangements	\$698	\$686
Share-based compensation	34	37
<b>Total</b>	<b>732</b>	<b>723</b>

There were no material changes to management compensation arrangements and no other related party transactions for the year ended December 31, 2025.

## 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 IFRS Accounting 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 pre-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.

## **EXPLORATION AND EVALUATION AND OTHER ASSETS AND CAPITAL ASSETS**

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, land improvements, computer hardware and leasehold improvements are recorded at cost.

The Company reviews exploration and evaluation assets, capital assets and other non-financial assets for indicators of impairment at each reporting period or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. 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 on or before 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.

## 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 December 31, 2025, the Company had cash and cash equivalents totalling \$351,000 (2024 - \$870,000) to settle trade and other payables of \$551,000 (2024 - \$721,000). In the second quarter of 2025, three parcels of land were sold for net proceeds totaling \$1,408,000. As at December 31, 2025 and December 31, 2024, the Company's trade and other receivables are subject to normal trade terms.

Management is aware, in making its going concern assessment, 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 maintain sufficient financial resources to fund ongoing operating and required exploration and to move forward to the production stage. As at December 31, 2025, the Company had working capital (current assets less current liabilities) of \$150,000 which is expected to be insufficient to fund operations in the upcoming year. In addition to ongoing operating expenses, the Company is committed to expenditures in 2025 and subsequent years on its regulatory spending requirements and mineral properties to keep the Company in good standing. The Company's cash position may also be impacted by a requirement to fund the decommissioning liability. 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. As at December 31, 2025, the Company held the majority of its cash in Canadian dollars.

## **INTEREST RATE RISK**

The Company's trade and other payables are non-interest bearing and have contractual maturities of less than 45 days. As at December 31, 2025, the Company's only interest bearing asset is cash in high interest saving accounts. Cash and cash equivalents earn interest at prevailing short-term interest rates. During the year ended December 31, 2025, the Company earned interest income of \$27,000 (2024 - \$67,000) 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 Chief Executive Officer and 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 Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting. They are also responsible for causing the internal controls to be designed and operated effectively under their supervision. They are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. An internal control system cannot prevent all errors or fraud.

The Company does not have adequate in-house personnel to properly implement segregation of duties with respect to day-to-day accounting, 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.

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 960,000 stock options issued and outstanding.

## FORWARD-LOOKING INFORMATION

Certain statements in this MD&A constitute "forward-looking information" or "forward-looking statements" (collectively, "**forward-looking statements**") within the meaning of applicable Canadian securities legislation. Forward-looking statements relate to future events or future performance and reflect the Company's current expectations, beliefs, and assumptions regarding future events. Forward-looking statements are often, but not always, identified by the use of words or phrases such as "accelerate", "advance", "anticipate", "believe", "budget", "continue", "could", "estimate", "expect", "forecast", "future", "guidance", "intend", "may", "objective", "ongoing", "outlook", "plan", "potential", "predict", "project", "pursue", "schedule", "seek", "should", "strategy", "target", "will", "would", or similar words or phrases suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance.


Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the anticipated development, construction, and operation of the Wynyard Potash Project; the results of the Technical Report, including projected mine life, production capacity, capital and operating costs, net present value, internal rate of return, and other economic metrics; estimated Mineral Resources and Mineral Reserves; planned production of potash and hydromagnesite; the Company's ability to obtain financing for the development of the Wynyard Potash Project; the Company's expectations regarding the potash and hydromagnesite markets, including demand, pricing, and competition; the Company's ability to obtain and maintain required permits, licences, and approvals; the Company's relationship with GSFC and the performance of the Offtake Agreement; the review of the Company's development strategy, including the assessment of magnesium chloride co-production; the status and potential resumption of the Proteos Nitrogen Project; the Company's expectations regarding its business strategy, plans, and objectives; expectations regarding the Company's ability to continue as a going concern; and expectations regarding future general and administrative expenses, cash flows, and working capital requirements.

Forward-looking statements are based on a number of material factors and assumptions which management believes to be reasonable at the time, including but not limited to:

- potash and hydromagnesite prices will be consistent with the assumptions set out in the Technical Report;
- the Company obtains the additional financing required to develop the Wynyard Potash Project;
- the Company executes its project development plans in a manner consistent with the Technical Report, including estimated total initial capital expenditures of approximately \$4.19 billion;
- estimates of Mineral Resources and Mineral Reserves as set out in the Technical Report are accurate;
- the three-phase production ramp-up from 675,000 TPY to 1,425,000 TPY to 2,175,000 TPY of potash is achieved in accordance with the projected timeline;
- the hydromagnesite market can absorb annual production of 104,000 TPY without material adverse impact on pricing;
- the Company continues to hold title to the Karnalyte Property and such title is not challenged or impacted in any material manner;
- the Company is able to obtain and maintain required approvals, licences, and permits, including any extensions to the Environmental Impact Statement, in a timely manner;
- the GSFC Offtake Agreement remains in effect and is performed as anticipated;
- the Company's key senior management continue in their respective roles;
- if the Company resumes the Proteos Nitrogen Project, the Company is able to successfully develop and market nitrogen fertilizer products;
- the Company is able to successfully develop and market magnesium products;
- environmental and other applicable laws and regulations are not amended, repealed, or applied in a manner that materially impacts the development and operation of the Wynyard Potash Project;
- the future mining and processing facilities operate as anticipated in the Technical Report; and
- the Company is able to develop and maintain the infrastructure required to produce, store, and transport its products.

Forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause actual results, performance, or achievements to be materially different from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, those discussed under the heading "Financial Risk Factors" in this MD&A and those set out under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2025, including: exploration, development and operation risks related to the Wynyard Potash Project; the ability to secure adequate financing; the uncertainty regarding the estimation of Mineral Resources and Mineral Reserves; the lack of current revenues; the unproven nature of solution mining of carnallite in Saskatchewan; permit and licensing requirements; the Company's ability to satisfy its material agreements, including the Offtake Agreement; the potential loss of key employees or technical experts; the potential for dilution of shareholders through future financings; the risks associated with the hydromagnesite process design and market development; environmental and regulatory risks; the volatility of potash and magnesium prices; competition; and currency exchange rate fluctuations.

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 Technical Report; the



Company executes its discounted cash flow model assumptions as described in the Technical Report; estimates of mineral resources and mineral reserves in the Technical Report are accurate; full potash production is reached; that the Company continues to have rights to the property subject to subsurface mineral leases KL 246, KL 247A and KLSA 010, and such rights are not challenged or impacted in any material manner; that the Company is able to obtain required approvals, licences and permits, in a timely manner; the Company is able to successfully develop and market magnesium products; the Company's key senior management continue in their respective roles with the Company; the Company's intellectual property is not challenged; the Company does not become subject to litigation; the Company's ability to meet its obligations under the Offtake Agreement; environmental and other applicable law and other regulations are not amended, repealed or applied in a manner that impacts the development and operation of the Wynyard Project as currently anticipated; there are no adverse changes to the price of potash or magnesium that would adversely affect the prospects for developing and operating the Wynyard Project, or making it inadvisable or uneconomic to proceed with development; the future mining operations operate as anticipated; the Company's ability to maintain and develop positive relationships with foreign governments and future business partners; the Company is able to develop and maintain the infrastructure required to export, store and transport its potash or magnesium production; there are no comparable mining companies targeting carnallite in North America; and the continued existence and operation of the primary potash production facility.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Financial Risk Factors" elsewhere in this MD&A and the risk factors discussed under the "Risk Factors" section of the 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.

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, 2025, which have been filed with Canadian provincial securities commissions and are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).