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With Infrastructure in Place, an Easily Extracted Form of Potash on Their Property in Saskatchewan and a 43-101 on Their First Three Drill Holes Showing Enough Recoverable Resources to Warrant the 2 Million Tonne Facility per Year for 28 Years, Karnalyte Resources Inc. is Well Positioned for Production

Resources
Potash
(KRN-TSX)

Karnalyte Resources Inc.

Unit 104, 26 Crystalridge Drive
Okotoks AB Canada T1S 2C3
Phone: 403-995-6560



Robin L. Phinney, P.Eng.
CEO and Director

BIO:

Mr. Phinney started his career in mining with Vale Inco and Kidd Creek Mines studying base metal purification. Subsequently, he joined Potash, where he held various engineering positions over his 15 year tenure. Mr. Phinney's responsibilities included streamlining production, new product development, evaluating engineering proposals, supplying technical support to Potash Corp sales, and performing detailed process designs. From 1998 to 2003 Mr. Phinney served as the Director of Technology of Airborne Technologies Inc.. Later, he co-founded Whitemud Resources Inc.,

a mining and manufacturing company listed on the TSX Venture, where in 2003 he developed a new process to produce quality metakaolin for the concrete industry from Saskatchewan based ores. Mr. Phinney founded Karnalyte Resources to explore the development of the carnallite resource in the Karnalyte Property, and has developed patent pending technology that is anticipated to produce high quality fertilizer products. Mr. Phinney is a Professional Engineer, and completed his Bachelor of Engineering degree at the Lakehead University in 1976.

Company Profile:

Karnalyte is engaged in the business of exploration and development of high quality agricultural and industrial potash and magnesium products. Karnalyte intends to develop and extract a carnallite - sylvite mineral deposit through a known solution mining process at competitive costs and with minimal environmental impact. The Corporation plans to construct and operate a solution mining facility capable of producing 2 million tonnes of potash per year. Karnalyte owns a 100% interest in Permit KP 360A and Subsurface Mineral Lease KLSA-010 located near Wynyard, Saskatchewan, comprising a total of 85,126 acres.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Phinney, what is the grand plan at Karnalyte Resources?

Mr. Phinney: Our strategy is to be the first Greenfield potash property in Saskatchewan to get into production. I fully expect to have the engineering studies that are required to move forward by the end of this year. We expect to break ground early next spring.

CEOCFO: Would you tell us about Karnalyte's property?

Mr. Phinney: Our property is different than the typical sylvite type deposit that is common in the potash industry. What we have found is an extremely large carnallite type deposit. The carnallite deposit is a mineral form of potassium, which is the other potash mineral. This potash mineral is a rare kind of mineral and it is in the form of magnesium chloride, KCl, and six H₂O's, which means it is already in the high grade form. As a result the ore body is very easy to extract and very easy to process on the surface and we can make very high grade products with little difficulty.

CEOCFO: What is the availability of Carnallite?

Mr. Phinney: Typically, 90% of the world gets its potash from sylvite type minerals, which is a sodium chloride, KCl mineral. However, 10% of the world's potash production come from carnallite type minerals. Usually, the carnallite minerals are associated with the Dead Sea deposit impurities and usually there are always little things that could be wrong with them, but the carnallite deposits that we have found in Saskatchewan is absolutely incredible. It is very large with upper zones up to 40 meters thick, and we

have very low insolubles. There are very little impurities in this ore body, so it gives us a very easy path to production and a strong cost position when we are extracting this mineral form. Basically it is the preferred mineral form and if you are looking for low-hanging fruit; we found the low-hanging fruit for producing potash.

CEOCFO: What is the demand for potash?

Mr. Phinney: World consumption is about 55 million tonnes of potash a year. In North America we use about 12 million tonnes and China uses about 6 million tonnes. Every major agriculture sector in the world is a consumer of potash. Potash is one of the three necessary nutrients for life on the planet.

CEOCFO: What about infrastructure in the area; what will you need to do and what is already available?

Mr. Phinney: We could not have been more lucky to find it right in potash central in Saskatchewan. We benefit from existing rail and road transportation infrastructure in the area. We are in close proximity to the highway and railway operated by Canadian Pacific Railway Limited.

CEOCFO: What is happening today on the property?

Mr. Phinney: On our first three holes that we have our 43-101 based on, we have enough recoverable KCL to warrant the 2 million tonne facility per year for twenty-eight years. It is recommended in our Preliminary Assessment study that we conduct additional drilling for rock cap analysis and that has been completed and we expect this will eventually add to our resource inventory. We have also initiated a major drill program for seven more drill cores outside of our current development area. Our current development area includes twelve square miles that was analyzed through 3D seismic surveys. We also analyzed an additional 24 square miles of our permit outside of the current development area with 3D seismic; this analysis was used to identify

the high priority targets for the new seven hole drill program.

CEOCFO: Are you expecting to start construction next year?

Mr. Phinney: Yes, we do plan to start construction in 2012.

CEOCFO: Do you own the property 100%, or what is your position on ownership?

Mr. Phinney: Karnalyte owns a 100% interest in KP360A permit and Sub-surface Mineral Lease KLSA 010 located near Wynyard, Saskatchewan, comprising a total of 85,126 acres.

CEOCFO: Do you anticipate keeping it that way?

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- Robin L. Phinney, P.Eng.

Mr. Phinney: I am anticipating that. I do not believe anybody else can come in unless they want to make a deal with me. We do have the right to subdivide and break up the property if we choose, but right now I do not see that being an issue.

CEOCFO: What are potash prices like today?

Mr. Phinney: Potash prices right now have moved up into the \$550 a tonne range, and is in high demand. In the world of potash it looks like to me that we will be in for a shortage of potash for the next fifteen to twenty years.

CEOCFO: What is your financial picture like for Karnalyte Resources today?

Mr. Phinney: We just completed an IPO on December 14, 2010, in which we raised \$60 million. After the exercise of over-allotments, we raised total proceeds of \$64 million, which was substantially greater than the \$50 million we originally hoped to raise. We considered it a highly successful entry into the Canadian capital markets.

CEOCFO: So you are in good shape!

Mr. Phinney: We are in good shape right now! We have the exploratory drilling program underway.

CEOCFO: Is there anything you are on the lookout for or anything you are being cautious about?

Mr. Phinney: At this point our focus is on completing a feasibility study. Foster Wheeler, who is completing the study, will use ER-COSPLAN for the underground components of the study and will also coordinate the preparation of the EIS concurrently with the feasibility study with GeoEngineers

CEOCFO: Is your team in place or will you need to add as you switch over to production?

Mr. Phinney: I have my complete production team in

place already. I solicited my guys from way back in the industry of thirty years ago that worked with me on engineering and designing for Potash Corp. I hired colleagues that did all the engineering and design, so we pretty much have our engineering cast of characters in place.

CEOCFO: So you are all ready!

Mr. Phinney: We are all ready! Foster Wheeler is doing the feasibility studies for us right now and with ER-COSPLAN doing the mine field and Foster Wheeler responsible for the overall surface facilities and coordinating the entire study, they are sug-

gesting that we should have it done in six to ten months.

CEOCFO: In closing, why should potential investors be paying attention to Karnalyte Resources today?

Mr. Phinney: We have the main product line, which is an improved product line that I can competitively position against the current potash industry. Karnalyte can be competitive with any of the majors and I do not really need to have a 2 million

tonne facility to be competitive. A half-a-million tonne for us is quite competitive with anything the majors can do. We are coming in with a higher grade, higher quality product line, we will be targeting existing customers.



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