

**ENCANTO POTASH CORP.**  
**(An Exploration Stage Company)**

**Unaudited Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2011**

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

## Unaudited Condensed Interim Consolidated Balance Sheets

(Expressed in Canadian dollars)

	March 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
<b>Assets</b>			
Current			
Cash	8,123,442	9,260,208	1,109,594
Taxes recoverable	105,554	210,777	98,282
Prepaid expenses	110,626	39,075	38,679
	<b>8,339,622</b>	9,510,060	1,246,555
Non-current			
Deposits	177,236	177,236	177,236
Equipment	15,312	16,868	20,943
Investment – note 7	2,120,000	2,120,000	-
Mineral property interests - note 8 and schedule 1	18,883,430	18,629,977	10,704,450
	<b>29,535,600</b>	30,454,141	12,149,184
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities - notes 5, 9, and 12	309,638	2,330,038	123,537
Flow-through tax liability – note 10	106,333	188,333	168,620
	<b>415,971</b>	2,518,371	292,157
Non-current			
Deferred tax liability - note 11e	1,482,000	256,000	525,000
	<b>1,897,971</b>	2,774,371	817,157
<b>Shareholders' Equity</b>			
Share capital - note 11	35,327,519	33,506,710	14,112,359
Contributed surplus	2,575,302	2,742,542	2,070,788
Deficit	(10,265,192)	(8,569,482)	(4,851,120)
	<b>27,637,629</b>	27,679,770	11,332,027
	<b>29,535,600</b>	30,454,141	12,149,184

### APPROVED BY THE DIRECTORS

“James Walchuck” Director  
James Walchuck

“Gordon Keep” Director  
Gordon Keep

*The accompanying notes are an integral part of these financial statements.*

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss

Three months ended March 31

(Expressed in Canadian dollars)

	2011	2010
	\$	\$
General and administrative expenses		
Corporate development consultants	40,200	5,870
Depreciation	1,556	1,757
First nation relations - note 12	156,578	22,134
Investor communications	75,563	117,563
Legal and audit - note 12	51,168	29,658
Management compensation - note 12	99,424	72,184
Office	59,847	57,916
Share-based payments - note 11	54,342	74,189
Travel and accommodation	29,386	9,824
Loss for the period before other items	(568,064)	(391,095)
Other income (expenses)		
Interest earned	16,957	1,697
Interest expense and bank charges	(603)	(602)
Loss for the period before income taxes – note 11e	(551,710)	(390,000)
Income tax expense	(1,144,000)	(121,108)
Net loss and comprehensive loss for the period	(1,695,710)	(511,108)
<b>Loss per share</b>		
- basic and diluted	(0.01)	(0.00)
<b>Weighted average number of shares outstanding</b>		
- basic and diluted	247,328,973	154,951,417
<b>Number of common shares as at March 31</b>		
- fully paid and outstanding	249,933,284	166,642,936
- potentially dilutive options and warrants outstanding	45,068,249	31,738,776

*The accompanying notes are an integral part of these financial statements.*

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Unaudited Condensed Interim Consolidated Statements of Cash Flows

Three months ended March 31

(Expressed in Canadian dollars)

	2011	2010
	\$	\$
<b>Cash flows for operating activities</b>		
Loss for the period before income taxes	(551,710)	(390,000)
Items not affecting cash		
Depreciation	1,556	1,757
Share-based payments - note 11	54,342	74,189
	<b>(495,812)</b>	<b>(314,054)</b>
Net change in non-cash working capital items		
Taxes recoverable	105,223	29,162
Prepaid expenses	(71,551)	13,363
Accounts payable and accrued liabilities	60,746	22,586
Cash consumed by operations	<b>(401,394)</b>	<b>(248,943)</b>
<b>Investing activities</b>		
Deferred mineral property interest expenditures	(2,334,599)	(259,567)
Deposits	-	(16,500)
	<b>(2,334,599)</b>	<b>(276,067)</b>
<b>Financing activity</b>		
Proceeds on shares issued	1,599,227	82,333
<b>Decrease in cash during the period</b>	<b>(1,136,766)</b>	<b>(442,677)</b>
Cash, beginning of period	9,260,208	1,109,594
<b>Cash, end of period</b>	<b>8,123,442</b>	<b>666,917</b>

Supplemental cash flow information - note 15

*The accompanying notes are an integral part of these financial statements.*

## ENCANTO POTASH CORP.

(An Exploration Stage Company)

### Unaudited Condensed Interim Consolidated Statements of Changes in Equity

Three months ended March 31

(Expressed in Canadian dollars)

	Common Shares	Share Capital \$	Contributed Surplus \$	Deficit \$	Total \$
Balance, January 1, 2010	139,856,269	14,112,359	2,070,788	(4,851,120)	11,332,027
Shares issued in consideration for:					
Cash, pursuant to:					
- Warrants exercised	786,667	84,348	(2,015)	-	82,333
Non-cash, pursuant to:					
- Mineral property interests acquired	26,000,000	5,460,000	-	-	5,460,000
Share-based payments	-	-	74,189	-	74,189
Total comprehensive loss for the period	-	-	-	(511,108)	(511,108)
<b>Balance, March 31, 2010</b>	<b>166,642,936</b>	<b>19,656,707</b>	<b>2,142,962</b>	<b>(5,362,228)</b>	<b>16,437,441</b>
Balance, January 1, 2011	242,224,143	33,506,710	2,742,542	(8,569,482)	27,679,770
Shares Issued in consideration for:					
Cash, pursuant to:					
- Warrants exercised	7,104,141	1,672,188	(167,311)	-	1,504,877
- Options exercised	605,000	148,621	(54,271)	-	94,350
Share-based payments	-	-	54,342	-	54,342
Total comprehensive loss for the period	-	-	-	(1,695,710)	(1,695,710)
<b>Balance, March 31, 2011</b>	<b>249,933,284</b>	<b>35,327,519</b>	<b>2,575,302</b>	<b>(10,265,192)</b>	<b>27,637,629</b>

*The accompanying notes are an integral part of these financial statements.*

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three months ended March 31, 2011

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## 1. Nature of operations

Encanto Potash Corp. ("the Company" or "Encanto") was incorporated under the laws of British Columbia, Canada, in 1986. The Company's shares are listed for trading on the TSX Venture Exchange (the "TSXV") under the symbol "EPO".

The Company's principal activities include the acquisition of, exploration for and development of potash mineral deposits. The Company is currently conducting exploration activities in the Province of Saskatchewan, Canada and has not yet determined the existence of economically recoverable reserves. The recoverability of amounts shown for mineral properties and investment are dependent upon the existence of economically recoverable reserves in its mineral properties, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete their development, and the attainment and maintenance of future profitable production or disposition thereof.

The Company's corporate head office is located at Suite 380, 580 Hornby Street, Vancouver, British Columbia, V6C 3B6.

## 2. Basis of presentation

### *Statement of compliance and conversion to International Financial Reporting Standards*

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. Subject to certain transition elections disclosed in Note 5, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported assets, liabilities and shareholders' equity, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

Previously, the Company prepared its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and effective as of June 27, 2011, the date the Board of Directors authorized the statements for issuance. Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP consolidated financial statements for the year ended December 31, 2010.

### *Basis of presentation*

The Company's unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The comparative figures presented in these condensed consolidated interim financial statements are in accordance with IFRS and any changes from figures previously reported under Canadian GAAP have been disclosed in Note 5.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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(An Exploration Stage Company)

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements Three months ended March 31, 2011

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The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

### 3. Summary of significant accounting policies

#### a) Principles of consolidation

These condensed consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Details of wholly-owned subsidiary are as follows:

Name	Country of incorporation	Percentage owned March 31	
		2011	2010
Encanto Holdings Ltd. ("EHL")	Canada	100%	100%
Encanto Resources Ltd. ("ERL")	Canada	100%	100%
Encanto Energy Corp. ("EEC")	Canada	100%	- %

Intercompany balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

#### b) Equipment and amortization

The Company's equipment is carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes expenditures directly attributable with bringing the asset to its operating location and condition. Once the assets are put into use, their cost is amortized over the estimated useful economic life on the declining balance method at a rate of 30% per year.

#### c) Mineral properties

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, impaired, sold or abandoned. Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned. Under this method, the amounts shown as mineral property represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted using the unit of production basis. If the properties are impaired, sold or abandoned, the expenditures will be charged to operations in the related period.

The Company reviews the capitalized costs on its properties each reporting period and will recognize impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

Exploration costs that are not attributable to a specific property are charged to operations as general exploration expense. Exploration costs incurred prior to the Company acquiring the legal rights to a property are charged to operations as general exploration expense.

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Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements.

## **d) Impairment of non-financial assets**

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income or loss.

## **e) Decommissioning and restoration provisions ("DRP")**

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the legal or constructive obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of facts such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. These costs are charged against income or loss over the economic life of the related asset, through amortization using the unit-of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in income or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in income or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

As at March 31, 2011, December 31, 2010 and January 1, 2010, the Company had no decommissioning or restoration provisions.

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## f) Income taxes

Income tax on the income or loss for the periods presented comprises current and deferred tax. Income tax is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable incomes will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## g) Basic and diluted loss per share

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive. During the three months ended March 31, 2011 and 2010, the calculation of basic and diluted loss per share is the same.

## h) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through income or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through income and loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

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Three months ended March 31, 2011

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## **i) Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

## **j) De-recognition of financial assets and liabilities**

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in income or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in income or loss.

## **k) Flow-through shares**

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability") and included in accounts payables and accrued liabilities. After renouncement by the Company of eligible resource exploration and evaluation expenditures to flow-through share subscribers, a deferred tax liability is recognized at each period end for the portion of such expenditures incurred to date, and the flow-through tax liability is reversed proportionately. The reduction to the flow-through tax liability is recognized through profit or loss as a reduction of deferred income tax expense. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

## **l) Share-based payments**

The Company has established a stock option plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates.

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the expected level of vesting of the options and of stock options which vest immediately is recorded at the date of grant; the fair value, as adjusted for the expected level of vesting of the options and of options which vest in the future is recognized over the vesting period. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to consultants is recognized as share-based payment expense from the date of grant to the reporting date and credited to contributed surplus. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

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## 4. Accounting standards issued but not yet effective

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the principal new standards:

### IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

### IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

### IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

### IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

### IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market

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participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

### 5. First-time adoption of IFRS

#### *First-time adoption exemptions applied*

The Company's financial statements for the year ending December 31, 2011 are the first annual financial statements that will be prepared in accordance with IFRS. The Company adopted IFRS on January 1, 2011 with transition date of January 1, 2010 (the "Transition Date"). Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain exemptions are applied. The Company has chosen to apply the following elections to:

- Not restate previous business combinations and the accounting thereof; and,
- Not apply IFRS 2 'Share-based Payments', to liabilities arising from share-based payment transactions that were settled or had vested before the Transition Date.

The reconciliation of the Company's assets, liabilities, and shareholders' equity as now presented in accordance with IFRS from those as previously reported in accordance with Canadian GAAP is as follows:

	December 31 2010	March 31 2010	January 1 2010
	\$	\$	\$
Total assets under Canadian GAAP and IFRS	30,454,141	17,436,993	12,149,184
Total liabilities under Canadian GAAP	2,586,038	920,824	648,537
Adjustment – flow-through shares <sup>(i)</sup>	188,333	78,728	168,620
Total liabilities under IFRS	2,774,371	999,552	817,157
Total shareholders' equity under Canadian GAAP	27,868,103	16,516,169	11,500,647
Adjustment – flow-through shares <sup>(i)</sup>	(188,333)	(78,728)	(168,620)
Total shareholders' equity under IFRS	27,679,770	16,437,441	11,332,027

The reconciliation of the Company's reported net losses as now presented in accordance with IFRS from those as previously reported in accordance with Canadian GAAP is as follows:

	Year ended December 31 2010	Three months ended March 31 2010
	\$	\$
Net loss as previously reported under Canadian GAAP	(3,675,982)	(390,000)
Adjustment – flow-through shares <sup>(i)</sup>	(42,380)	(121,108)
Net loss under IFRS	(3,718,362)	(511,108)

#### <sup>(i)</sup> **Reconciling Item**

##### **Flow-through shares**

Under Canadian GAAP, the entire net proceeds from the issuance of flow-through shares were recognized in shareholders' equity. Upon renunciation of the tax benefits associated with the

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related expenditures, a deferred tax liability was recognized and shareholders' equity reduced commensurately.

Under IFRS, proceeds from the issuance of flow-through shares are segregated as follows: the estimated premium investors pay for the flow-through feature, if any, is recorded as a flow-through tax liability; and, the remaining net proceeds are recorded as share capital. Upon renunciation of the tax benefits associated with the related expenditures and incurring eligible exploration expenditures, a deferred tax liability is recognized and the flow-through tax liability is reversed with any difference being recorded as a deferred tax recovery (expense). To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

The application of IFRS has resulted in: a reduction to share capital of \$371,078 at the Transition Date (March 31, 2010 - \$160,078; December 31, 2010 - \$348,411); recognition of a flow-through tax liability in the amount of \$168,620 at the Transition Date (March 31, 2010 - \$78,728; December 31, 2010 - \$188,333); and, increased net losses for the year ended December 31, 2010 totalling \$42,380 (three months ended March 31, 2010 - \$121,108).

The fore-going changes had no effect on the statements of cash flows as previously reported.

### 6. Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these financial statements, the Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- a) the determination of estimated accruals and related assets and liabilities;
- b) the determination and recoverability of deferred mineral property acquisition costs and expenditures;
- c) the determination of deferred income tax expense and related assets and liabilities; and
- d) the assumptions used in calculating the fair value of warrants and share based payments.

### 7. Investment

During 2010, the Company completed a series of transactions with Sundance Resources Corp., a private Alberta oil and gas exploration company ("Sundance"), whereby Sundance licensed seismic data from five First Nation Bands ("the Bands") and the Company jointly, and in addition the Company assigned to Sundance certain oil and gas rights it had with respect to the reserve lands owned by two of the Bands. As part of the consideration in connection with these transactions the Company received from Sundance 10,600,000 common shares of Sundance with a fair value of \$2,120,000. As of April 25, 2011, Sundance's shares commenced trading on the TSXV.

### 8. Mineral property interests - Schedule 1

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous

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# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three months ended March 31, 2011

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conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

### ***Muskowekwan First Nation prospect***

On October 22, 2010, through its wholly-owned subsidiary, ERL, the Company and Muskowekwan First Nation ("MFN") and their corporate nominee, Muskowekwan Resources Ltd. ("MRL") signed a joint venture agreement ("JVA") for the purpose of developing potash mineral deposits on two separate groups of MFN reserve lands (the "MFN Prospect") aggregating approximately 36,300 acres in Saskatchewan. The parties have further agreed to jointly appoint a management committee to supervise the business affairs of the Joint Venture. Upon execution of the JVA, in consideration for granting the leases, the Company issued 200,000 common shares (fair value - \$44,000) and 200,000 share purchase warrants (fair value - \$23,144) exercisable at \$0.22 with an expiry date of October 22, 2012 to MRL. The fair value of the warrants was determined based on the Black-Scholes option pricing model and this amount was charged to mineral properties with a corresponding credit to contributed surplus. Assumptions used in the pricing model are as follows: risk-free rate - 1.15%, expected life - 2 years, expected volatility - 100%; and expected dividend rate - Nil.

On October 22, 2010, the Company also signed development fee, operating and royalty agreements with the MFN and MRL. Pursuant to the development fee agreement, MFN will be paid a fee totalling \$1,000,000 based on certain milestones being achieved over the next 18 months, one of which was \$200,000 paid upon the execution of the JVA described above. Under the operating agreement, the Company is the appointed operator with responsibility to carry out the exploration and development program planned for the property interests. Pursuant to the terms and conditions of the royalty agreement, MRL has a 3% gross overriding royalty on the MFN Prospect.

### ***Other First Nation prospects***

As at March 31, 2011, through ERL, the Company is a party to one Memorandum Of Understanding ("MOU") and one Exploration Participation Agreement ("EPA") with two First Nation Bands (the "Bands"). The Company has obtained two permits from the Crown to explore and develop potash minerals on the Bands' reserve lands which are all located in Saskatchewan.

The significant monetary commitments are as follows:

- Payment of an aggregate amount of \$100,000, which was paid.
- Issuance of a total of 400,000 common shares of the Company to the Bands. As at March 31, 2011 all 400,000 common shares have been issued at an aggregate ascribed value of \$20,000.
- Issuance to each Band of a warrant (issued) to acquire an additional 200,000 shares of the Company with such exercise prices and expiry dates as set out in the respective MOU or EPA, of which 200,000 warrants expired during 2010.

In addition, the EPA and MOU provide that in the event preliminary exploration work leads to a "second phase work program" on any respective Band lands which require leases from the Crown, or the completion of a definitive agreement, as the case may be, the Company is required to issue an additional 100,000 common shares of the Company along with two year warrants for an additional 100,000 common shares to such Band, at an exercise price as set out in the respective EPA or MOU.

### ***Spar Property and KP452 claim***

The Company holds an undivided 100% interest in the Spar Property and KP452 claim. Each of these properties is subject to a 2% net smelter return royalty.

# ENCANTO POTASH CORP.

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## 9. Accounts payable and accrued liabilities

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade payables and accrued liabilities	228,121	2,301,484	111,065
Amounts due to related parties	81,517	28,554	12,472
<b>Total accounts payable and accrued liabilities</b>	<b>309,638</b>	<b>2,330,038</b>	<b>123,537</b>

## 10. Flow-through tax liability

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Flow-through tax liability	106,333	188,333	168,620

The flow-through tax liability arose in connection with flow-through share offerings the Company completed during 2009 and 2010 (note 5) ("the flow-through shares"). The reported amount is the unamortized balance of the premium recorded from issuing the flow-through shares. This balance does not represent a cash liability to the Company but rather this balance will be amortized to the statement of comprehensive income or loss pro-rata with the amount of qualifying flow-through expenditures applicable to the flow-through shares that are incurred by the Company throughout the remainder of fiscal 2011.

## 11. Share capital

### a) Authorized:

Unlimited common shares without par value  
100,000,000 Class A non-voting preference shares, par value \$10 each  
100,000,000 Class B non-voting preference shares, par value \$50 each

### b) Stock options

Changes in the balance of options outstanding and related information since December 31, 2010 were as follows:

	Number of options	Weighted average exercise price Per share	Average remaining life (years)
Balance, December 31, 2010	19,775,000	\$0.18	8.63
Exercised	<u>(605,000)</u>	\$0.16	-
Balance, March 31, 2011	19,170,000	\$0.18	8.52
Unvested	<u>(2,187,500)</u>	\$0.17	1.01
<b>Exercisable, March 31, 2011</b>	<b>16,982,500</b>	<b>\$0.18</b>	<b>8.47</b>

# ENCANTO POTASH CORP.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements Three months ended March 31, 2011

During the three months ended March 31, 2011, the weighted average trading price per share as traded on the TSX V on the days that options were exercised was \$0.54 per share. The weighted average exercise price of the options exercised was \$0.16 per share. No options were exercised in the three months ended March 31, 2010.

The balance of options outstanding as at March 31, 2011 was as follows:

Expiry date	Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
September 2, 2012	\$0.17	1.43	20,000	-	20,000
December 20, 2012	\$0.42	1.73	400,000	-	400,000
November 29, 2015	\$0.44	4.67	250,000	187,500	62,500
July 13, 2019	\$0.17	8.29	9,750,000	-	9,750,000
September 16, 2019	\$0.25	8.47	1,000,000	-	1,000,000
July 13, 2020	\$0.15	9.29	7,500,000	2,000,000	5,500,000
November 12, 2020	\$0.22	9.63	250,000	-	250,000
	\$0.18	8.52	19,170,000	2,187,500	16,982,500

During the three months ended March 31, 2011, the Company recognized share-based payments in the amount of \$54,342 (2010 - \$74,189) with respect to unvested stock options.

In April 2011, an additional 200,000 options that expire on April 28, 2013 were granted at an exercise price of \$0.27 each.

### c) Share purchase warrants

Changes in the balance of warrants outstanding and related information since December 31, 2010 were as follows:

	Number of warrants	Weighted average exercise price per share
Balance, December 31, 2010	33,002,390	\$ 0.38
Exercised	(7,104,141)	\$ 0.21
Balance, March 31, 2011	25,898,249	\$0.43

The balance of warrants outstanding as at March 31, 2011 was as follows:

Expiry date	Warrants outstanding	Exercise price	Remaining life
April 24, 2011	792,997	\$0.20	0.07
May 12, 2011	1,017,687	\$0.20	0.12
October 13, 2011	200,000	\$0.20	0.54
October 28, 2011	200,000	\$0.23	0.58
November 9, 2011	400,000	\$0.24	0.61
November 30, 2011	1,828,574	\$0.35	0.67
June 17, 2012	13,249,999	\$0.60	1.22
July 6, 2012	2,850,660	\$0.20	1.27
October 20, 2012	5,158,332	\$0.25	1.56
October 22, 2012	200,000	\$0.22	1.56
	25,898,249	\$0.43	1.16

In the period from April 1, 2011 until June 27, 2011 the Company issued an additional 1,785,684 common shares in consideration for exercised warrants on receipt of aggregate cash proceeds of \$357,137 and 25,000 warrants expired unexercised.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three months ended March 31, 2011

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## d) Flow-through shares

The Company is committed to incur on or before December 31, 2011 qualifying Canadian exploration expenses as defined under the *Income Act, Canada* ("Qualifying CEE") in the amount of \$5,500,000 with respect to the flow-through share financings completed during the year ended December 31, 2010. As of March 31, 2011, the Company still has unspent Qualifying CEE pertaining to this commitment of approximately \$596,000.

None of the Qualifying CEE will be available to the Company for future deduction from taxable income. During the three months ended March 31, 2011, the Company renounced \$5,500,000 of flow-through proceeds to the subscribers. The Company recognized a future income tax liability amounting to \$1,226,000 with a corresponding deferred income tax charge to operations of \$1,144,000 after recognition of a \$82,000 reduction in the related flow-through tax liability.

## e) Escrow Shares

Pursuant to regulatory requirements, certain shareholders were required to deposit portions of their common shares of the Company into escrow. As at March 31, 2011, a total of 24,114,001 common shares remained in escrow (December 31, 2010 - 32,152,002). These shares will be released in three tranches of 8,038,000 every six months commencing July 14, 2011.

## 12. Related party transactions

During the three months ended March 31, 2011 and 2010, the Company incurred the following expenditures charged by directors and officers of the Company, or former directors and officers of the Company, and/or companies they owned or in which they were significant shareholders:

	2011	2010
	\$	\$
Management compensation	84,114	61,984
Legal fees	8,862	6,090
First Nation relations	62,387	-
	<u>155,363</u>	<u>68,074</u>

These expenditures have occurred in the normal course of the business and are measured at the amount of considerations, approximate to fair value, as established and agreed to by the related parties.

Pursuant to the terms of renewable one-year service agreements that are subject to monthly payments totalling \$21,500 to two of its officers, as at March 31, 2011, the Company was committed to pay a minimum total of \$264,000 in management fees over the next twelve months.

Included in accounts payable and accrued liabilities as at March 31, 2011 was \$81,517 (December 31, 2010 - \$28,554; January 1, 2010 - \$12,472) due to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the three months ended March 31, 2011 and 2010 was as follows:

	2011	2010
	\$	\$
Management fees paid pursuant to agreements	54,000	40,500
Share-based payments	23,118	38,584
	<u>77,118</u>	<u>79,084</u>

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three months ended March 31, 2011

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## 13. Financial instruments

### ***Classification of financial instruments***

The Company's financial instruments consist of cash, investments, and accounts payable and accrued liabilities. The Company designated its cash as FVTPL, which is measured at fair value. Investments are measured as available-for-sale, which are measured at fair value. The accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost.

### ***Fair value of financial instruments***

The Company classifies the fair value of its financial instruments according to a fair value hierarchy based on the amount of observable inputs used to value the instrument as follows:

- Level 1 - Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 - Level 2 valuation is based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 - Values based on prices or valuation techniques that are not based on observable market data.

The value of cash and investments have been assessed based on the fair value hierarchy described above. Cash is classified as level 1 and investments are classified as level 2.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the three months ended March 31, 2011, there were no significant transfers between level 1 and 2.

Discussions of risks associated with financial assets and liabilities are summarized below:

### ***Foreign exchange risk***

As at March 31, 2011, all of the Company's cash was held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

### ***Credit risk***

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with a large Canadian bank.

### ***Interest rate risk***

When the Company holds surplus funds, the Company's policy is to invest in guaranteed investment certificates ("GIC's") that are highly liquid. As such, to the extent that the Company has surplus funds invested in GIC's it becomes exposed to nominal interest rate risk. As at March 31, 2011, with other variables unchanged, a 1% change in the interest rate could affect annual interest income by up to approximately \$81,000. There would be no effect on other comprehensive income.

### ***Liquidity risk***

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. As at March 31, 2011, the Company had working capital of \$8,029,984 (excluding non-cash flow-through tax liability - note 10), which is sufficient to cover funding requirements for operations as currently planned for at least the next twelve months.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2011

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## **Commodity price risk**

The Company's ability to raise capital to fund exploration or development activities is subject in part to risks associated with fluctuations in the market price of potash.

## **14. Management of capital**

The Company's objectives when managing capital are: to safeguard the Company's ability to continue as a going concern in order to facilitate the development of its mineral properties and to maintain an optimal capital structure, while ensuring the Company's strategic objectives are met; and to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, contributed surplus and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, issue new debt, or acquire or dispose of assets, and control of the capital expenditures program. The Company is not subject to externally imposed capital requirements.

The mineral properties are in the exploration stage. As such, the Company is dependent on external financing to develop its properties and fund its activities. In order to carry out its planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available, and may even dispose of its interest in the mineral properties.

Management reviews its capital management policies on an ongoing basis. During the three months ended March 31, 2011, there has been no change in the Company's management of capital policies.

## **15. Supplemental cash flow information**

	2011	2010
	\$	\$
<b>Non-cash investing and financing transactions</b>		
Shares issued for mineral property interest acquisitions	-	5,460,000
Reduction of flow-through tax liability and deferred income tax expenses on renunciation of Qualifying CEE	82,000	89,892
Mineral property interest expenditures included in accounts payable	96,257	38,710

## **16. Commitments**

In addition to commitments with related parties (note 12) and pursuant to mineral property interest obligations (note 8), as at March 31, 2011, the Company was committed to aggregate payments \$82,500 in the remainder of 2011 under various agreements for corporate advisory and consulting services that all expire in 2011 and monthly lease payments on office premises in the amount of \$2,332 per month until the lease expires in January 30, 2012.

**ENCANTO POTASH CORP.**

Schedule 1

*(An Exploration Stage Company)*

## Unaudited Condensed Consolidated Schedule of Changes in Mineral Property Interests

Three months ended March 31, 2011

*(Expressed in Canadian dollars)*

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	MFN Prospect	Other First Nation Prospects	Spar and KP 452 claim	Total
	\$	\$	\$	\$
<b>Balance, January 1, 2011</b>	<b>8,645,219</b>	<b>3,567,531</b>	<b>6,417,227</b>	<b>18,629,977</b>
Deferred exploration expenditures				
2-D seismic	12,000	15,000	-	27,000
3-D seismic	9,153	9,000	-	18,153
Consulting	114,204	-	-	114,204
Drilling	49,596	-	-	49,596
Permitting	5,250	34,750	-	40,000
Site reclamation	4,500	-	-	4,500
	<b>194,703</b>	<b>58,750</b>	<b>-</b>	<b>253,453</b>
<b>Balance, March 31, 2011</b>	<b>8,839,922</b>	<b>3,626,281</b>	<b>6,417,227</b>	<b>18,883,430</b>

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**ENCANTO POTASH CORP.**

Schedule 1

*(An Exploration Stage Company)*

## Unaudited Condensed Consolidated Schedule of Changes in Mineral Property Interests

Three months ended March 31, 2011

*(Expressed in Canadian dollars)*

	MFN Prospect	Other First Nation Prospects	Spar and KP 452 Claim	Total
	\$	\$	\$	\$
<b>Balance, December 31, 2009</b>	<b>815,958</b>	<b>3,801,861</b>	<b>6,086,631</b>	<b>10,704,450</b>
<b>Acquisition costs</b>				
Cash	25,000	25,000	-	50,000
Shares and warrants	2,876,860	2,650,284	-	5,527,144
	<b>2,901,860</b>	<b>2,675,284</b>	<b>-</b>	<b>5,577,144</b>
<b>Deferred exploration expenditures</b>				
Assaying	115,006	(6,052)	-	108,954
2-D seismic	-	21,330	-	21,330
3-D seismic	929,072	2,500	-	931,572
Access support services	168,077	1,193	-	169,270
Consulting	219,300	24,622	-	243,922
Drilling	4,148,565	-	-	4,148,565
Lease surveys	33,906	-	-	33,906
Environmental studies and assessment	10,606	2,141	-	12,747
Equipment rentals and fuel	90,840	20,000	-	110,840
Permitting	38,263	50,234	330,596	419,093
Site reclamation	32,500	-	-	32,500
Other	1,266	2,246	-	3,512
	<b>5,787,401</b>	<b>118,214</b>	<b>330,596</b>	<b>6,236,211</b>
<b>Total 2010 expenditures</b>	<b>8,689,261</b>	<b>2,793,498</b>	<b>330,596</b>	<b>11,813,355</b>
<b>Recovered in consideration for:</b>				
Cash	(100,000)	(100,000)	-	(200,000)
Sundance shares	(760,000)	(1,360,000)	-	(2,120,000)
	<b>(860,000)</b>	<b>(1,460,000)</b>	<b>-</b>	<b>(2,320,000)</b>
<b>Mineral property interests written-off</b>	<b>-</b>	<b>(1,567,828)</b>	<b>-</b>	<b>(1,567,828)</b>
<b>Balance, December 31, 2010</b>	<b>8,645,219</b>	<b>3,567,531</b>	<b>6,412,227</b>	<b>18,629,977</b>

**ENCANTO POTASH CORP.**

Schedule 1

*(An Exploration Stage Company)*

## Unaudited Condensed Consolidated Schedule of Changes in Mineral Property Interests

Three months ended March 31, 2011

*(Expressed in Canadian dollars)*

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	MFN Prospect	Other First Nations Prospects,	Spar and KP452 Claim,	Total
	\$	\$	\$	\$
<b>Balance, December 31, 2008</b>	<b>330,326</b>	<b>3,563,325</b>	-	<b>3,893,651</b>
<b>Acquisition costs</b>				
Cash	100,000	-	1,000,000	1,100,000
Shares and warrants	141,683	106,674	5,086,631	5,334,988
	<b>241,683</b>	<b>106,674</b>	<b>6,086,631</b>	<b>6,434,988</b>
<b>Deferred exploration costs</b>				
2-D Seismic	213,809	213,810	-	427,619
Archaeological	-	4,800	-	4,800
Consulting	30,140	13,252	-	43,392
	<b>243,949</b>	<b>231,862</b>	-	<b>475,811</b>
<b>Total 2009 expenditures</b>	<b>485,632</b>	<b>338,336</b>	<b>6,086,631</b>	<b>6,910,799</b>
<b>Mineral property interests written -off</b>	-	(100,000)	-	(100,000)
<b>Balance, December 31, 2009</b>	<b>815,958</b>	<b>3,801,861</b>	<b>6,086,631</b>	<b>10,704,450</b>

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