

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

**Unaudited Condensed Interim Consolidated Financial Statements**  
**Three and six months ended June 30, 2011**

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

## Unaudited Condensed Interim Consolidated Balance Sheets

(Expressed in Canadian dollars)

	Note	June 30 2011	December 31 2010
		\$	\$
<b>Assets</b>			
Current			
Cash		7,313,380	9,260,208
Taxes recoverable		62,694	210,777
Prepaid expenses		160,182	39,075
		<b>7,536,256</b>	9,510,060
Non-current			
Deposits		177,236	177,236
Equipment		15,832	16,868
Investment	5	3,021,000	2,120,000
Mineral property interests	6	19,410,176	18,629,977
		<b>30,160,500</b>	30,454,141
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	7	469,937	2,330,038
Flow-through premium liability	8	104,833	188,333
		<b>574,770</b>	2,518,371
Non-current			
Deferred tax liability	9d	1,617,125	256,000
		<b>2,191,895</b>	2,774,371
<b>Shareholders' Equity</b>			
Share capital	9	35,711,885	33,506,710
Contributed surplus		2,606,319	2,742,542
Accumulated other comprehensive income		788,375	-
Deficit		(11,137,974)	(8,569,482)
		<b>27,968,605</b>	27,679,770
		<b>30,160,500</b>	30,454,141

### 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 and six months ended June 30

(Expressed in Canadian dollars)

	Note	Three months ended June 30		Six months ended June 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
General and administrative expenses					
Corporate development		13,026	21,975	53,226	8,785
Depreciation		1,148	1,556	2,704	3,313
First Nation relations	10	436,568	76,608	582,607	109,723
Investor communications		96,730	71,216	171,405	193,635
Legal and audit	10	72,799	1,946	126,020	60,720
Management compensation	10	116,218	66,750	215,642	133,500
Office		27,945	44,321	58,915	81,950
Regulatory compliance		20,899	9,246	55,300	25,938
Share-based payments	9	58,246	57,276	112,588	131,465
Travel and accommodation		23,970	22,909	54,987	42,840
Loss for the period before other items		(867,549)	(403,803)	(1,433,394)	(791,869)
Other income (expenses)					
Interest earned		16,049	354	33,006	1,100
Interest expense and bank charges		(282)	(1,111)	(3,104)	(3,791)
Loss for the period before income taxes		(851,782)	(404,560)	(1,403,492)	(794,560)
Deferred income tax (expense) recovery	9	(21,000)	78,728	(1,165,000)	(42,380)
<b>Net loss for the period</b>		<b>(872,782)</b>	<b>(325,832)</b>	<b>(2,568,492)</b>	<b>(836,940)</b>
Other Comprehensive Income					
Unrealized gain on investment		901,000	-	901,000	-
Deferred income tax		(112,625)	-	(112,625)	-
<b>Total comprehensive loss for the period</b>		<b>(84,407)</b>	<b>(325,832)</b>	<b>(1,780,117)</b>	<b>(836,940)</b>
<b>Loss per share</b>					
- basic and diluted		(0.00)	(0.00)	(0.01)	(0.00)
<b>Weighted average number of shares outstanding</b>					
- basic and diluted		251,277,845	167,513,632	249,306,889	161,267,227
<b>Number of common shares</b>					
- fully paid and outstanding		251,718,968	168,009,602	251,718,968	168,009,602
- potentially dilutive options and warrants outstanding		43,457,565	28,972,110	43,457,565	28,972,110

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

Six months ended June 30

(Expressed in Canadian dollars)

	2011	2010
	\$	\$
<b>Operating activities</b>		
Loss for the period before income taxes	(2,568,492)	(836,940)
Items not affecting cash		
Depreciation	2,704	3,313
Share-based payments	112,588	131,465
Deferred Income tax expense	1,165,000	42,380
Net change in non-cash working capital items		
Taxes recoverable	148,083	23,790
Prepaid expenses	(121,107)	23,195
Accounts payable and accrued liabilities	(48,558)	(22,953)
	(1,309,782)	(635,750)
<b>Investing activities</b>		
Deferred mineral property interest expenditures	(2,591,742)	(635,947)
Purchase of equipment	(1,668)	-
Accounts Receivable	-	(33,000)
Deposits	-	(16,500)
	(2,593,410)	(685,447)
<b>Financing activity</b>		
Proceeds on shares issued	1,956,364	219,000
<b>Decrease in cash during the period</b>	<b>(1,946,828)</b>	<b>(1,102,197)</b>
Cash, beginning of period	9,260,208	1,109,594
<b>Cash, end of period</b>	<b>7,313,380</b>	<b>7,397</b>

Supplemental cash flow information - note 13

*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

Six months ended June 30

(Expressed in Canadian dollars)

	Common Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	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	2,153,333	221,015	(2,015)	-	-	219,000
Non-cash, pursuant to:						
- Mineral property interests	26,000,000	5,460,000	-	-	-	5,460,000
Share-based payments	-	-	131,465	-	-	131,465
Net loss for the period	-	-	-	(836,940)	-	(836,940)
<b>Balance, June 30, 2010</b>	<b>168,009,602</b>	<b>19,793,374</b>	<b>2,200,238</b>	<b>(5,688,060)</b>	<b>-</b>	<b>16,305,552</b>
Shares issued in consideration for:						
Cash, pursuant to:						
- Private placements	65,149,999	11,837,006	394,127	-	-	12,231,133
- Options exercised	525,000	145,486	(56,736)	-	-	88,750
- Warrants exercised	8,339,542	1,686,844	(530,126)	-	-	1,156,718
Non-cash, pursuant to:						
- Mineral property interests	200,000	44,000	23,144	-	-	67,144
Share-based payments	-	-	711,895	-	-	711,895
Net loss for the period	-	-	-	(2,881,422)	-	(2,881,422)
<b>Balance, December 31, 2010</b>	<b>242,224,143</b>	<b>33,506,710</b>	<b>2,742,542</b>	<b>(8,569,482)</b>	<b>-</b>	<b>27,679,770</b>
Shares Issued in consideration for:						
Cash, pursuant to:						
- Warrants exercised	8,889,825	2,056,554	(194,540)	-	-	1,862,014
- Options exercised	605,000	148,621	(54,271)	-	-	94,350
Share-based payments	-	-	112,588	-	-	112,588
Net loss for the period	-	-	-	(2,568,492)	-	(2,568,492)
Unrealized gain on investments, net of tax	-	-	-	-	788,375	788,375
<b>Balance, June 30, 2011</b>	<b>251,718,968</b>	<b>35,711,885</b>	<b>2,606,319</b>	<b>(11,137,974)</b>	<b>788,375</b>	<b>27,968,605</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 and six months ended June 30, 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 and adoption of International Financial Reporting Standards

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. The accounting policies followed in these interim financial statements are the same as those applied in the Company's interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported balance sheet as at June 30, 2010 and the comprehensive loss for the three and six months ended June 30, 2010, 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.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 29, 2011, the date the Board of Directors approved the statements. 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 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 annual financial statements for the year ended December 31, 2010, and the Company's condensed interim consolidated financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2011

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### 3. 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

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements Three and six months ended June 30, 2011

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.

### 4. Adoption of IFRS

The reconciliation of the Company's assets, liabilities, and shareholders' equity at June 30, 2010 as previously report under Canadian GAAP to IFRS is as follows:

	<b>June 30 2010</b>
	\$
Total assets under Canadian GAAP and IFRS	17,372,101
Total liabilities under Canadian GAAP and IFRS	1,066,549
Total shareholders' equity under Canadian GAAP	16,305,552
Share Capital Adjustment – flow-through shares <sup>(i)</sup>	(160,078)
Deficit Adjustment – flow-through shares <sup>(i)</sup>	160,078
Total shareholders' equity under IFRS	16,305,552

The reconciliation of the Company's reported net losses for the three and six months ended June 30, 2010 with IFRS from those as previously reported in accordance with Canadian GAAP is as follows:

	<b>Three months ended June 30 2010</b>	<b>Six months ended June 30 2010</b>
	\$	\$
Net loss as previously reported under Canadian GAAP	(404,560)	(794,560)
Adjustment – flow-through shares <sup>(i)</sup>	78,728	(42,380)
Net loss under IFRS	(325,832)	(836,940)

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

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2011

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## 5. Investment

During 2010, the Company completed a series of transactions with Sundance Resources Corp., an Alberta oil and gas exploration company ("Sundance") whose shares commenced trading on the TSXV on April 25, 2011, 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 \$0.20 per share for a total value of \$2,120,000.

Based on Sundance's closing price on June 30, 2011 of \$0.285 per share, an unrealized gain of \$901,000 was recognized as other comprehensive income in the period on the revaluation of the shares to market value of \$3,021,000. The estimated deferred tax impact during the period was \$112,625.

## 6. 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 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 of which \$200,000 was paid upon the execution of the JVA described above and an additional \$290,000 has been paid cumulatively to date. Of the residual amount owing, \$10,000 is expected to be paid before December 31, 2011 and \$500,000 is due upon the grant of a mining lease by the Federal government on the MFN Prospect. 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 June 30, 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.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2011

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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 June 30, 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.

## **7. Accounts payable and accrued liabilities**

	<b>June 30 2011</b>	<b>December 31 2010</b>
	<b>\$</b>	<b>\$</b>
Trade payables and accrued liabilities	411,653	2,301,484
Amounts due to related parties (note 10)	58,284	28,554
<b>Total accounts payable and accrued liabilities</b>	<b>469,937</b>	<b>2,330,038</b>

## **8. Flow-through premium liability**

	<b>June 30 2011</b>	<b>December 31 2010</b>
	<b>\$</b>	<b>\$</b>
Flow-through premium liability	104,833	188,333

The flow-through premium liability arose in connection with flow-through share offerings the Company completed during 2010 (note 9 d)) (“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.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2011

## 9. 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	Weighted average remaining life (years)
Balance, December 31, 2010	19,775,000	\$0.18	8.63
Granted	200,000	\$0.27	1.83
Exercised	(605,000)	\$0.16	-
Balance, June 30, 2011	19,370,000	\$0.18	8.20
Unvested	(2,125,000)	\$0.17	8.77
<b>Exercisable, June 30, 2011</b>	<b>17,245,000</b>	<b>\$0.18</b>	<b>8.13</b>

During the six months ended June 30, 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 six months ended June 30, 2010.

The balance of options outstanding as at June 30, 2011 was as follows:

Expiry date	Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
September 2, 2012	\$0.17	1.18	20,000	-	20,000
December 20, 2012	\$0.42	1.48	400,000	-	400,000
April 28, 2013	\$0.27	1.83	200,000	-	200,000
November 29, 2015	\$0.44	4.42	250,000	125,000	125,000
July 13, 2019	\$0.17	8.04	9,750,000	-	9,750,000
September 16, 2019	\$0.25	8.22	1,000,000	-	1,000,000
July 13, 2020	\$0.15	9.04	7,500,000	2,000,000	5,500,000
November 12, 2020	\$0.22	9.38	250,000	-	250,000
	\$0.18	8.20	19,370,000	2,125,000	17,245,000

During the six months ended June 30, 2011 the Company granted 200,000 stock options (2010 – nil). The fair value of the options of \$25,704 was determined by the Black-Scholes pricing model using the following assumptions: risk free rate of interest of 1.15%; expected life – 2 years; expected volatility -100%; expected dividends – nil; and provision for forfeiture of 10%.

During the six months ended June 30, 2011, the Company recognized share-based payments in the amount of \$112,588 (2010 - \$131,465) with respect to newly granted stock options as well as unvested stock options from prior periods.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2011

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## 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	Weighted average Remaining life
Balance, December 31, 2010	33,002,390	\$0.38	1.28
Exercised	(8,889,825)	\$0.21	
Expired	<u>(25,000)</u>	\$0.20	
Balance, June 30, 2011	24,087,565	\$0.44	1.00

The balance of warrants outstanding as at June 30, 2011 was as follows:

Expiry date	Warrants outstanding	Exercise price	Remaining life
October 13, 2011	200,000	\$0.20	0.29
October 28, 2011	200,000	\$0.23	0.33
November 9, 2011	400,000	\$0.24	0.36
November 30, 2011	1,828,574	\$0.35	0.42
June 17, 2012	13,249,999	\$0.60	0.97
July 6, 2012	2,850,660	\$0.20	1.02
October 20, 2012	5,158,332	\$0.25	1.31
October 22, 2012	<u>200,000</u>	\$0.22	1.32
	24,087,565	\$0.44	1.00

## 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 June 30, 2011, the Company still has unspent Qualifying CEE pertaining to this commitment of approximately \$505,000.

None of the Qualifying CEE will be available to the Company for future deduction from taxable income. During the six months ended June 30, 2011, the Company renounced \$5,500,000 of flow-through proceeds to the subscribers. During the six months ended June 30, 2011, the Company recognized a future income tax liability amounting to \$1,248,500 with a corresponding deferred income tax charge to operations of \$1,165,000 after recognition of a \$83,500 reduction in the related flow-through premium liability. Deferred income tax liabilities also include \$256,000 relating to flow through expenditures incurred prior to December 31, 2010.

## e) Escrow Shares

Pursuant to regulatory requirements, a total of 24,114,001 common shares remained in escrow (December 31, 2010 – 32,152,002). The shares will be released from escrow as to 8,038,000, 8,038,000 and 8,038,001 shares on July 14, 2011, January 14, 2012 and July 14, 2012, respectively.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2011

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## 10. Related party transactions

During the three and six months ended June 30, 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:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Management compensation	103,858	66,750	187,972	133,500
Legal fees	12,583	2,495	21,445	8,585
First Nation relations	56,841	-	119,228	-
	<b>173,282</b>	69,245	<b>328,645</b>	142,085

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 \$25,500 to two of its officers, as at June 30, 2011, the Company was committed to pay a minimum total of \$190,500 in management fees over the next twelve months.

Included in accounts payable and accrued liabilities as at June 30, 2011 was \$58,284 (December 31, 2010 - \$28,554) 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 and six months ended June 30, 2011 and 2010 was as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$			\$
Management fees paid pursuant to agreements	69,000	40,500	123,000	81,000
Share-based payments	21,219	34,365	44,337	72,949
	<b>90,219</b>	74,865	<b>167,337</b>	153,949

## 11. 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.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements Three and six months ended June 30, 2011

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- 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. Both cash and investments have been classified as level 1.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the three months ended June 30, 2011, the investments were transferred from level 2 to level 1 as a result of the investment becoming actively traded in the period.

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

### **Foreign exchange risk**

As at June 30, 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 June 30, 2011, with other variables unchanged, a 1% change in the interest rate could affect annual interest income by up to approximately \$73,000. 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 June 30, 2011, the Company had working capital of \$7,066,319 (excluding non-cash flow-through premium liability - note 8), which is sufficient to cover funding requirements for operations as currently planned for at least the next twelve months.

### **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.

## **12. 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.

# ENCANTO POTASH CORP.

(An Exploration Stage Company)

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements Three and six months ended June 30, 2011

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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 and six months ended June 30, 2011, there has been no change in the Company's management of capital policies.

### 13. Supplemental cash flow information

	Six months ended June 30, 2011	Six months ended June 30, 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	162,850	-
Mineral property interest expenditures included in accounts payable as at December 31	(2,177,402)	(1,061,236)
Mineral property interest expenditures included in accounts payable as at June 30,	365,859	229,965

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### 14. Commitments

In addition to commitments with related parties (note 10) and pursuant to mineral property interest obligations (note 6), as at June 30, 2011, the Company was committed to aggregate payments of \$87,000 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 amounts of \$2,332 and \$1,654 per month until the respective lease expires in January 30, 2012 and June 30, 2012.

**ENCANTO POTASH CORP.**

Schedule 1

*(An Exploration Stage Company)*

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

Six months ended June 30, 2011

*(Expressed in Canadian dollars)*

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	MFN Prospect	Other First Nation Prospects	Spar and KP 452 claim	Total
	\$	\$	\$	\$
<b>Balance, December 31, 2010</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	9,920	9,000	-	18,920
Consulting	161,254	-	-	161,254
Drilling	160,657	-	-	160,657
PEA	302,318	-	-	302,318
Permitting	4,000	31,000	70,550	105,550
Site reclamation	4,500	-	-	4,500
	<b>654,649</b>	<b>55,000</b>	<b>70,550</b>	<b>780,199</b>
<b>Balance, June 30, 2011</b>	<b>9,299,868</b>	<b>3,622,531</b>	<b>6,487,777</b>	<b>19,410,176</b>

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**ENCANTO POTASH CORP.**

Schedule 1

*(An Exploration Stage Company)*

Unaudited Condensed Consolidated Schedule of Changes in Mineral Property Interests

Six months ended June 30, 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>