

**ENCANTO POTASH CORP.**

(Formerly Angus Ventures Corp.)

(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2009

(unaudited)

**ENCANTO POTASH CORP.**  
(Formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(unaudited)

	<u><b>ASSETS</b></u>	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u> (audited)
Current			
Cash		\$ 529,992	\$ 183,996
GST recoverable		101,761	221,421
Income taxes recoverable		25,666	-
Other receivables – Note 10		25,000	25,000
Due from shareholder		-	84,570
Prepaid expenses		30,634	7,367
		<hr/>	<hr/>
		713,053	522,354
Deposits		60,462	60,462
Mineral properties – Note 5		10,601,042	3,893,651
Equipment (net of accumulated amortization of \$2,086; December 31, 2008 - \$204)		22,784	1,556
		<hr/>	<hr/>
		\$ 11,397,341	\$ 4,478,023

**LIABILITIES**

Current			
Accounts payable and accrued liabilities		\$ 62,927	\$ 312,067
Due to related parties – Note 9		15,084	40,039
		<hr/>	<hr/>
		78,011	352,106

**SHAREHOLDERS' EQUITY**

Share capital – Note 7		13,051,815	5,797,886
Contributed surplus – Note 7		2,089,882	590,200
Deficit		(3,822,367)	(2,262,169)
		<hr/>	<hr/>
		11,319,330	4,125,917
		<hr/>	<hr/>
		\$ 11,397,341	\$ 4,478,023

Nature and Continuance of Operations – Note 1  
Commitments – Notes 5 and 7  
Subsequent Events – Notes 5, 7 and 13

APPROVED BY THE DIRECTORS

<u>“James Walchuck”</u> James Walchuck	Director	<u>“Gord Keep”</u> Gord Keep	Director
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SEE ACCOMPANYING NOTES

**ENCANTO POTASH CORP.**  
(Formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS  
AND DEFICIT**  
For the three and nine months ended September 30, 2009 and 2008  
(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2009	2008	2009	2008
General and administrative expenses				
Accounting and audit fees – Note 9	\$ 23,839	\$ 533	\$ 142,319	\$ 533
Amortization	1,641	-	1,882	-
Consulting fees – Note 9	142,541	77,952	418,687	519,914
Donations	11,000	-	20,283	8,000
Filing and transfer agent fees	23,348	235	73,849	235
Interest	-	-	3,757	-
Legal fees	48,800	30,161	194,853	38,073
Management fees, salaries and benefits – Note 9	23,102	-	56,102	446,628
Investor relations and miscellaneous	48,181	38	70,963	70,367
Office – Note 9	19,747	12,810	60,796	30,208
Part XII.6 and other tax	1,219	-	18,480	-
Stock-based compensation – Note 7	1,043,302	476,000	1,043,302	476,000
Travel and accommodation	32,396	6,916	63,774	85,155
Loss for the period before other items	(1,419,116)	(604,645)	(2,169,047)	(1,675,113)
Other income items				
Interest income	1,431	-	1,849	-
Net loss for the period before income taxes	(1,417,685)	(604,645)	(2,167,198)	(1,675,113)
Future income tax recovery – Note 7(f)	60,000	-	607,000	-
Net loss and comprehensive loss for the period	(1,357,685)	(604,645)	(1,560,198)	(1,675,113)
Retained earnings (Deficit), beginning of the period	(2,464,682)	(908,895)	(2,262,169)	161,573
Charge related to RTO with ERL – Note 4	-	(154,998)	-	(154,998)
Deficit, end of the period	\$ (3,822,367)	\$ (1,668,538)	\$ (3,822,367)	\$ (1,668,538)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.09)
Weighted average number of shares outstanding	119,146,471	53,787,582	90,440,509	18,179,455

SEE ACCOMPANYING NOTES

**ENCANTO POTASH CORP.**  
(Formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the three and nine months ended September 30, 2009 and 2008  
(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2009	2008	2009	2008
<b>Cash Used In Operating Activities</b>				
Net loss for the period	\$ (1,357,685)	\$ (604,645)	\$ (1,560,198)	\$ (1,675,113)
Items not affecting cash				
Amortization	1,641	-	1,882	-
Stock-based compensation	1,043,302	476,000	1,043,302	476,000
Consulting fees settled by reduction of amount due to shareholder	-	-	43,500	-
Future income tax recovery	(60,000)	-	(607,000)	-
Fees settled by issuance of shares	-	-	-	212,000
	<u>(372,742)</u>	<u>(128,645)</u>	<u>(1,078,514)</u>	<u>(987,113)</u>
<b>Changes in non-cash working capital items:</b>				
GST recoverable	7,304	1,196,449	131,663	1,157,117
Income taxes recoverable	-	-	(25,666)	-
Prepaid expenses	(10,269)	11,820	(17,441)	(28,180)
Accounts payable and accrued liabilities	(173,339)	(1,713,142)	(284,117)	(1,653,921)
	<u>(549,046)</u>	<u>(633,518)</u>	<u>(1,274,075)</u>	<u>(1,512,097)</u>
<b>Cash Used In Investing Activities</b>				
Deferred exploration expenditures	(1,315,615)	(390,983)	(1,650,760)	(2,063,731)
Purchase of equipment	-	-	(226)	-
Cash acquired on completion of Acquisition of ERL – Note 4	-	290,085	-	290,085
	<u>(1,315,615)</u>	<u>(100,898)</u>	<u>(1,650,986)</u>	<u>(1,773,646)</u>
<b>Cash Provided By Financing Activities</b>				
Issuance of securities, net of costs	-	1,873,501	2,117,493	3,146,001
Due to / from related party	14,814	(1,104,208)	(24,955)	108,500
Due from Shareholder	-	(85,222)	41,070	58,906
Loan advance from Angus – Note 6	-	-	90,000	-
Loan repayment to Angus – Note 6	-	-	(90,000)	-
Cash acquired on completion of Acquisition of Encanto	1,137,449	-	1,137,449	-
	<u>1,152,263</u>	<u>684,071</u>	<u>3,271,057</u>	<u>3,313,407</u>
Increase (decrease) in cash during the period	(712,398)	(50,345)	345,996	27,664
Cash, beginning of the period	1,242,390	123,122	183,996	45,113
Cash, end of the period	\$ 529,992	\$ 72,777	\$ 529,992	\$ 72,777
Cash paid for interest	\$ -	\$ -	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

Non-cash Transactions – Note 12

SEE ACCOMPANYING NOTES

**ENCANTO POTASH CORP.**  
(Formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the nine months ended September 30, 2009  
(unaudited)

Note 1 Nature and Continuance of Operations

Encanto Potash Corp. (formerly Angus Ventures Corp., “Angus” or the “Company”) was incorporated under the laws of British Columbia, Canada, in 1986. The Company is listed for trading on the TSX Venture Exchange under the symbol “EPO.”

On July 13, 2009, the Company acquired all of the issued and outstanding common shares of a private Alberta Company (“Encanto”) in exchange for 87,531,153 common shares of the Company. As a result of this transaction, the shareholders of Encanto acquired more than 50% of the Company’s issued and outstanding common shares and the transaction was accounted for as a reverse takeover (“RTO”). Upon completion of the RTO, the shareholders of Encanto obtained control of the consolidated entity. Under the purchase method of accounting Encanto has been identified as the acquirer, and accordingly the entity is considered to be a continuation of Encanto with the net assets of Angus at the date of the RTO deemed to have been acquired by Encanto (Note 3). The interim consolidated financial statements for the nine-month period ended September 30, 2009 include the results of operations of Encanto from January 1, 2009 and of the Company from July 13, 2009, the date of the RTO. The comparative figures are those of Encanto.

Effective July 14, 2009, following regulatory approval, the Company changed its name from Angus Ventures Corp. to Encanto Potash Corp.

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 its investments is 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.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2009, the Company was still in the exploration stage and had not achieved profitable operations, had an accumulated deficit of \$3,822,367 since inception and expects to incur further losses in the development of its business. The Company’s ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, its ability to obtain the necessary financing to develop the properties and to meet its obligations and repay its liabilities arising from normal business operations when they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

Note 2 Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP, using the same accounting policies and methods of Encanto as per the year ended December 31, 2008 with the following addition. They do not include all the disclosures required for annual financial statements under Canadian GAAP, and should be read in conjunction with the most recent annual consolidated financial statements of Encanto.

The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of those to be expected for the entire year ending December 31, 2009.

Recently adopted accounting pronouncement

*Goodwill and intangible assets*

The CICA issued new Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Other Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and accordingly, the Company adopted the new standard on January 1, 2009. The adoption of this standard has not had any significant impact on these consolidated financial statements.

Future accounting and reporting changes

i) Business combinations, consolidated financial statements and non-controlling interest

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling Interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date.

It provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) 3, “Business Combinations” (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Note 2 Significant Accounting Policies – (cont'd)

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, “Consolidated and Separate Financial Statements” (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

ii) International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS cannot be reasonably estimated.

Note 3 Reverse Takeover with Encanto

Effective July 13, 2009, Angus acquired 100% of the issued and outstanding shares of Encanto in exchange for common shares of Angus on a one-for-one basis (87,531,153 shares). As a result of this share issuance, the shareholders of Encanto obtained control of the Company by obtaining 77% of the common shares of the combined entity and the transaction has been accounted for as a reverse takeover (“RTO”). Accordingly, for accounting purposes, Encanto was treated as the parent company (legal subsidiary) and Angus has been treated as the subsidiary (legal parent) in these interim consolidated financial statements. As Encanto was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these interim consolidated financial statements at their historical carrying value.

Note 3 Reverse Takeover with Encanto – (cont'd)

For purposes of this transaction, the consideration was deemed to be the fair value of the net assets of Angus which on July 13, 2009 was \$1,113,185. This amount was calculated as follows:

Cash	\$ 1,137,449
GST recoverable	12,003
Prepaid expenses	5,826
Equipment	22,884
Accounts payable and accrued liabilities	(64,977)
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Net value of assets acquired	\$ 1,113,185
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Consideration	
87,531,153 common shares	\$ 1,113,185
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In conjunction with the RTO, 16,544,489 warrants originally issued by Encanto were deemed to be issued by the Company on the same terms. Similarly, 10,250,000 options previously granted by Encanto to directors, officers, consultants and charities are deemed granted by the Company on the same terms. Each option is exercisable into one common share of the Company at an exercise price of \$0.17 per share until July 13, 2019. The options vest on varying dates between July 13, 2009 and January 13, 2011.

Note 4 Reverse Takeover with ERL

Effective July 10, 2008, Encanto acquired 100% of the issued and outstanding shares of Encanto Resources Ltd. (“ERL”) in exchange for common shares of Encanto on a one-for-one basis (43,250,000 common shares). As a result of this share issuance, the shareholders of ERL acquired substantially all of Encanto’s issued and outstanding common shares and the transaction was accounted for as a RTO. Accordingly, for accounting purposes, ERL was treated as the parent company (legal subsidiary) and Encanto was treated as the subsidiary (legal parent) in these consolidated financial statements. As ERL was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying value. The operations of Encanto are included from July 10, 2008.

Note 4 Reverse Takeover with ERL – (cont’d)

For purposes of this transaction, the consideration was deemed to be the fair value of the net liabilities of Encanto assumed which on July 10, 2008 was \$154,998. This amount was calculated as follows:

Cash	\$ 290,085
Receivables	1,282,686
Payables	(1,727,769)
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Net liabilities assumed	\$ (154,998)

The net liabilities were charged to deficit, no value was allocated to the common shares of Encanto. ERL and Encanto were considered to be related parties due to certain shareholders and directors having common influence over each company.

Note 5 Mineral Properties – Schedule 1

*First Nations Potash Prospects*

The Company has been actively engaged in the business of acquiring, exploring and developing potash mineral prospects. Through ERL, the Company has entered into five Memorandums of Understanding (“MOU’s”) and three Exploration Participation Agreements (“EPA’s”) with eight Bands. The Company has obtained two permits to explore and develop potash minerals on certain First Nation Reserve Lands (“a Permit”) in Saskatchewan. Subsequent to September 30, 2009, the Company obtained two additional Permits.

While the MOU’s and the EPA’s with each of the eight Bands are not identical, they each contain the following material terms:

- Payment of a non-refundable amount of \$50,000 to the Band (an aggregate amount of \$400,000 has been paid to the eight Bands).
- Issuance of 200,000 common shares of the Company to the Band (shares are either issued on execution of the MOU or are only delivered to the Band upon granting of a permit in respect of such lands, depending on the particular MOU). As at September 30, 2009, an aggregate of 800,000 common shares have been issued for a fair value of \$40,000. Subsequent to September 30, 2009, an additional 200,000 common shares have been issued for an ascribed value of \$40,000.
- Issuance to the Band of a warrant to acquire an additional 200,000 shares of the Company with such exercise prices and expiry dates as set out in the respective MOU’s (no warrants were issued as at September 30, 2009, but the Company has a commitment to issue 600,000 warrants at that date (note 7(e)).
- Authorization by the Band (subject to granting of a Permit in respect of such lands) for ERL to conduct a seismic program and exploration drilling on or before a date specified in the MOU, typically November 30, 2009 (but subject to terms of any Permit).

Note 5 Mineral Properties – Schedule 1 – (cont'd)

- Grant to the Band of up to 50% ownership interest in all seismic data shot on the lands.
- Reimbursement of the Band by ERL of the actual costs, to a maximum of \$50,000, of either the assisting with the “second phase work program”, in the event that ERL elects to proceed, which requires the granting by the Crown of a Lease (as described below) or of the referendum process described below, depending on the particular MOU, other than with respect to the Day Star First Nation.
- In the event of the granting of a Lease, the parties are required to negotiate the terms of a definitive agreement providing for the parties’ respective economic rights in the development, as described below.

In addition, three of the MOU’s provide that in the event of a “second phase work program” being conducted on the Band’s lands (which requires a Lease to be issued by the Crown), issuance of an additional 100,000 common shares of the Company and the grant of an additional warrant to acquire an additional 100,000 common shares of the Company at such exercise price as set out in the respective MOU and exercisable within two years after issuance of the Lease by the Crown.

Finally, one MOU provides that upon the issuance of a Permit, the Company will issue the Band an additional 100,000 common shares.

The MOU’s generally provide that the Band or its nominee will, pursuant to the definitive agreement, receive a non-convertible prorated 3% gross overriding royalty (free of all encumbrances) from all minerals produced under the Lease.

Additional matters to be negotiated in the definitive agreement include development fees, annual surface lease payments, education/training opportunities, preferential living and employment practices, preferential contracting opportunities, and community and/or infrastructure contributions.

In June 2009, the Company entered into a formal EPA with one Band, superseding the MOU previously entered into. In July 2009, the Company entered into an additional EPA with a Band, superseding the MOU previously entered into, and entered into an EPA with a Band which had not previously entered into an MOU.

While the EPA’s for each Band are not identical, they each contain similar terms to the MOU’s other than the following material differences:

- The issuance of 200,000 common shares of the Company to the Band is conditional upon granting of a permit in respect of such lands and not upon signing the EPA.
- The issuance of 200,000 warrants of the Company to the Band is conditional upon issuance of the 200,000 common shares. The warrants are for a period of two years from the date of issuance and will have an exercise price equal to the lowest price permissible by the TSX Venture Exchange at the date of issuance.

Note 5 Mineral Properties – Schedule 1 – (cont'd)

*Spar Property and KP452 Claim*

By an agreement dated July 24, 2009, effective August 11, 2009, between the Company and Lion Energy Corp. (formerly Raytec Metals Corp.) (“Lion”), the Company acquired all of Lion’s interests in its potash properties (the “Lion Potash Properties”) in Saskatchewan for 19,846,525 common shares at \$0.25 per share, being the trading price of the Company’s common shares on the issuance date for a value of \$4,961,631, being Lion’s acquisition costs and costs incurred to date on the Lion Potash Properties.

Further, Lion has agreed to incur \$6,500,000 of expenditures on the Company’s potash properties by December 31, 2009 to earn a 51% interest in the properties (including the Lion Potash Properties), which interest the Company has the option to repurchase for 26,000,000 shares.

The Company issued 500,000 shares as a finder’s fee with a fair value of \$125,000 in respect of these transactions to an independent third party.

Pursuant to an agreement entered into by Lion and the Lion Potash Properties vendor in January 2008 and modified by a settlement agreement dated October 28, 2008, Lion had made all required share issuances and cash payments to exercise the option, other than the payment of \$1,000,000. The Company paid this amount in September 2009. The optionor retains a 2% net smelter return on the property.

Note 6 Loan From Angus

Effective January 26, 2009, Encanto entered into a short-term loan agreement (“the Loan”) with Angus. Pursuant to the terms and conditions of the Loan, Angus advanced \$90,000 to Encanto. The Loan bore interest at Canadian prime plus 3% and was secured by certain GST refunds due to Encanto.

Prior to the RTO, Encanto repaid the Loan, plus accrued interest.

Note 7 Share Capital

a) Authorized:

Unlimited common shares without par value  
Unlimited preference shares issuable in series

Note 7 Share Capital – (cont'd)

b) Common Shares Issued and Outstanding, and Contributed Surplus:

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, December 31, 2008	69,818,303	\$ 5,797,886	\$ 590,200
Issued during the period:			
For cash pursuant to private placement of flow-through shares	5,620,658	843,099	-
For cash pursuant to private placement of units	12,073,192	1,177,404	331,745
Less: Issue costs – cash	-	(234,755)	-
Issue costs – non-cash	-	(124,635)	124,635
Pursuant to penalty rights exercise	19,000	-	-
Recapitalization transactions			
Pursuant to the acquisition of Angus	(87,531,153)	-	-
Exchange of shares	87,531,153	-	-
Shares of Angus at the RTO date - Note 3	26,566,681	1,113,185	-
Pursuant to Raytec agreement – Note 5	19,846,525	4,961,631	-
Finder's fee – Note 5	500,000	125,000	-
Deduct: Future income tax on flow-through shares	-	(607,000)	-
Stock-based compensation and donations	-	-	1,043,302
	<hr/>	<hr/>	<hr/>
Balance, September 30, 2009	134,444,359	\$ 13,051,815	\$ 2,089,882

c) Financings:

In April and May 2009, Encanto completed in two tranches a brokered private placement of 5,620,658 flow-through shares at \$0.15 per share for gross proceeds of \$843,099 and 12,073,192 units at \$0.125 per unit for aggregate gross proceeds of \$1,509,149.

Each unit is comprised of one non-flow-through common share and one-half of one non-flow-through common share purchase warrant. Each whole warrant entitles the holder thereof to purchase an additional non-flow-through common share of Encanto at \$0.20 per share at dates varying from April 24, 2011 to May 12, 2011. A fair value of \$331,745 has been attributed to these warrants using the Black-Scholes option pricing model and has been credited to contributed surplus in shareholders' equity. The assumptions used in the option pricing model are as follows: risk-free interest rate – 1.48%; expected life – 2.0 years; expected volatility – 131%; and expected dividends – nil.

Note 7 Share Capital – (cont'd)

c) Financings: – (cont'd)

The agent for the offering received a commission consisting of \$164,657 cash, \$30,000 as payment of corporate finance fees and 1,769,384 broker warrants entitling the agent to purchase 1,769,384 common shares of Encanto at \$0.20 per share until dates varying from April 24, 2011 to May 12, 2011. In addition, Encanto incurred legal and other out-of-pocket expenses related to the offering in the amount of \$40,098. The fair value of \$124,635 for the broker warrants was estimated using the Black-Scholes option pricing model and was charged to share issue costs and credited to contributed surplus. The assumptions used in the option pricing model are identical to those used for valuing the warrants in the brokered private placements of the same date.

d) Penalty Rights:

Pursuant to the terms and conditions of a private placement offering completed in November 2008, subscribers for 190,000 units included in the offering were issued a penalty right with each unit purchased, such rights being exercisable if the Encanto's shares were not listed on a public stock exchange on or before March 13, 2009. As at that date Encanto was not publicly traded and accordingly, on March 16, 2009, Encanto issued an additional 19,000 common shares and 9,500 common share purchase warrants for no additional consideration. Each warrant is exercisable into one common share of Encanto at \$0.50 per share until November 14, 2010.

Further, the agents for that financing received 487,278 broker options exercisable into units, expiring November 14, 2010, and that also included penalty rights with the same terms as the subscriber penalty rights. Accordingly, effective March 13, 2009, if all the 487,278 broker options are exercised Encanto will issue 536,006 common shares and 268,004 warrants for no additional consideration than would have been received from the exercise of the original 487,278 broker options at \$0.25 per unit, such units bearing identical terms to the subscriber units from the private placement.

e) Commitments:

i) *Stock-based Compensation Plan*

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSXV). Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company.

Note 7 Share Capital – (cont'd)

e) Commitments: – (cont'd)

Changes in share purchase options during the nine-month period ended September 30, 2009 are as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life</u>
Balance, December 31, 2008	-	-	-
Granted	12,250,000	\$0.18	
Outstanding, September 30, 2009	12,250,000	\$0.18	9.82
Exercisable, September 30, 2009	8,000,000	\$0.19	9.82

At September 30, 2009, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
10,250,000	\$0.17	July 13, 2019
2,000,000	\$0.25	September 16, 2019
<u>12,250,000</u>		

A total of 6,750,000 of the options granted during the nine-month period ended September 30, 2009 vested on the grant date. 5,000,000 of the options granted vest as to 25% on the grant date and a further 25% vest every six months thereafter, and the remaining 500,000 options granted vest as to 25% three months from the grant date and a further 25% vest every three months thereafter.

The weighted average fair value of share purchase options granted or share purchase warrants issued of \$0.11 (2008 - \$0.06) per option or warrant was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>Nine months ended September 30, 2009</u>	<u>2008</u>
Risk-free interest rate	1.98%	2.16%
Expected life	5.0 years	2.0 years
Expected volatility	75%	125%
Expected dividends	Nil	Nil

Note 7 Share Capital – (cont'd)

e) Commitments: – (cont'd)

During the nine-month period ended September 30, 2009, the Company recorded stock-based compensation expense of \$1,043,302 (2008 – \$476,000).

ii) *Share Purchase Warrants*

As at September 30, 2009, the Company is obligated to issue 600,000 warrants to certain Bands (Note 5), however, the Company has yet to determine the exercise price for all the 600,000 warrants as the EPA's are in the process of being finalized. The warrants to be issued expire at various dates between June 1 and August 13, 2010.

Changes in share purchase warrants during the nine-month period ended September 30, 2009 are as follows:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life</u>
Balance, December 31, 2008	8,655,917	\$0.14	1.63
Issued – Note 7(c)	7,805,980	\$0.20	
Issued – Note 7(d)	82,592	\$0.35	
Balance, September 30, 2009	<u>16,544,489</u>	<u>\$0.17</u>	<u>1.22</u>

At September 30, 2009, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
7,550,000	\$0.10	August 11, 2010
536,006	\$0.25	November 14, 2010
652,503	\$0.50	November 14, 2010
6,352,856	\$0.20	April 24, 2011
<u>1,453,124</u>	\$0.20	May 12, 2011
<u>16,544,489</u>		

Subsequent to September 30, 2009, 50,000 warrants were exercised at \$0.20 per share for proceeds of \$10,000.

Note 7 Share Capital – (cont'd)

f) Flow-through Shares:

During the nine months ended September 30, 2009, private placements included the issue of 5,620,658 flow-through shares at \$0.15 per share for gross proceeds of \$843,099. The Company has incurred eligible Canadian Exploration Expenditures in the amount of \$259,358 prior to September 30, 2009 and must incur additional eligible Canadian Exploration Expenditures of \$583,741 on or before December 31, 2010. None of these amounts will be available to the Company for future deduction from taxable income.

During the year ended December 31, 2008, private placements included the issue of 8,098,300 flow-through shares at \$0.30 per share for gross proceeds of \$2,429,490. The Company incurred aggregate eligible Canadian Exploration Expenditures in this amount prior to September 30, 2009. This amount will not be available to the Company for future deduction from taxable income.

In accordance with its policy for accounting for flow-through share issuances, the Company recorded to its statement of operations a future income tax recovery of \$607,000 due to the recognition of a previously unrecorded future income tax asset that has been recognized to offset the future income tax liability arising from the renunciation of the flow-through expenditures.

Note 8 Segmented Information

The Company operates in one reportable operating segment and one reportable geographic segment, being the exploration of potash mineral properties located in Canada.

Note 9 Related Party Transactions

During the three and nine months ended September 30, 2009 and 2008, 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 were significant shareholders of:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Accounting fees	\$ 21,192	\$ -	\$ 68,511	\$ -
Consulting fees	3,500	26,747	20,000	26,747
Management fees	23,102	-	56,102	446,628
Office rent	8,852	9,322	12,728	9,322
	<u>\$ 56,646</u>	<u>\$ 36,069</u>	<u>\$ 157,341</u>	<u>\$ 482,697</u>

These expenditures were measured at the exchange amount which is the amount agreed upon by the transacting parties.

Note 9 Related Party Transactions – (cont'd)

At September 30, 2009 and December 31, 2008, due to related parties is comprised of amounts owing 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.

Note 10 Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, other receivables, due from and to related parties, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to the immediate or short term maturity of these items.

Foreign Exchange Risk

As at September 30, 2009 and December 31, 2008, 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 as well as from receivables and amounts due from shareholders and related parties. 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. Other receivables consist of payments made to a First Nations Band. With respect to other receivables, the Company has historically collected substantially all of these balances and is not aware of circumstances that would indicate a change in credit risk associated with these balances.

Interest Rate Risk

The Company has investments in guaranteed investment certificates that are highly liquid. As such, the Company has been exposed to nominal interest rate risk.

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date.

Commodity Price Risk

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

Note 11 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 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 approach on an ongoing basis.

Note 12 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flow. During the nine months ended September 30, 2009, the following transactions were excluded from the consolidated statements of cash flows:

- the Company acquired all of the issued and outstanding common shares of Encanto in exchange for 87,531,153 common shares of the Company.
- the Company issued 1,769,384 agent warrants at the fair value of \$124,635 in connection with a private placement financing;
- the Company incurred \$20,000 of mineral property expenditures that were included in accounts payable as at September 30, 2009; and
- the Company issued 19,846,525 common shares at the fair value of \$4,961,631 pursuant to the acquisition of the Lion Potash Properties and issued 500,000 common shares at the fair value of \$125,000 as a finder's fee.

Note 12 Non-cash Transactions

During the nine months ended September 30, 2008, the following transactions were excluded from the consolidated statements of cash flows:

- Encanto issued 800,000 common shares at the fair value of \$40,000 pursuant to resource property expenditures.
- Encanto acquired all of the issued and outstanding shares of ERL in exchange for 43,250,000 common shares of Encanto.

Note 13 Subsequent Event

In November 2009, the Company announced it had agreed to terms on a non-brokered private placement of up to 4,762,000 units at \$0.21 per unit for gross proceeds of up to \$1,000,000.

Each unit will consist of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder thereof to acquire one common share of the Company at \$0.35 for 24 months from the date of closing of the private placement.

Note 14 Comparative Figures

Certain comparative amounts have been reclassified to conform to the current period's presentation.

## Schedule 1

**ENCANTO POTASH CORP.**  
 (An Exploration Stage Company)  
 INTERIM CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES  
 For the nine months ended September 30, 2009  
 (unaudited)

	First Nations Potash Prospects, <u>Saskatchewan</u>	Lion Potash Properties, <u>Saskatchewan</u>	<u>Total</u>
Balance, December 31, 2007	\$ -	\$ -	\$ -
Acquisition costs			
Cash	350,000	-	350,000
Shares	40,000	-	40,000
	<u>390,000</u>	<u>-</u>	<u>390,000</u>
Deferred exploration costs			
First Nations Consultations and Permitting	897,670	-	897,670
2-D Seismic	2,919,914	-	2,919,914
Technical Report	32,745	-	32,745
	<u>3,850,329</u>	<u>-</u>	<u>3,850,329</u>
Mineral properties written-off	<u>(346,678)</u>	<u>-</u>	<u>(346,678)</u>
Balance, December 31, 2008	<u>3,893,651</u>	<u>-</u>	<u>3,893,651</u>
Acquisition costs			
Cash	50,000	1,000,000	1,050,000
Shares - Note 5	-	5,086,631	5,086,631
	<u>50,000</u>	<u>6,086,631</u>	<u>6,136,631</u>
Deferred exploration costs			
2-D Seismic	426,685	-	426,685
Archaeological	4,800	-	4,800
Consulting	32,855	-	32,855
Permitting	106,420	-	106,420
	<u>570,760</u>	<u>-</u>	<u>570,760</u>
Balance, September 30, 2009	<u>\$ 4,514,411</u>	<u>\$ 6,086,631</u>	<u>\$ 10,601,042</u>