

ENCANTO POTASH CORP.

(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

(unaudited)

ENCANTO POTASH CORP.
(An Exploration Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2010	December 31. 2009
Assets		
Current		
Cash	\$ 4,033,083	\$ 1,109,594
Amounts receivable	33,010	-
HST/GST recoverable	75,556	98,282
Prepaid expenses	40,651	38,679
	4,182,300	1,246,555
Deposits	282,120	177,236
Equipment	16,074	20,943
Investment – note 4	2,120,000	-
Mineral property interests - note 3 and Schedule 1	16,226,078	10,704,450
	\$ 22,826,572	\$ 12,149,184
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 258,089	\$ 123,537
Future income tax liability	736,000	525,000
	994,089	648,537
Shareholders' Equity		
Share capital - note 5	25,763,724	14,483,437
Contributed surplus	2,875,222	2,070,788
Deficit	(6,806,463)	(5,053,578)
	21,832,483	11,500,647
	\$ 22,826,572	\$ 12,149,184

Nature and Continuance of Operations - note 1

Commitments - notes 3, 4, 5, 10 and 12

Subsequent Events - notes 3, 5 and 12

APPROVED BY THE DIRECTORS

"James Walchuck" Director
James Walchuck

"Gordon Keep" Director
Gordon Keep

SEE ACCOMPANYING NOTES

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

	Three months ended		Nine months ended	
	2010	2009	2010	2009
General and administrative expenses				
Accounting and audit fees - note 6	\$ 48,301	\$ 23,839	\$ 127,651	\$ 142,319
Amortization	1,556	1,641	4,869	1,882
Consulting fees	164,330	142,541	310,348	418,687
Donations	-	11,000	2,500	20,283
Filing and transfer agent fees	18,494	23,348	44,030	73,849
Interest	416	-	416	3,757
Investor relations and miscellaneous	83,218	48,181	266,995	70,963
Legal fees - note 6	40,884	48,800	58,253	194,853
Management fees, salaries and benefits - note 6	44,250	23,102	112,751	56,102
Office - note 6	31,284	19,747	80,138	60,796
Part XII.6 and other taxes	-	1,219	3,791	18,480
Stock-based compensation - note 5	493,317	1,043,302	624,782	1,043,302
Travel and accommodation	33,461	32,396	118,645	63,774
	(959,511)	(1,419,116)	(1,755,169)	(2,169,047)
Other Income				
Interest income	(1,186)	(1,431)	(2,284)	(1,849)
Loss for the period before income taxes	(958,325)	(1,417,685)	(1,752,885)	(2,167,198)
Future income tax recovery	-	60,000	-	607,000
Net loss and comprehensive loss for the period	(958,325)	(1,357,685)	(1,752,885)	(1,560,198)
Deficit, beginning of period	(5,848,138)	(2,464,682)	(5,053,578)	(2,262,169)
Deficit, end of period	\$ (6,806,463)	\$ (3,822,367)	\$ (6,806,463)	\$ (3,822,367)
Loss per share				
- basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weight average number of shares outstanding				
- basic and diluted	208,764,946	119,146,471	177,273,784	90,440,509

SEE ACCOMPANYING NOTES

ENCANTO POTASH CORP.
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INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and nine months ended September 30
(unaudited)

	Three months ended		Nine months ended	
	2010	2009	2010	2009
Cash provided from (used in):				
Operating activities				
Net loss income and comprehensive loss for the period	\$ (958,325)	\$ (1,357,685)	\$ (1,752,885)	\$ (1,560,198)
Items not affecting cash:				
Amortization	1,556	1,641	4,869	1,882
Stock-based compensation - note 5	493,317	1,043,302	624,782	1,043,302
Consulting fees applied against amount due from shareholder	-	-	-	43,500
Future income tax recovery	-	(60,000)	-	(607,000)
	(463,452)	(372,742)	(1,123,234)	(1,078,514)
Changes in non-cash working capital items:				
HST/GST recoverable	(1,064)	7,304	22,726	131,663
Income taxes recoverable	-	-	-	(25,666)
Prepaid expenses	(25,167)	(10,269)	(1,972)	(17,441)
Accounts payable and accrued liabilities	66,664	(173,339)	93,711	(284,117)
	(423,019)	(549,046)	(1,008,769)	(1,274,075)
Investing activities				
Mineral property interests	(1,654,840)	(1,315,615)	(2,340,787)	(1,650,760)
Proceeds on sale of mineral interests - notes 3 and 4	200,000	-	200,000	-
Equipment purchases	-	-	-	(226)
Amounts receivable	(10)	-	(33,010)	-
Deposits	(88,384)	-	(104,884)	-
	(1,543,234)	(1,315,615)	(2,278,681)	(1,650,986)
Financing activities				
Proceeds on securities issued, net of costs	5,991,941	-	6,210,939	2,117,493
Due to / from related party	-	14,814	-	(24,955)
Due from shareholder	-	-	-	41,070
Cash acquired on completion of Encanto acquisition	-	1,137,449	-	1,137,449
Loan advance from Angus	-	-	-	90,000
Loan repayment to Angus	-	-	-	(90,000)
	5,991,941	1,152,263	6,210,939	3,271,057
Increase (decrease) in cash	4,025,688	(712,398)	2,923,489	345,996
Cash, beginning of period	7,395	1,242,390	1,109,594	183,996
Cash, end of period	\$ 4,033,083	\$ 529,992	\$ 4,033,083	\$ 529,992

Non-cash Transactions – note 9

SEE ACCOMPANYING NOTES

ENCANTO POTASH CORP.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2010
(unaudited)

1. Nature and Continuance of Operations

Encanto Potash Corp. 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”.

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, 2010, the Company was still in the exploration stage and had not achieved profitable operations, has an accumulated deficit of \$6,806,463 since inception and expects to incur further losses in the development of its business. Although working capital amounted to \$3,924,211 as at September 30, 2010, these funds are substantially committed to current operations, accordingly, the Company’s ability to continue as a going concern is ultimately 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.

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 the Company as disclosed in the Company's most recently audited financial statements for the year ended December 31, 2009 with the addition of the recently adopted accounting policies as presented below that have been adopted in the period since December 31, 2009. Unaudited interim financial statements do not include all the disclosures required under Canadian GAAP for annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's most recently audited annual consolidated financial statements.

The results of operations for the three and nine-month periods ended September 30, 2010 are not necessarily indicative of those that could be expected for the entire year ending December 31, 2010.

Recently adopted accounting policies

Business combinations, consolidated financial statements and non-controlling interest

Effective January 1, 2010, the Company elected to early adopt CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, 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.

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2. Significant Accounting Policies (continued)

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).

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).

To date there has been no impact on the Company’s financial statements as a result of the adoption of these sections.

3. Mineral Properties - 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

Through the Company’s wholly-owned subsidiary, Encanto Resources Ltd. (“ERL”), on July 31, 2009 the Company entered into Exploration Participation Agreements (“EPA’s”) with Muskowekwan First Nation (“MFN”) and Muskowekwan Resources Ltd. (“MRL”) on two separate groups of MFN reserve lands the (“MFN Prospect”) aggregating approximately 36,300 acres in Saskatchewan and pursuant to which the Company has obtained the exclusive right to explore for, develop and produce potash minerals. In connection with the EPA’s, MFN applied for and received a permit for each of the two groups of reserve lands from the Crown authorizing the Company, MFN and MRL to proceed under the terms of the EPA’s as contemplated.

As consideration for being granted the exclusive right to conduct exploration activities on MFN’s reserve lands as authorized by the Permits, the Company agreed to the following material terms:

- Payment to MRL of \$50,000 per EPA (aggregate amount of \$100,000 has been paid).
- Issuance of 200,000 common shares of the Company to MRL per EPA (aggregate amount of 400,000 common shares have been issued at a fair value of \$92,000).
- Issuance of 200,000 warrants to MRL per EPA (aggregate amount of 400,000 warrants have been issued). The fair value of these warrants of \$49,683 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.

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3. Mineral Properties - Schedule 1 (continued)

Muskowekwan First Nation Prospect (continued)

Assumptions used in the pricing model are as follows: risk-free interest rate - 1.68%; expected life - 2 years; expected volatility - 100%; and expected dividends - nil.

- The grant to MRL of a 50% ownership interest in all seismic data shot on MFN's reserve lands.

With respect to each EPA, in the event of the granting of a lease by the Crown, the parties are required to negotiate the terms of a definitive agreement. On October 22, 2010, the parties signed a formal joint venture agreement ("JVA") for the purpose of developing potash mineral deposits on MFN's reserve lands ("the Lands"). Under the JVA, in consideration for granting the leases, MRL will be entitled to a 3% gross overriding royalty on the Lands and 200,000 Encanto shares (issued in October 2010) and 200,000 share purchase warrants (issued in October 2010) exercisable at \$0.22 with an expiry date of October 22, 2012. MFN will be paid a fee totalling \$1,000,000 based on certain milestones being achieved over the next 18 months of which the initial \$200,000 was paid in October 2010. The parties have further agreed to jointly appoint a management committee to supervise the business affairs of the Joint Venture.

Other First Nations Prospects

As at September 30, 2010, through ERL, the Company is a party to two other EPA's and five Memorandums of Understanding ("MOU's") with various other First Nations Bands (the "Bands"). The Company has obtained four permits from the Crown to explore and develop potash minerals on the reserve lands of the Bands, all located in Saskatchewan.

While the MOU's or EPA's, as the case may be, with each of the Bands are not identical, they contain material terms largely identical to the terms for the EPA's executed with MFN and MRL. The significant monetary commitments are as follows:

- Payment of an aggregate amount of \$350,000, which has been paid.
- Issuance of a total of 1,000,000 common shares of the Company to the Bands. As at December 31, 2009 all 1,000,000 common shares had been issued at an aggregate ascribed value of \$80,000.
- Issuance to each 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. During the year ended December 31, 2009, the Company issued 1,000,000 warrants to the Bands with varying exercise prices from \$0.20 to \$1.00 per share with expiry dates varying from August 13, 2010 to November 9, 2011.

In addition, the EPA's and 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, or the completion of a definitive agreement, as the case may be, the 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 to the respective Band, at such exercise price as set out in the respective EPA or MOU and exercisable within two years after issuance.

During the year ended December 31, 2009 the Company determined to not proceed with exploration activities on the reserve lands of two additional Bands and accordingly wrote-off \$100,000 (Schedule 1) as represented by the \$50,000 cash payments made to each Band during the year ended December 31, 2008.

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3. Mineral Properties – Schedule 1 (continued)

Spar Property and KP452 Claim

By an agreement dated July 24, 2009, effective August 11, 2009, between the Company and Lion Energy 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 the trading price of \$0.25 per share for a fair value of \$4,961,631 at which time Lion became a related party (note 6).

Further, Lion agreed to incur \$6,500,000 of expenditures on the Company’s potash property interests by December 31, 2009 to earn a 51% interest in the properties (including the Lion Potash Properties), which interest the Company had the option to repurchase for 26,000,000 common shares. As at December 31, 2009, Lion had incurred \$6,500,000 of expenditures on the Company’s potash properties and accordingly earned a 51% interest in the properties. Of these expenditures approximately, \$4,900,000 was incurred on the MFN Prospect and \$1,600,000 was incurred on other reserve lands owned by other First Nations. On February 3, 2010, the Company exercised its option to repurchase this 51% interest in the Company’s potash properties by issuing 26,000,000 common shares to Lion for a fair value of \$5,460,000 (note 5). The Company allocated \$2,809,716 and \$2,650,284 to Muskowekwan First Nation Prospect and Other First Nations Prospects, respectively, based on the book values of the two properties.

During the year ended December 31, 2009, the Company issued 500,000 common shares as a finder’s fee with a fair value of \$125,000 to an independent third party in respect of the transactions with Lion.

The Lion Potash Properties vendor retains a 2% net smelter return royalty on the property.

4. Investment

As announced on September 16, 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 Nations Bands (“the Bands”) and the Company. The seismic data was produced by the Company in the conduct of its potash exploration programs. In addition, Sundance secured oil and gas rights jointly held by the Company and two of the Bands pursuant to farm-in agreements among those Bands and the Company (the “O&G Farm-in Agreements”).

To date, in consideration for its interests in the licensed seismic data and the oil and gas rights the Company has received total consideration from Sundance consisting of 10,600,000 Sundance shares and \$200,000 in cash under a two-part transaction as follows:

i) Licensing of seismic data:

By previous agreement with each of the Bands, the interest in seismic data generated by the Company in the conduct of its potash exploration work is subject to a 50/50 split under which the Company is entitled to 50% with the remaining 50% owned by the five Bands. Accordingly, on licensing the seismic data to Sundance, the Company received 5,000,000 Sundance shares having a fair value of \$0.20 each). The Company recorded the proceeds of this transaction as a credit to deferred exploration expenses (Schedule 1). In the event that Sundance fails to become a public company by April 1, 2011, the Company retains the right to return these shares to Sundance by June 15, 2011 for a cash payment from Sundance of \$1,000,000.

ii) Farm-in agreement on oil and gas rights:

Further to the Sundance interest in acquiring the seismic data, the Company assigned its entire interest in the O&G Farm-in Agreements to Sundance. The consideration paid by Sundance to the Company

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4. Investment (continued)

ii) Farm-in agreement on oil and gas rights (continued):

for the assignment of the Company's interest in two of the O&G Farm-in Agreements consisted of 2,800,000 Sundance shares and a cash payment of \$100,000 each. Accordingly, as of September 30, 2010, the Company had received total consideration of an additional 5,600,000 Sundance shares and \$200,000 cash. The Company is currently in discussions with the remaining three Bands with respect to acquiring the oil and gas rights on their lands on terms similar to the initial two transactions.

The Company is indemnified by Sundance in respect of any liabilities accruing due to the failure of Sundance to fulfill its obligations to the Bands under the O&G Farm -in Agreements and related transactions.

5. 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) Common Shares Issued and Outstanding, and Contributed Surplus:

	Number of Shares	Share capital	Contributed Surplus
Balance, December 31, 2009	139,856,269	\$ 14,483,437	\$ 2,070,788
Issued during the period in consideration for:			
Cash, pursuant to:			
Brokered private placement	39,999,999	5,983,333	16,667
Warrants exercised	7,586,667	764,348	(2,015)
Mineral properties acquired	26,000,000	5,460,000	
Deduct: future income tax on flow-through shares	-	(211,000)	-
Share issuance cost paid:			
Cash - note 6	-	(551,394)	-
Broker warrants	-	(165,000)	165,000
Stock-based compensation	-	-	624,782
Balance, September 30, 2010	213,442,935	\$ 25,763,724	\$ 2,875,222

Private placement financing

On July 6, 2010, the Company closed a brokered private placement consisting of 33,333,332 flow-through shares at a price of \$0.15 each and 6,666,667 non-flow-through units at a price of \$0.15 each for aggregate gross proceeds of \$6,000,000. Each non-flow-through unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.20 at any time until July 6, 2012. Out-of-pocket issue costs included: agent's fees - \$360,000, and filing fees, legal fees and other transaction costs - \$191,394, including \$17,107 paid to a related party. In addition agent received 2,400,000 broker warrants exercisable at a price of \$0.20 per common share at any time on or before July 6, 2012. In accordance with the terms of the offering, proceeds from the non-flow-through units were allocated as to \$0.145 per share and \$.005 per whole warrant. The fair value of each broker warrant was determined at approximately \$0.07 each based on the Black-Scholes option pricing model using the following assumptions: risk-free interest rate - 1.43%; expected life - 2 years; expected volatility - 100%; and expected dividends - nil.

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5. Share Capital (continued)

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.

The balance outstanding and related information at December 31, 2009 and September 30, 2010 is as follows:

	Number of Options	Weighted Average Exercise Price	Average Remaining life (years)
Balance, December 31, 2009	12,250,000	\$ 0.18	9.57
Forfeited	(1,000,000)	\$ 0.25	
Granted	<u>8,150,000</u>	\$ 0.15	9.60
Balance, September 30, 2010	19,400,000	\$ 0.17	9.14
Not vested	<u>(4,250,000)</u>	\$ 0.16	9.50
Exercisable, September 30, 2010	15,150,000	\$ 0.17	9.15

At September 30, 2010, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

Number	Exercise Price	Expiry Date
10,250,000	\$0.17	July 13, 2019
1,000,000	\$0.25	September 16, 2019
7,950,000	\$0.15	July 13, 2020
<u>200,000</u>	\$0.17	September 2, 2012
19,400,000		

A total of 1,250,000 of the options granted during the year ended December 31, 2009 will vest on January 13, 2011. A total of 3,000,000 of the options granted since December 31, 2009 will vest in tranches of 1,000,000 shares every 6 months beginning on January 13, 2011 until January 13, 2012.

For the three and nine month periods ended September 30, 2010, the Company recorded stock-based compensation expense of \$493,317 (2009 - \$1,043,302) and \$624,782 (2009 - \$1,043,302) respectively. The fair value of these options was determined based on the Black-Scholes option pricing model using the following assumptions: risk-free interest rate - 1.6%; expected life - 4 years; expected volatility - 100%; expected dividends - nil; and provision for forfeiture of 10%.

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5. Share Capital (continued)

Warrants

Changes in share purchase warrants during the nine-month period ended September 30, 2010 were as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining life (years)
Balance, December 31, 2009	20,275,443	\$ 0.20	1.10
Issued	5,733,333	\$ 0.20	1.77
Exercised	(7,586,667)	\$ 0.10	
Expired	(600,000)	\$ (0.20)	
Balance September 30, 2010	17,822,109	\$ 0.23	1.03

At September 30, 2010, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

Expiry date	Number of warrants	Exercise price
November 14, 2010 ⁽¹⁾	536,006 ⁽¹⁾	\$ 0.25
November 14, 2010 ⁽¹⁾	652,503 ⁽¹⁾	\$ 0.50
April 24, 2011 ⁽²⁾	6,266,189 ⁽²⁾	\$ 0.20
May 12, 2011	1,453,124	\$ 0.20
October 13, 2011	200,000	\$ 0.20
October 28, 2011	200,000	\$ 0.23
November 9, 2011	400,000	\$ 0.24
November 30, 2011	2,380,954	\$ 0.35
July 6, 2012	5,733,333	\$ 0.20
	17,822,109	\$ 0.23

⁽¹⁾ On November 14, 2010 all of these warrants expired unexercised.

⁽²⁾ On October 20, 2010, 20,000 of these warrants were exercised.

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 \$5,000,000 with respect to the flow-through share financing completed in July 2010 (note 5(b)). As of September 30, 2010, unspent Qualifying CEE pertaining to this commitment amounts to approximately \$3,700,000.

During the year ended December 31, 2009, private placements included the issuance of 5,620,658 flow-through shares at \$0.15 per share for gross proceeds of \$843,099 which the Company was committed to spend in Qualifying CEE. As of June 30, 2010, the Company had fulfilled this commitment and formally renounced these expenditures in favour of the flow-through share subscribers.

As none of the Qualifying CEE flow-through funds will be available to the Company for future deduction from taxable income, on formal renunciation of these expenditures the Company recognized future income tax liability equal to 25% with a corresponding reduction in the share proceeds recorded as share capital. The income tax rate so applied is the expected future applicable

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5. Share Capital (continued)

d) Flow-through shares: (continued)

rate of income tax to which the Company could ordinarily expect to benefit in the event that there was no flow-through renunciation.

Since December 31, 2009, the Company has recognized future income tax liabilities of \$211,000 on renunciation of \$843,099 in Qualifying CEE and will recognize a further \$1,250,000 pending renunciation of the \$5,000,000 flow-through offering.

e) Escrow Shares:

Pursuant to the reverse takeover with Angus Ventures Inc. on July 14, 2009, 51,900,003 common shares of the Company were placed into escrow. As at September 30, 2010, 31,140,002 (December 31, 2009: 46,710,003) common shares remained in escrow and a further 7,785,000 shares will be released on January 14, 2011 and every six months thereafter until July 14, 2012.

Of the 5,433,334 common shares issued on the exercise of warrants on August 14, 2010, an additional 1,012,000 shares were subject to escrow provisions under which they will be released in four equal tranches of 253,000 shares every six months commencing January 14, 2011 until July 14, 2012.

6. Related Party Transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

During the three and nine-month periods ended September 30, 2010 and 2009, 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:

	three months ended		nine months ended	
	2010	2009	2010	2009
Accounting fees	\$ 28,000	\$ 21,192	\$ 64,000	\$ 68,511
Legal fees	14,324	-	22,910	-
Share issue costs	17,107	-	17,107	-
Management fees	44,250	26,602	111,750	76,102
Office	-	8,852	25,088	12,728
	\$ 103,681	\$ 56,646	\$ 240,855	\$ 157,341

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

Lion (note 3) has been a related party since acquisition of the Lion Potash Properties on August 11, 2009, when 2 Lion Directors were appointed to the Encanto board.

Included in accounts payable and accrued liabilities as at September 30, 2010 is \$29,973 (December 31, 2009 - \$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.

ENCANTO POTASH CORP.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2010
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7. Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, amounts receivable and accounts payable and accrued liabilities. The Company designated cash, and receivable as held-for-trading with any changes in fair value charged to operations. The Company designated accounts payable and accrued liabilities as other financial liabilities which are measured at amortized cost. The fair value of cash, amounts receivable, and accounts payable and accrued liabilities approximates their carrying value due to their short term nature.

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.

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

Foreign Exchange Risk

As at September 30, 2010, 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.

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.

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. On October 20, 2010, the Company closed a \$2,097,000 non-brokered private placement (note 12) so as to provide additional financial resources to settle its obligations and to allow the Company to maintain its current level of business activities.

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.

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8. 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. During the nine months ended September 30, 2010, there has been no change in the Company's management of capital.

9. 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, 2010 and 2009, the following transactions were excluded:

- the Company issued 26,000,000 common shares at the fair value of \$5,460,000 (2009 - nil) in consideration for the acquisition of mineral property interests;
- the company acquired 10,600,000 Sundance shares with a fair value of \$0.20 each for gross consideration of \$2,120,000 (2009 - \$nil) on the farm-out of certain oil and gas interests and the licensing of seismic data to Sundance (note 4);
- accruals for non-current items included in accounts payable and accrued liabilities are excluded from cash flows. Accordingly, in determining the changes to accounts payable and accrued liabilities as presented in the statements of cash flows, the following amounts were added to (deducted from) changes in accounts payable for the three and nine-month periods ended September 30 as follows:

	Three months ended		Six months ended	
	2010	2009	2010	2009
Non-current items included in accounts payable and accrued liabilities:				
Beginning of period	\$ 229,965	\$ -	\$ 50,000	\$ 50,000
End of period	<u>(90,841)</u>	<u>(538,770)</u>	<u>(90,841)</u>	<u>(538,770)</u>
Net cash flow adjustment to changes in accounts payable and accrued liabilities	\$ 139,124	\$ (538,770)	\$ (40,841)	\$ (488,770)

The investment in mineral property interests as presented in the statement of cash flows was increased (reduced) accordingly; and

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Notes to the Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2010
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9. Non-cash Transactions (continued)

- during the period ended September 30, 2010, the Company issued 2,400,000 (2009- 1,769,384) agent warrants at the estimated fair value of \$165,000 (2009 - \$124,635) in connection with private placement financings.

10. Commitments

The Company is committed to a corporate advisory consulting agreement, which expires on August 11, 2011, as follows:

Year due	Amount
2010	\$ 34,500
2011	92,000
Total	\$ 126,500

11. Comparative information

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

12. Subsequent event

On October 20, 2010, the Company closed a non-brokered private placement of 11,650,000 units at \$0.18 each for aggregate gross proceeds of \$2,097,000. Each unit consists of one common share and one-half of one whole share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.25 each on or before October 20, 2012. A 5% cash finder's fee was paid on the gross proceeds.

On November 12, 2010, the Company granted 250,000 options exercisable at a price of \$0.22 each until November 12, 2020.

Schedule 1

ENCANTO POTASH CORP.
 (An Exploration Stage Company)
**INTERIM CONSOLIDATED SCHEDULE OF MINERAL PROPERTY
 EXPENDITURES (RECOVERIES)**
 For the nine months ended September 30, 2010
 (unaudited)

	Muskowekwan First Nation Prospect	Other First Nation Prospects	Spar and KP 452 Claim	Total
Balance, December 31, 2009	\$ 815,959	\$ 3,806,860	\$ 6,081,631	\$ 10,704,450
Acquisition costs				
Paid in consideration for:				
Cash	25,000	25,000	-	50,000
Shares	2,809,716	2,650,284	-	5,460,000
	2,834,716	2,675,284	-	5,510,000
Deferred exploration expenditures				
Paid in consideration for cash				
Assaying	-	(6,052)	-	(6,052)
2-D seismic	-	21,330	-	21,330
3-D seismic	820,416	2,500	-	822,916
Access support services	44,327	1,193	-	45,520
Consulting	31,653	24,622	-	56,275
Drilling	19,793	-	-	19,793
Lease surveys	31,000	-	-	31,000
Environmental studies and assessment	5,002	-	-	5,002
Equipment rentals and fuel	90,819	22,141	-	112,960
Permitting	22,411	9,765	90,596	122,772
Site reclamation	136,600	-	-	136,600
Miscellaneous	1,266	-	-	1,266
First Nation consulting and training	-	2,246	-	2,246
Net change in cash advances to contractors	960,000	-	-	960,000
	2,163,287	77,745	90,596	2,331,628
Total expenditures since December 31, 2009	4,998,003	2,753,029	90,596	7,841,628
Recovered on sale of interests in consideration for:				
Cash - note 4	(100,000)	(100,000)	-	(200,000)
Sundance shares - note 4	(760,000)	(1,360,000)	-	(2,120,000)
	(860,000)	(1,460,000)	-	(2,320,000)
Balance, September 30, 2010	\$ 4,953,962	\$ 5,099,889	\$ 6,172,227	\$ 16,226,078