

**ENCANTO POTASH CORP.**

(formerly Angus Ventures Corp.)

(An Exploration Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2009



Tel: 604 688 5421  
Fax: 604 688 5132  
www.bdo.ca

BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

---

## Auditors' Report

---

To the Shareholders,  
Encanto Potash Corp.  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)

We have audited the consolidated balance sheet of Encanto Potash Corp. (formerly Angus Ventures Corp.) (An Exploration Stage Company) as at December 31, 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2008 and for the year then ended were audited by Hudson LLP Chartered Accountants who expressed an opinion without reservation on those statements in their report dated June 10, 2009 except for Notes 7 and 13 on those statements which were dated as of June 16, 2009.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada  
April 23, 2010

**ENCANTO POTASH CORP.**  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b><u>ASSETS</u></b>		
Current		
Cash	\$ 1,109,594	\$ 183,996
GST recoverable	98,282	221,421
Other receivables	-	25,000
Due from shareholder - Note 11	-	84,570
Prepaid expenses	38,679	7,367
	1,246,555	522,354
Deposits – Note 6	177,236	60,462
Equipment – Note 7	20,943	1,556
Mineral properties – Note 5 and Schedule 1	10,704,450	3,893,651
	\$ 12,149,184	\$ 4,478,023

**LIABILITIES**

Current		
Accounts payable and accrued liabilities	\$ 111,065	\$ 312,067
Due to related parties – Note 11	12,472	40,039
	123,537	352,106
Future income tax liability – Note 10	525,000	-
	648,537	352,106

**SHAREHOLDERS' EQUITY**

Share capital – Note 9	14,483,437	5,797,886
Contributed surplus – Note 9	2,070,788	590,200
Deficit	(5,053,578)	(2,262,169)
	11,500,647	4,125,917
	\$ 12,149,184	\$ 4,478,023

Nature and Continuance of Operations – Note 1  
Commitments – Notes 5, 9 and 15  
Subsequent Events – Notes 5 and 9

APPROVED BY THE DIRECTORS

<u>“James Walchuk”</u> James Walchuk	Director	<u>“Gordon Keep”</u> Gordon Keep	Director
---	----------	-------------------------------------	----------

SEE ACCOMPANYING NOTES

**ENCANTO POTASH CORP.**  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS  
AND DEFICIT**  
for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
General and administrative expenses		
Accounting and audit fees – Note 11	\$ 208,154	\$ 70,661
Amortization	4,149	204
Consulting fees – Note 11	512,737	580,151
Donations	38,033	18,000
Filing and transfer agent fees	81,911	3,608
Interest	3,757	3,246
Investor relations and miscellaneous	147,839	86,868
Legal fees	226,320	76,669
Management fees, salaries and benefits – Note 11	93,602	446,628
Office – Note 11	79,380	73,841
Part XII.6 tax and other	22,891	-
Stock-based compensation – Note 9	1,200,256	476,000
Travel and accommodation	131,330	96,856
	<hr/>	<hr/>
Loss for the year before other items	(2,750,359)	(1,932,732)
Other income (expense) items:		
Interest income	1,950	-
Loss on sale of marketable securities	-	(15,000)
Write-off of other receivables	(25,000)	-
Write-off of mineral properties – Note 5 and Schedule 1	(100,000)	(346,678)
	<hr/>	<hr/>
Net loss for the year before income taxes	(2,873,409)	(2,294,410)
Income tax recovery – Note 10	-	25,666
Future income tax recovery – Note 10	82,000	-
	<hr/>	<hr/>
Net loss and comprehensive loss for the year	(2,791,409)	(2,268,744)
Retained earnings (deficit), beginning of the year	(2,262,169)	161,573
Charge related to RTO with ERL – Note 4	-	(154,998)
	<hr/>	<hr/>
Deficit, end of the year	<u>\$ (5,053,578)</u>	<u>\$ (2,262,169)</u>
Basic and diluted loss per share	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>102,290,014</u>	<u>51,129,119</u>

SEE ACCOMPANYING NOTES

**ENCANTO POTASH CORP.**  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Used In Operating Activities</b>		
Net loss for the year	\$ (2,791,409)	\$ (2,268,744)
Items not affecting cash:		
Amortization	4,149	204
Stock-based compensation	1,200,256	476,000
Consulting fees settled by reduction of amount due from shareholder	43,500	-
Future income tax recovery	(82,000)	-
Fees settled by issuance of shares	-	212,000
Loss on sale of marketable securities	-	15,000
Write-off of accounts receivable	25,000	-
Write-off of mineral properties	100,000	346,678
	(1,500,504)	(1,218,862)
Changes in non-cash working capital items:		
GST recoverable	135,142	1,036,265
Income taxes recoverable	-	(25,666)
Prepaid expenses	(25,486)	(7,367)
Accounts payable and accrued liabilities	(215,979)	(1,584,945)
	(1,606,827)	(1,800,575)
<b>Cash Used In Investing Activities</b>		
Acquisition of mineral properties	(1,100,000)	(300,000)
Deferred exploration expenditures	(525,811)	(3,734,586)
Deposits	(116,774)	(60,462)
Purchase of equipment	(652)	(1,760)
Cash acquired on acquisition of ERL – Note 4	-	290,085
	(1,743,237)	(3,806,723)
<b>Cash Provided By Financing Activities</b>		
Issuance of securities, net of costs	3,124,710	5,660,084
Due to related parties	(27,567)	77,828
Due from shareholder	41,070	8,269
Loan advance from Angus – Note 8	90,000	-
Loan repayment to Angus – Note 8	(90,000)	-
Cash acquired on acquisition of Encanto – Note 3	1,137,449	-
	4,275,662	5,746,181
Increase in cash during the year	925,598	138,883
Cash, beginning of the year	183,996	45,113
Cash, end of the year	\$ 1,109,594	\$ 183,996
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Non-cash Transactions – Note 14

SEE ACCOMPANYING NOTES

**ENCANTO POTASH CORP.**  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

Note 1 Nature and Continuance of Operations

Encanto Potash Corp. (the “Company”) (formerly Angus Ventures Corp. (“Angus”)) 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 consolidated financial statements for the year ended December 31, 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.

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 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 year. 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 December 31, 2009, the Company was still in the exploration stage and had not achieved profitable operations, had an accumulated deficit of \$5,053,578 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 financing in the past, there is no assurance that it will be able to do so in the future.

Note 2     Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian GAAP. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment. Actual results may vary from these estimates.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**a) Principles of Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Encanto Holdings Ltd. and Encanto Resources Ltd. All intercompany transactions and balances have been eliminated.

**b) Equipment and Amortization**

The Company records its acquisition of equipment at cost. The Company provides for amortization, once the assets are in use, over their estimated useful lives on the declining balance method at a rate of 30% per year for equipment.

**c) Mineral Properties**

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-offs, write-downs and recoveries, and are not intended to represent present or future values.

Note 2      Significant Accounting Policies – (cont'd)

**d) Impairment of Long-lived Assets**

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

**e) Asset Retirement Obligations (“ARO”)**

The Company records a liability for the fair value of the statutory, contractual or legal asset retirement obligations associated with the retirement and reclamation of tangible long-lived assets when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion, and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included as an operating item in the statements of operations.

As at December 31, 2009 and 2008, the Company had no asset retirement obligations.

**f) Income Taxes**

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period.

Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely-than-not that they can be realized.

Note 2 Significant Accounting Policies – (cont'd)

**g) Basic and Diluted Loss per Share**

Basic loss per share is calculated by dividing the net loss for the year available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

For the years ended December 31, 2009 and 2008, potentially dilutive common shares (relating to share purchase options and warrants ) totalling 32,525,443 (2008: 8,655,917) were not included in the computation of loss per share because their effect was anti-dilutive.

**h) Comprehensive Income**

Comprehensive income includes both net loss and other comprehensive income (“OCI”). OCI is the change in shareholders’ equity from non-owner sources which is not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income (“AOCI”), which is presented as a new category of shareholders’ equity on the balance sheet. The Company had no OCI transactions during the years ended December 31, 2009 and 2008, and neither opening nor closing balances for AOCI.

**i) Financial Instruments Recognition, Measurement, Disclosure and Presentation**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recorded in net income. Available-for-sale financial assets are measured at fair value, with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for-trading are expensed.

Note 2      Significant Accounting Policies – (cont'd)

**i) Financial Instruments Recognition, Measurement, Disclosure and Presentation**  
– (cont'd)

The Company has made the following designations of its financial instruments: cash as held-for-trading; other receivables and due from shareholder as loans and receivables; and accounts payable and accrued liabilities, and due to related parties as other financial liabilities.

**j) Stock-based Compensation**

The Company has a stock-based compensation plan (Note 9), whereby stock options are granted in accordance with the policies of regulatory authorities. The Company records a compensation cost attributable to all share purchase options granted at fair value at the grant date using the Black-Scholes valuation model and the fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Black-Scholes model requires the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

**k) Broker Warrants and Warrants**

Warrants issued to agents or brokers in connection with a financing are recorded at fair value and charged to issue costs associated with the offering with an offsetting credit to contributed surplus in shareholders' equity.

Warrants included in units offered to subscribers in connection with financings are recorded at the residual value in contributed surplus in shareholders' equity with an offsetting reduction in the value ascribed the shares issued in the units.

Proceeds of the exercise of these warrants are credited to share capital together with the corresponding amount, if any, of the original warrant charge included in contributed surplus.

Note 2     Significant Accounting Policies – (cont'd)

**1) Flow-through Shares**

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The tax effect related to renounced expenditures is recorded as a reduction of share capital and an increase in future income tax liabilities. If previously unrecorded future income tax assets exist to offset some or all of the future income tax liability, the future income tax liability is reduced by such amount which is credited to income tax expense.

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.

Note 2      Significant Accounting Policies – (cont'd)

**1) Flow-through Shares – (cont'd)**

Future Accounting and Reporting Changes – (cont'd)

- i) Business combinations, consolidated financial statements and non-controlling interest – (cont'd)

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.

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 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.

Note 2 Significant Accounting Policies – (cont'd)

**I) Flow-through Shares** – (cont'd)

Future Accounting and Reporting Changes – (cont'd)

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 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 consolidated financial statements at their historical carrying value.

Angus’s results of operations have been included from July 13, 2009, the date of the RTO.

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

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

Cash	\$ 1,137,449
GST recoverable	12,003
Prepaid expenses	5,826
Equipment	22,884
Accounts payable and accrued liabilities	(64,977)
<hr/>	
Net assets acquired	\$ 1,113,185
<hr/>	
Consideration	
87,531,153 common shares	\$ 1,113,185
<hr/>	

In conjunction with the RTO, 16,544,489 warrants originally issued by Encanto were replaced by the Company on the same terms. Similarly, 10,250,000 options previously granted by Encanto in July 2009 to directors, officers, consultants and charities were replaced 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.

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)
<hr/>	
Net liabilities assumed	\$ (154,998)
<hr/>	

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

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

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 conveyancing 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 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. Assumptions used in the pricing model are as follows: average 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.

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

**Muskowekwan First Nation Prospect** – (cont'd)

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 providing for the parties' respective economic rights in the development, as described below.

- Issuance to MRL 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 an exercise price equal to the last price at which common shares were issued on a non-flow-through basis by the Company, or the lowest price permissible by the TSX Venture Exchange, exercisable within two years after issuance.
- The grant to MRL of a 3% non-convertible gross overriding royalty (free of all encumbrances) from all potash 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.

**Other First Nations Prospects**

As at December 31, 2009, 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 have been issued at an aggregate ascribed value of \$80,000.

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

**Other First Nations Prospects** – (cont'd)

- 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 June 1, 2010 to November 9, 2011. The aggregate fair value of these warrants of \$66,674 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: average risk-free interest rate – 1.68%; expected life – 2 years; expected volatility – 100%; and expected dividends – nil.

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) (being the \$50,000 cash payment made to each Band during the year ended December 31, 2008).

**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 the trading price of \$0.25 per share for a fair value of \$4,961,631.

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, \$4.9 million was incurred on the MFN Prospect and \$1.6 million 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.

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

**Spar Property and KP452 Claim** – (cont’d)

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.

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

Note 6 Deposits

The Company paid a refundable amount of \$60,462 (2008: \$60,462) to the Saskatchewan government as a reclamation deposit. In addition, the Company also advanced \$116,774 (2008: \$nil) to Indian and Northern Affairs Canada which provides permits for exploration.

Note 7 Equipment

	2009		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer equipment	\$ 25,296	\$ 4,353	\$ 20,943
	2008		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer equipment	\$ 1,760	\$ 204	\$ 1,556

Note 8 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 recoveries due to Encanto.

Prior to the RTO with Encanto (Note 3) closing, Encanto repaid the Loan, plus accrued interest.

Encanto Potash Corp.  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2009 and 2008 – Page 14

Note 9 Share Capital

a) Authorized:

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

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

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, December 31, 2007	2	\$ 2	\$ -
Issued during the year:			
Recapitalization transactions			
Shares of Encanto	3	1	-
Elimination of Encanto share capital	-	(1)	-
Shares acquired by legal parent	(43,250,000)	-	-
Shares issued on RTO – Note 4	43,250,000	-	-
For cash pursuant to private placement offerings	60,568,298	5,923,990	37,500
Less: Issue costs – cash	-	(301,406)	-
Issue costs – non-cash	-	(76,700)	76,700
As consideration for services rendered	8,450,000	212,000	-
Pursuant to mineral property agreements	800,000	40,000	-
Stock-based compensation	-	-	476,000
	<hr/>		
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 placements of units	16,835,102	2,467,062	42,088
Less: Issue costs – cash	-	(237,539)	-
Issue costs – non-cash	-	(124,635)	124,635
Pursuant to penalty rights exercise	19,000	-	-
Pursuant to mineral properties – Note 5	600,000	132,000	-
Pursuant to warrant exercise	50,000	10,000	-
Transfer on exercise of warrants	-	2,748	(2,748)
Value of warrants issued pursuant to mineral properties – Note 5	-	-	116,357
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 Lion 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	-	-	1,200,256
	<hr/>		
Balance, December 31, 2009	139,856,269	\$ 14,483,437	\$ 2,070,788

Note 9 Share Capital – (cont'd)

c) Financings:

During the year ended December 31, 2009, the following financings were completed:

- i) In November 2009, Encanto completed a non-brokered private placement of 4,761,910 units at \$0.21 per unit for gross proceeds of \$1,000,001.

Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase an additional common share of Encanto at \$0.35 per share up to November 30, 2011. A residual value of \$11,905 has been attributed to these warrants. Encanto incurred legal expenses related to the offering in the amount of \$2,784.

- ii) In April and May 2009, Encanto completed in two tranches a brokered private placement of 5,620,658 flow-through common 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 residual value of \$30,183 has been attributed to these warrants.

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 as follows: risk-free interest rate – 1.48%; expected life – 2.0 years; expected volatility – 131%; and expected dividends – nil.

During the year ended December 31, 2008, the following financings were completed:

- i) On June 30, 2008, the Company completed a private placement of 9,249,998 shares at \$0.01 per share for gross proceeds of \$92,500.

Note 9 Share Capital – (cont'd)

c) Financings: – (cont'd)

- ii) On June 30, 2008, the Company completed a private placement of 25,900,000 shares at \$0.05 per share for gross proceeds of \$1,295,000.
- iii) On August 1, 2008, the Company completed a private placement of 14,570,000 shares at \$0.10 per share for gross proceeds of \$1,457,000.
- iv) On November 14, 2008, the Company completed a brokered private placement of 7,931,300 flow-through shares at \$0.30 per share and 190,000 non-flow-through units at \$0.25 per unit for aggregate gross proceeds of \$2,426,890. Each unit is comprised of one non-flow-through common share and one-half of one non-flow-through common share purchase warrant, and in addition contains one-tenth of one penalty right (“Penalty Right”). Each whole warrant entitles the holder thereof to purchase an additional non-flow-through common share at \$0.50 per share until November 14, 2010. A value of \$9,500 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 – 1.84%; expected life – 2.0 years; expected volatility – 125%; and expected dividends – nil.

The terms of each whole Penalty Right were such that they would be deemed to be automatically exercised into one unit if the Company’s shares were not listed on a public stock exchange on or before March 13, 2009, for no additional consideration to the Company. 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.

The agents for the placement received a commission consisting of \$145,613 cash and 487,278 broker options entitling the agents to purchase one unit of the Company’s securities at \$0.25 per unit, with each unit carrying identical terms and conditions as those issued in the private placement, including the issuance of one-tenth of one penalty right (“Agent’s Penalty Right”). The fair value of these broker options (\$76,700) was estimated using the Black-Scholes option pricing model and was charged to share issue costs and credited to contributed surplus. In addition, the Company incurred legal and other out-of-pocket expenses related to the offering in the amount of \$155,793. None of the issue costs were allocated to the value of the warrants contained in the units.

Note 9 Share Capital – (cont'd)

c) Financings: – (cont'd)

iv) – (cont'd)

The terms of each whole Agent's Penalty Right were such that they would be deemed to be automatically exercised if the Company'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 the number of securities issuable upon exercise of the broker options increased from 487,278 to 536,006 common shares and from 243,639 to 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.

v) Concurrently, on November 14, 2008, the Company completed a non-brokered private placement of 167,000 flow-through shares at \$0.30 per share and 560,000 non-flow-through units at \$0.25 per share for aggregate gross proceeds of \$190,100. Each unit is identical to those described pursuant to the brokered private placement of same date. A value of \$28,000 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 identical to those used for valuing the warrants in the brokered private placement of same date.

vi) On December 9, 2008, the Company completed a brokered private placement of 2,000,000 shares at \$0.25 per share for gross proceeds of \$500,000.

d) Shares Issued For Services Rendered:

On June 30, 2008, the Company issued 8,450,000 shares at ascribed values ranging from \$0.01 to \$0.10 per share (aggregate value \$212,000) as consideration for certain expenditures made on the Company's behalf and for services rendered by current and former officers, directors and consultants of the Company.

Note 9 Share Capital – (cont'd)

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.

Changes in share purchase options during the years ended December 31, 2009 and 2008 are as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life</u>
Balance, December 31, 2008 and 2007	-	-	-
Granted	12,250,000	\$0.18	-
Outstanding, December 31, 2009	12,250,000	\$0.18	9.57
Exercisable, December 31, 2009	8,125,000	\$0.19	9.58

Note 9 Share Capital – (cont'd)

e) Commitments: – (cont'd)

i) *Stock-based Compensation Plan* – (cont'd)

At December 31, 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
<u>2,000,000</u>	\$0.25	September 16, 2019
<u><u>12,250,000</u></u>		

A total of 4,125,000 of the options granted during the year ended December 31, 2009 had not vested as at December 31, 2009. Of these options, 1,375,000 vest on each of January 13, 2010 and July 13, 2010, with 125,000 vesting on April 13, 2010 and 1,250,000 vesting on January 13, 2011.

The weighted average fair value of share purchase options granted of \$0.16 (2008 - \$Nil) per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	Years ended December 31,	
	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.98%	Nil
Expected life	4.0 years	Nil
Expected volatility	100%	Nil
Expected dividends	Nil	Nil
Forfeiture rate	0-10%	Nil

During the year ended December 31, 2009, the Company recorded stock-based compensation expense of \$1,200,256. During the year ended December 31, 2008, the Company recorded stock based compensation expense of \$476,000, but this related to compensation warrants that were issued during the year (Note 9(e)(ii)).

Note 9 Share Capital – (cont'd)

e) Commitments: – (cont'd)

ii) *Share Purchase Warrants*

Changes in share purchase warrants during the years ended December 31, 2009 and 2008 are as follows:

	Number of <u>Warrants</u>	Weighted Average Exercise <u>Price</u>	Weighted Average <u>Life</u>
Balance, December 31, 2007	-	\$ -	-
Issued	8,655,917	\$0.14	
<hr/>			
Balance, December 31, 2008	8,655,917	\$0.14	1.63
Issued – Note 9(c)	10,186,934	\$0.24	
Issued – Note 9(e)	82,592	\$0.35	
Issued – Note 5	1,400,000	\$0.33	
Exercised	(50,000)	\$0.20	
<hr/>			
Balance, December 31, 2009	20,275,443	\$0.20	1.10

In addition to other warrants issued during the year ended December 31, 2008 (Note 9(c)), the Company issued 8,250,000 common share purchase warrants, of which 700,000 warrants were tendered for cancellation subsequent to December 31, 2008, with an exercise price of \$0.10 per share in recognition of services provided to the Company by certain directors, officers and consultants but for which they had not been compensated for entirely by payment of fees. The warrants expire August 11, 2010 and were valued (as to 7,550,000 warrants) at \$476,000 (\$0.063 per warrant) based on the Black-Scholes option pricing model and this amount was charged to the statement of operations with a corresponding credit to contributed surplus. Assumptions used in the pricing model are as follows: average risk-free interest rate –2.16%; expected life – 2 years; expected volatility – 125%; and expected dividends – nil.

Note 9 Share Capital – (cont'd)

e) Commitments: – (cont'd)

ii) *Share Purchase Warrants* – (cont'd)

At December 31, 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>
400,000	\$0.20	June 1, 2010
7,550,000 <sup>(1)</sup>	\$0.10	August 11, 2010
200,000	\$1.00	August 13, 2010
536,006	\$0.25	November 14, 2010
652,503	\$0.50	November 14, 2010
6,302,856 <sup>(2)</sup>	\$0.20	April 24, 2011
1,453,124	\$0.20	May 12, 2011
200,000	\$0.20	October 13, 2011
200,000	\$0.23	October 28, 2011
400,000	\$0.24	November 9, 2011
<u>2,380,954</u>	\$0.35	November 30, 2011
 <u>20,275,443</u>		

<sup>(1)</sup> Subsequent to December 31, 2009, 750,000 of these warrants were exercised for proceeds of \$75,000.

<sup>(2)</sup> Subsequent to December 31, 2009, 36,667 of these warrants were exercised for proceeds of \$7,333.

f) Flow-through Shares:

During the year ended December 31, 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 \$261,329 prior to December 31, 2009 and must incur additional eligible Canadian Exploration Expenditures of \$581,770 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 December 31, 2009. This amount will not be available to the Company for future deduction from taxable income.

Note 9 Share Capital – (cont'd)

f) Flow-through Shares: – (cont'd)

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 \$82,000 (2008: \$25,666) 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.

g) Escrow Shares:

Pursuant to the RTO with Angus on July 14, 2009 (Note 3), 51,900,003 common shares of the Company were placed into escrow. These escrow shares will be released as to ten percent (10%) on July 14, 2009 (released) and an additional fifteen percent (15%) at six month intervals over a 36 month period with the final tranche being released on July 14, 2012. As at December 31, 2009, 46,710,003 (2008: nil) common shares remained in escrow.

Note 10 Income Taxes

A reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<u>2009</u>	<u>2008</u>
Statutory tax rate	30.0%	19.0%
Loss for the year before taxes	<u>\$ (2,873,409)</u>	<u>\$ (2,294,410)</u>
Expected income tax recovery	\$ (862,000)	\$ (436,000)
Share issue costs	(59,000)	(3,000)
Change in tax rate	(42,000)	(72,000)
Stock based compensation	361,000	-
Other	37,000	39,334
Change in valuation allowance	483,000	446,000
Income tax recovery	<u>\$ (82,000)</u>	<u>\$ (25,666)</u>

Note 10 Income Taxes – (cont'd)

The significant components of the Company's net future income tax assets and liabilities are as follows:

	<u>2009</u>	<u>2008</u>
Future income tax assets (liabilities)		
Mineral properties	\$ (525,000)	\$ 66,000
Equipment	3,000	1,000
Share issue costs	104,000	55,000
Capital loss carryforward	21,000	14,000
Non-capital losses carried forward	740,000	252,000
Other	6,000	3,000
	<u>349,000</u>	<u>391,000</u>
Valuation allowance for future income tax assets	<u>(874,000)</u>	<u>(391,000)</u>
Future income tax liability	<u>\$ (525,000)</u>	<u>\$ -</u>

The Company recorded a valuation allowance of \$874,000 (2008 - \$391,000) against its future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward periods to utilize all the future tax assets.

Losses that reduce future income for tax purposes expire as follows:

2027	\$ 155,000
2028	1,172,000
2029	<u>1,634,000</u>
	<u>\$ 2,961,000</u>

In addition to the tax losses listed above there are certain resource related and other expenditures of approximately \$8,605,000 which can be used to offset future Canadian income indefinitely.

Note 11 Related Party Transactions

During the years ended December 31, 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:

	<u>2009</u>	<u>2008</u>
Accounting fees	\$ 91,247	\$ -
Consulting fees	14,000	302,384
Management fees	82,852	454,428
Office	35,658	-
	<u>\$ 223,757</u>	<u>\$ 756,812</u>

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

During the year ended December 31, 2008, the Company borrowed \$108,500 from certain directors and officers of the Company pursuant to promissory notes that bore interest at 10%. The borrowed funds were repaid in full, plus all accrued interest (aggregate amount of \$11,746) during the year ended December 31, 2008.

At December 31, 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.

During the year ended December 31, 2008, the Company made advances of \$84,570 to a shareholder, which amount was repaid subsequent to December 31, 2008.

Note 12 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.

Note 12 Financial Instruments – (cont'd)

Foreign Exchange Risk

As at December 31, 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.

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 13 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.

Note 13 Management of Capital – (cont'd)

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 14 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 year ended December 31, 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 broker warrants at the fair value of \$124,635 in connection with a private placement financing;
- 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; and,
- the Company issued 600,000 common shares at the fair value of \$132,000 and issued 1,400,000 warrants at the fair value of \$83,375 pursuant to mineral property acquisition costs.
- Encanto incurred \$nil of mineral property expenditures that were included in accounts payable as at December 31, 2009.

Note 14 Non-cash Transactions – (cont'd)

During the year ended December 31, 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 mineral property expenditures;
- Encanto acquired all of the issued and outstanding shares of ERL in exchange for 43,250,000 common shares of Encanto;
- Encanto issued 487,278 broker warrants at the fair value of \$76,700 as a cost of completing a security offering; and,
- Encanto incurred \$50,000 of mineral property expenditures that were included in accounts payable as at December 31, 2008.

Note 15 Commitments

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

2010	\$	138,000
2011		<u>92,000</u>
Total	\$	<u><u>230,000</u></u>

Note 16 Comparative Figures

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

## Schedule 1

**ENCANTO POTASH CORP.**  
(formerly Angus Ventures Corp.)  
(An Exploration Stage Company)  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES**  
for the years ended December 31, 2009 and 2008

	Muskowekwan First Nation Prospect, <u>Saskatchewan</u>	Other First Nations Prospects, <u>Saskatchewan</u>	Spar and KP452 Claim, <u>Saskatchewan</u>	<u>Total</u>
Balance, December 31, 2007	\$ -	\$ -	\$ -	\$ -
Acquisition costs				
Cash	-	350,000	-	350,000
Shares	-	40,000	-	40,000
	-	390,000	-	390,000
Deferred exploration costs				
First Nations Consultations and Permitting	98,526	799,144	-	897,670
2-D Seismic	227,122	2,692,792	-	2,919,914
Technical Report	4,678	28,067	-	32,745
	330,326	3,520,003	-	3,850,329
Mineral properties written-off	-	(346,678)	-	(346,678)
Balance, December 31, 2008	330,326	3,563,325	-	3,893,651
Acquisition costs				
Cash	100,000	-	1,000,000	1,100,000
Shares - Note 5	92,000	40,000	5,086,631	5,218,631
Warrants - Note 5	49,683	66,674	-	116,357
	241,683	106,674	6,086,631	6,434,988
Deferred exploration costs				
2-D Seismic	213,809	213,810	-	427,619
Archaeological	-	4,800	-	4,800
Consulting	30,140	13,252	-	43,392
	243,949	231,862	-	475,811
Mineral properties written-off	-	(100,000)	-	(100,000)
Balance, December 31, 2009	\$ 815,958	\$ 3,801,861	\$ 6,086,631	\$ 10,704,450