

# **ENCANTO POTASH CORP.**

**Condensed Interim Consolidated Financial Statements  
Three months ended March 31, 2012 and 2011**

**(Unaudited – expressed in Canadian dollars)**

# ENCANTO POTASH CORP.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

	Note	March 31 2012	December 31 2011
		\$	\$
<b>Assets</b>			
Current			
Cash		5,467,176	5,940,458
Taxes recoverable		109,735	235,799
Prepaid expenses		88,412	156,232
		5,665,323	6,332,489
Non-current			
Deposits		245,660	227,236
Equipment		45,635	12,976
Investment	3	2,014,000	2,014,000
Mineral property interests	4	24,722,076	23,970,945
		32,692,694	32,557,646
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		367,612	701,878
Flow-through premium liability	5	611,000	650,000
		978,612	1,351,878
Non-current			
Deferred tax liability		1,684,000	1,654,001
		2,662,612	3,005,879
<b>Shareholders' Equity</b>			
Share capital	6	41,337,125	39,811,870
Contributed surplus		3,201,194	3,251,683
Accumulated other comprehensive loss		(106,000)	(106,000)
Deficit		(14,402,237)	(13,405,786)
		30,030,082	29,551,767
		32,692,694	32,557,646

Commitments – Notes 4, 6 and 9

### APPROVED BY THE DIRECTORS

“James Walchuck” Director  
James Walchuck

“Gordon Keep” Director  
Gordon Keep

The accompanying notes are an integral part of these condensed interim consolidated financial statements

## ENCANTO POTASH CORP.

Condensed Interim Consolidated Statement of Comprehensive Loss

Three months ended March 31

*(Unaudited - Expressed in Canadian dollars)*

	Note	2012	2011
		\$	\$
Corporate development consultants		296,950	40,200
Depreciation		2,364	1,556
First nation consulting		165,017	125,026
First nation development and designation process		54,625	21,013
Investor communications		92,302	74,675
Legal and audit		35,235	53,221
Management compensation		140,844	99,424
Office		40,051	33,792
Regulatory compliance		40,176	34,401
Share-based payments		103,634	54,342
Travel and accommodation		50,183	31,017
Loss before other items		(1,021,381)	(568,667)
Interest earned		15,930	16,957
Loss for the period before income taxes		(1,005,451)	(551,710)
Deferred income tax recovery (expense)		9,000	(1,144,000)
Net loss and comprehensive loss for the period		(996,451)	(1,695,710)
<b>Loss per share</b>			
- Basic and diluted		(0.00)	(0.01)
<b>Weighted average number of shares outstanding</b>			
- basic and diluted		271,693,581	247,328,973

*The accompanying notes are an integral part of these condensed interim consolidated financial statements*

## ENCANTO POTASH CORP.

### Condensed Interim Consolidated Statements of Cash Flows

Three months ended March 31

(Unaudited - Expressed in Canadian dollars)

	2012	2011
	\$	\$
<b>Cash flows (used in) provided by</b>		
<b>Operating activities</b>		
Net loss	(996,451)	(1,695,710))
Items not affecting cash		
Depreciation	2,364	1,556
Share-based payments	103,634	54,342
Deferred income tax recovery	(9,000)	1,144,000
	(899,453)	(495,812)
Net change in non-cash working capital items		
Taxes recoverable	126,064	105,223
Prepaid expenses	49,396	(71,551)
Accounts payable and accrued liabilities	(52,713)	60,746
	(776,706)	(401,394)
<b>Investing activities</b>		
Deferred mineral property interest expenditures	(888,525)	(2,334,599)
Purchase of equipment	(35,023)	-
	(923,548)	(2,334,599)
<b>Financing activity</b>		
Proceeds on shares issued, net of share issuance costs	1,226,972	1,599,227
<b>Decrease in cash</b>	<b>(473,282)</b>	<b>(1,136,766)</b>
<b>Cash, beginning of period</b>	<b>5,940,458</b>	<b>9,260,208</b>
<b>Cash, end of period</b>	<b>5,467,176</b>	<b>8,123,442</b>

Supplemental cash flow information - Note 8

*The accompanying notes are an integral part of these condensed interim consolidated financial statements*

## ENCANTO POTASH CORP.

### Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited - Expressed in Canadian dollars)

	Common shares number	Share capital \$	Contributed surplus \$	Deficit \$	AOCI \$	Total \$
<b>Balance, December 31, 2010</b>	<b>242,224,143</b>	<b>33,506,710</b>	<b>2,742,542</b>	<b>(8,569,482)</b>	<b>-</b>	<b>27,679,770</b>
Shares Issued in consideration for:						
Cash, pursuant to:						
- Warrants exercised	7,104,141	1,672,188	(167,311)	-	-	1,504,877
- Options exercised	605,000	148,621	(54,269)	-	-	94,352
Share-based payments	-	-	54,342	-	-	54,342
Comprehensive loss	-	-	-	(1,695,710)	-	(1,695,710)
<b>Balance, March 31, 2011</b>	<b>249,833,284</b>	<b>35,327,519</b>	<b>2,575,304</b>	<b>(10,265,192)</b>	<b>-</b>	<b>27,637,631</b>
Shares Issued in consideration for:						
Cash, pursuant to:						
- Private placements	17,940,000	4,261,500	64,700	-	-	4,326,200
- Warrants exercised	1,919,014	411,659	(27,856)	-	-	383,803
Share issuance costs	-	(188,808)	-	-	-	(188,808)
Share-based payments	-	-	639,535	-	-	639,535
Comprehensive loss	-	-	-	(3,140,594)	(106,000)	(3,246,594)
<b>Balance, December 31, 2011</b>	<b>269,792,298</b>	<b>39,811,870</b>	<b>3,251,683</b>	<b>(13,405,786)</b>	<b>(106,000)</b>	<b>29,551,767</b>
Shares Issued in consideration for:						
Cash, pursuant to:						
- Warrants exercised	4,512,220	1,192,855	(115,883)	-	-	1,076,972
- Options exercised	1,000,000	228,400	(78,400)	-	-	150,000
Mineral property interests	400,000	104,000	40,160	-	-	144,160
Share-based payments	-	-	103,634	-	-	103,634
Comprehensive loss	-	-	-	(996,451)	-	(996,451)
<b>Balance, March 31, 2012</b>	<b>275,704,518</b>	<b>41,337,125</b>	<b>3,201,194</b>	<b>(14,402,237)</b>	<b>(106,000)</b>	<b>30,030,082</b>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

# ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2012

*(Unaudited – expressed in Canadian dollars)*

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## 1. Nature of operations

Encanto Potash Corp. ("the Company" or "Encanto") was incorporated under the laws of British Columbia, Canada, in 1986. The Company's corporate head office is located at Suite 450, 800 Pender Street, Vancouver, British Columbia, V6C 2V6.

Encanto is an exploration and development company focused on potash properties in the Province of Saskatchewan. The Company is primarily focused on the development of potash mineral deposits located on the Muskowekwan First Nation reserve lands located approximately 100 km north of Regina, Saskatchewan.

The Company is a reporting issuer in the provinces of Alberta and British Columbia and trades on the TSX Venture Exchange ("TSXV") under the trading symbol "EPO" and in the United States on the OTCQX under the trading symbol "ENCTF".

The recoverability of the amount shown for mineral properties 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.

## 2. Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the consolidated financial statements for the year ended December 31, 2011.

These financial statements were approved by the board of directors for use on May 23, 2012.

## 3. Investment

During 2010, the Company completed a series of transactions with Sundance Energy Corp., an Alberta oil and gas exploration company ("Sundance") whose shares trade on the TSXV. Pursuant to these transactions Sundance licensed seismic data from five First Nation Bands (collectively "the Bands" or individually "each Band"), and the Company jointly, and in addition the Company assigned to Sundance certain oil and gas rights it had with respect to the reserve lands owned by two of the Bands. As part of the consideration in connection with these transactions the Company received from Sundance 10,600,000 common shares of Sundance with a fair value of \$0.20 per share for a total value of \$2,120,000.

Sundance's closing price on March 31, 2012 was \$0.19 per share (December 31, 2011 - \$0.19 per share) for a market value of \$2,014,000.

# ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2012

*(Unaudited – expressed in Canadian dollars)*

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## 4. Mineral property interests - Schedule 1

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

### ***Muskowekwan First Nation project***

On October 22, 2010, through its wholly-owned subsidiary, Encanto Resources Ltd. ("ERL"), the Company and Muskowekwan First Nation ("MFN") and their corporate nominee, Muskowekwan Resources Ltd. ("MRL") signed a joint venture agreement ("JVA") for the purpose of developing potash mineral deposits on two separate groups of MFN reserve lands (the "MFN Project") in Saskatchewan. The parties have further agreed to jointly appoint a management committee to supervise the business affairs of the Joint Venture.

On October 22, 2010, the Company also signed development fee, operating and royalty agreements with the MFN and MRL. Pursuant to the development fee agreement, MFN will be paid a fee totalling \$1,000,000 based on certain milestones being achieved of which \$500,000 had been paid and expensed prior to December 31, 2011 and \$500,000 is due upon the grant of a mining lease by the Federal government on the MFN Project. Under the operating agreement, the Company is the appointed operator with responsibility to carry out the exploration and development program planned for the property interests. Pursuant to the terms and conditions of the royalty agreement, MRL has a 3% gross overriding royalty on the MFN Project.

On February 1, 2012 the Company entered into two mineral rights option agreements with MRL. In accordance with the agreements, the Company issued 400,000 common shares (fair value of \$104,000 being the value based on the closing price at the date of issuance) and 400,000 common share purchase warrants (fair value - \$40,160) which are exercisable at a price of \$0.26 per share until February 1, 2014, for Encanto's opportunity to add significant new lands to the JVA, bringing the total land package under the JVA up to 58,300 acres.

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

The Company is a party to a Memorandum Of Understanding with Chacachas First Nation ("the Chacachas MOU") and an Exploration Participation Agreement with Ochapowace First Nation ("the Ochapowace EPA") (collectively "the Ochap-Chac Bands"). The Company has obtained two permits from the Crown to explore and develop potash minerals on the Ochap-Chac Bands' reserve lands which are all located in Saskatchewan.

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

# ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2012

(Unaudited – expressed in Canadian dollars)

## Spar Property and KP452 claim

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

## 5. Flow-through premium liability

	March 31, 2012	December 31, 2011
	\$	\$
Flow-through premium liability	611,000	650,000

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

## 6. Share capital

### a) Authorized:

Unlimited common shares without par value

100,000,000 Class A non-voting preference shares, par value \$10 each

100,000,000 Class B non-voting preference shares, par value \$50 each

### b) Stock options

The balance of options outstanding and related information for the three months ended March 31, 2012 is as follows:

	Number of options	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2011	24,345,000	\$0.19	7.98
Granted	2,000,000	\$0.45	
Exercised	(1,000,000)	\$0.15	
Balance, March 31, 2012	25,345,000	\$0.22	7.88
Unvested	(3,312,500)	\$0.37	9.59
Exercisable, March 31, 2012	22,032,500	\$0.19	7.62

During the three months ended March 31, 2012, the trading price per share as traded on the TSXV on the days that options were exercised was \$0.35 per share (2011 - \$0.49 per share).



## ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2012

(Unaudited – expressed in Canadian dollars)

The balance of options outstanding as at March 31, 2012 was as follows:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Remaining life (years)</b>	<b>Options Outstanding</b>	<b>Unvested</b>	<b>Vested</b>
July 1, 2012	\$0.22	0.25	250,000	-	250,000
August 1, 2012	\$0.42	0.34	200,000	-	200,000
September 2, 2012	\$0.17	0.42	20,000	-	20,000
December 20, 2012	\$0.42	0.72	200,000	-	200,000
April 28, 2013	\$0.27	1.08	200,000	-	200,000
September 1, 2013	\$0.26	1.42	100,000	50,000	50,000
November 29, 2015	\$0.44	3.67	250,000	-	250,000
July 13, 2019	\$0.17	7.29	9,750,000	-	9,750,000
September 16, 2019	\$0.25	7.47	1,000,000	-	1,000,000
July 13, 2020	\$0.15	8.29	6,500,000	-	6,500,000
September 1, 2021	\$0.26	9.43	4,875,000	1,262,500	3,612,500
February 17, 2022	\$0.45	9.89	2,000,000	2,000,000	-
			25,345,000	3,312,500	22,032,500

For the period ended March 31, 2012, the Company recorded share-based payments expense of \$103,634 (2011 - \$54,342). The fair value of the options granted was determined by the Black-Scholes pricing model using the following assumptions: risk free rate of interest of 1.33%; expected life – 1 year; expected volatility -100%; expected dividends – nil; and provision for forfeiture of 0%.

Subsequent to March 31, 2012 the Company granted 500,000 stock options with an exercise price of \$0.30 that expire on April 24, 2022.

### d) Share purchase warrants

The balance of warrants outstanding and related information for the period ended March 31, 2012 is as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price (per share)</b>	<b>Weighted average Remaining life (years)</b>
Balance, December 31, 2011	28,395,661	\$0.43	1.15
Issued	400,000	\$0.26	
Exercised	(4,512,220)	\$0.24	
Balance, March 31, 2012	24,283,441	\$0.46	0.92

During the three months ended March 31, 2012, the trading price per share as traded on the TSXV on the days that warrants were exercised was \$0.39 per share (2011 - \$0.49 per share).

# ENCANTO POTASH CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2012

(Unaudited – expressed in Canadian dollars)

The balance of warrants outstanding as at March 31, 2012 was as follows:

<u>Expiry date</u>	<u>Warrants outstanding</u>	<u>Exercise price (per share)</u>	<u>Remaining life (years)</u>
June 17, 2012	13,249,999	\$0.60	0.21
July 6, 2012	1,935,665	\$0.20	0.27
October 20, 2012	2,027,777	\$0.25	0.56
February 1, 2014	400,000	\$0.26	1.84
October 28, 2014	200,000	\$0.225	2.58
December 9, 2014	6,470,000	\$0.35	2.69
	<u>24,283,441</u>		

Subsequent to March 31, 2012 an aggregate of 166,665 warrants were exercised for gross proceeds of \$33,333.

### e) Flow-through shares

The Company is committed to incur on or before December 31, 2012 qualifying Canadian exploration expenses as defined under the *Income Act, Canada* ("Qualifying CEE") in the amount of \$1,881,475 with respect to the flow-through shares issued during the year ended December 31, 2011.

None of the Qualifying CEE will be available to the Company for future deduction from taxable income. During the period ended March 31, 2012, the Company renounced \$2,000,000 of flow-through share proceeds to the respective flow-through share subscribers. The Company recognized a deferred tax liability amounting to \$30,000 with a corresponding deferred tax recovery to operations of \$9,000 after recognition of a \$39,000 reduction in the related flow-through premium liability.

### f) Escrow Shares

Pursuant to regulatory requirements, a total of 8,038,001 common shares remained in escrow (December 31, 2011 – 16,076,001). The remaining shares will be released on July 14, 2012.

## 7. Related party transactions

During the periods ended March 31, 2012 and 2011, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or in which they were significant shareholders:

	<u>2012</u>	<u>2011</u>
	\$	\$
Management compensation	50,844	84,114
Legal fees	2,413	8,862
First Nation relations	31,500	62,387
	<u>84,757</u>	<u>155,363</u>

Included in accounts payable and accrued liabilities as at March 31, 2012 was \$41,937 (December 31, 2011 - \$40,408) 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.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2012

(Unaudited – expressed in Canadian dollars)

Key management includes the Directors, the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the periods ended March 31, 2012 and 2011 was as follows:

	2012	2011
	\$	\$
Management fees paid pursuant to agreements	84,000	54,000
Share-based payments	44,606	23,118
	128,606	77,118

### 8. Supplemental cash flow information

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 three months ended March 31, 2012 and 2011 the following transactions were excluded from the consolidated statements of cash flows:

	2012	2011
	\$	\$
<b>Non-cash investing and financing transactions</b>		
Units issued for mineral property interest acquisitions	144,160	-
Mineral property interest expenditures included in accounts payable	173,347	96,257
Mineral property interest expenditures included in accounts payable as at December 31	(454,901)	(2,267,402)
Reclassification from prepaid expenses to deposits	(18,424)	-

### 9. Commitments

In addition to commitments pursuant to mineral property interest obligations (Note 4), as at March 31, 2012, the Company was committed to payments of \$73,500 under consulting services agreements and lease payments on office premises in the amount of \$39,249 for the next 12 months and \$133,938 during the remainder of the lease.

**ENCANTO POTASH CORP.**

Schedule 1

## Consolidated Schedule of Changes in Mineral Property Interests

Three months ended March 31, 2012

*(Unaudited - Expressed in Canadian dollars)*

	MFN Project	Other First Nation Prospects	Spar and KP 452 Claim	Total
	\$	\$	\$	\$
<b>Balance, December 31, 2011</b>	<b>13,255,684</b>	<b>3,967,437</b>	<b>6,747,824</b>	<b>23,970,945</b>
Acquisition costs				
Shares and warrants	144,160	-	-	144,160
Deferred exploration expenditures				
3-D seismic	1,120	-	-	1,120
Consulting	167,936	-	-	167,936
Assaying	15,410	-	-	15,410
Drilling	117,070	-	-	117,070
Engineering studies	25,000	-	-	25,000
Environmental	47,463	-	-	47,463
Pre-feasibility	232,972	-	-	232,972
	606,971	-	-	606,971
<b>Balance, March 31, 2012</b>	<b>14,006,815</b>	<b>3,967,437</b>	<b>6,747,824</b>	<b>24,722,076</b>

**ENCANTO POTASH CORP.****Schedule 1**

## Consolidated Schedule of Changes in Mineral Property Interests

Year ended December 31, 2011

*(Unaudited - Expressed in Canadian dollars)*

	MFN Project	Other First Nation Prospects	Spar and KP 452 Claim	Total
	\$	\$	\$	\$
<b>Balance, January 1, 2011</b>	<b>8,645,219</b>	<b>3,567,531</b>	<b>6,417,227</b>	<b>18,629,977</b>
Acquisition costs				
Cash	100,000	-	-	100,000
Deferred exploration expenditures				
2-D seismic	12,000	12,000	-	24,000
3-D seismic	12,740	356,406	-	369,146
Consulting	324,008	-	-	324,008
Drilling	3,374,137	-	-	3,374,137
Engineering studies	66,642	-	-	66,642
Other	6,060	-	-	6,060
PEA	484,337	-	-	484,337
Permitting	38,743	31,500	330,597	400,840
Pre-feasibility	77,298	-	-	77,298
Site Reclamation	114,500	-	-	114,500
	4,510,465	399,906	330,597	5,240,968
<b>Balance, December 31, 2011</b>	<b>13,255,684</b>	<b>3,967,437</b>	<b>6,747,824</b>	<b>23,970,945</b>