

ENCANTO POTASH CORP.

**Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2012 and 2011**

(Unaudited – expressed in Canadian dollars)

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

	Note	June 30 2012	December 31 2011
		\$	\$
Assets			
Current			
Cash		4,139,801	5,940,458
Taxes recoverable		179,849	235,799
Prepaid expenses		85,852	156,232
		4,405,502	6,332,489
Non-current			
Deposits		196,160	227,236
Equipment		44,683	12,976
Investment	3	1,166,000	2,014,000
Mineral property interests	4	25,675,944	23,970,945
		31,488,289	32,557,646
Liabilities			
Current			
Accounts payable and accrued liabilities		784,938	701,878
Flow-through premium liability	5	556,000	650,000
		1,340,938	1,351,878
Non-current			
Deferred tax liability		1,726,001	1,654,001
		3,066,939	3,005,879
Shareholders' Equity			
Share capital	6	41,371,241	39,811,870
Contributed surplus		3,442,634	3,251,683
Accumulated other comprehensive loss		(954,000)	(106,000)
Deficit		(15,438,525)	(13,405,786)
		28,421,350	29,551,767
		31,488,289	32,557,646

Basis of presentation and going concern – Note 2

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 financial statements

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Comprehensive Loss

Three and six months ended June 30

(Unaudited - Expressed in Canadian dollars)

		Three months ended June 30		Six months ended June 30	
	Note	2012	2011	2012	2011
		\$	\$	\$	\$
Corporate development consultants		201,368	13,026	498,318	53,226
Depreciation		3,162	1,148	5,526	2,704
First Nation consulting	7	150,380	115,430	315,397	240,456
First Nation development and designation		18,000	321,138	72,626	342,151
Investor communications		90,821	96,730	183,123	171,405
Legal and audit	7	76,788	72,799	112,023	126,020
Management compensation	7	140,008	116,218	280,852	215,642
Office		50,943	28,227	90,993	62,019
Regulatory compliance		16,838	20,899	57,014	55,300
Share-based payments	6	242,224	58,246	345,857	112,588
Travel and accommodation		72,125	23,970	122,308	54,987
Loss before other items		(1,062,657)	(867,831)	(2,084,037)	(1,436,498)
Interest earned		13,369	16,049	29,298	33,006
Loss for the period before income taxes		(1,049,288)	(851,782)	(2,054,739)	(1,403,492)
Deferred income tax recovery (expense)		13,000	(21,000)	22,000	(1,165,000)
Net loss for the period		(1,036,288)	(872,782)	(2,032,739)	(2,568,492)
Other Comprehensive Income					
Unrealized (loss) gain on investment		(848,000)	901,000	(848,000)	901,000
Deferred income tax		-	(112,625)	-	(112,625)
Total comprehensive loss for the period		(1,884,288)	(84,407)	(2,880,739)	(1,780,117)
Loss per share					
- Basic and diluted		(0.00)	(0.00)	(0.01)	(0.01)
Weighted average number of shares outstanding					
- Basic and diluted		275,799,755	251,277,845	275,278,889	249,306,889

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

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Cash Flows

Six months ended June 30

(Unaudited - Expressed in Canadian dollars)

	2012	2011
	\$	\$
Cash flows (used in) provided by		
Operating activities		
Net loss	(2,032,739)	(2,568,492)
Items not affecting cash		
Depreciation	5,526	2,704
Share-based payments	345,857	112,588
Deferred income tax (expense) recovery	(22,000)	1,165,000
Net change in non-cash working capital items		
Taxes recoverable	55,950	148,083
Prepaid expenses	51,456	(121,107)
Accounts payable and accrued liabilities	67,832	(48,558)
	(1,528,118)	(1,309,782)
Investing activities		
Deferred mineral property interest expenditures	(1,545,611)	(2,591,742)
Deposits recovered	50,000	-
Purchase of equipment	(37,233)	(1,668)
	(1,532,844)	(2,593,410)
Financing activity		
Proceeds on shares issued, net of share issuance costs	1,260,305	1,956,364
Decrease in cash	(1,800,657)	(1,946,828)
Cash, beginning of period	5,940,458	9,260,208
Cash, end of period	4,139,801	7,313,380

Supplemental cash flow information - Note 8

The accompanying notes are an integral part of these condensed interim 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 \$
Balance, December 31, 2010	242,224,143	33,506,710	2,742,542	(8,569,482)	-	27,679,770
Shares issued in consideration for:						
Cash, pursuant to:						
- Warrants exercised	8,889,825	2,056,554	(194,540)	-	-	1,862,014
- Options exercised	605,000	148,621	(54,269)	-	-	94,352
Share-based payments	-	-	112,588	-	-	112,588
Comprehensive loss	-	-	-	(2,568,492)	788,375	(1,780,117)
Balance, June 30, 2011	251,718,968	35,711,885	2,606,321	(11,137,974)	788,375	27,968,607
Shares issued in consideration for:						
Cash, pursuant to:						
- Private placements	17,940,000	4,261,500	64,700	-	-	4,326,200
- Warrants exercised	133,330	27,293	(627)	-	-	26,666
Share issuance costs	-	(188,808)	-	-	-	(188,808)
Share-based payments	-	-	581,289	-	-	581,289
Comprehensive loss	-	-	-	(2,267,812)	(894,375)	(3,162,187)
Balance, December 31, 2011	269,792,298	39,811,870	3,251,683	(13,405,786)	(106,000)	29,551,767
Shares issued in consideration for:						
Cash, pursuant to:						
- Warrants exercised	4,678,885	1,226,971	(116,666)	-	-	1,110,305
- 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	-	-	345,857	-	-	345,857
Comprehensive loss	-	-	-	(2,032,739)	(848,000)	(2,880,739)
Balance, June 30, 2012	275,871,183	41,371,241	3,442,634	(15,438,525)	(954,000)	28,421,350

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

ENCANTO POTASH CORP.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2012 (unaudited)

(Expressed in Canadian dollars)

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 West 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 and going concern

Basis of presentation

These condensed interim consolidation 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.

Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the 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. Such adjustments could be material. At June 30, 2012, the Company had not yet achieved profitable operations, had an accumulated deficit of \$15,438,525 since inception and expects to incur further losses in the development of its business, all of which may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to develop its mineral property interests and to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. As part of its ongoing strategic plan the Company is exploring alternate financing opportunities including equity financings, debt financings and strategic partner arrangements. Although the Company has been successful in the past in obtaining financing, there is no assurance

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2012 (unaudited)

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that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These financial statements were approved by the board of directors for use on August 28, 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.

Based on Sundance's closing price on June 30, 2012 of \$0.11 (December 31, 2011 of \$0.19 per share), an unrealized loss of \$848,000 was recognized as other comprehensive income on the valuation of the shares to their market value of \$1,166,000. Management does not consider that the decline in value of Sundance's share price is of a permanent nature and as such the Company has not recorded the change in value to the statement of loss.

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 - \$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.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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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.

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

	June 30, 2012	December 31, 2011
	\$	\$
Flow-through premium liability	556,000	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 six months ended June 30, 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	5,100,000	\$0.36	
Exercised	(1,000,000)	\$0.15	
Cancelled	(2,000,000)	\$0.38	
Balance, June 30, 2012	26,445,000	\$0.21	7.80

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Unvested	(4,887,500)	\$0.30	9.69
Exercisable, June 30, 2012	21,557,500	\$0.19	7.37

During the six months ended June 30, 2012, the trading price per share as traded on the TSXV on the days that options were exercised was \$0.345 per share.

The balance of options outstanding as at June 30, 2012 was as follows:

Expiry date	Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
August 1, 2012	\$0.42	0.09	200,000	-	200,000
September 2, 2012	\$0.17	0.18	20,000	-	20,000
December 20, 2012	\$0.42	0.47	200,000	-	200,000
December 31, 2012	\$0.22	0.50	250,000	-	250,000
April 28, 2013	\$0.27	0.83	200,000	-	200,000
September 1, 2013	\$0.26	1.17	100,000	25,000	75,000
November 29, 2015	\$0.44	3.42	250,000	-	250,000
July 13, 2019	\$0.17	7.04	9,250,000	-	9,250,000
September 16, 2019	\$0.25	7.22	1,000,000	-	1,000,000
July 13, 2020	\$0.15	8.04	6,500,000	-	6,500,000
September 1, 2021	\$0.26	9.18	4,875,000	1,262,500	3,612,500
February 17, 2022	\$0.45	9.64	500,000	500,000	-
April 24, 2022	\$0.30	9.82	500,000	500,000	-
June 28, 2022	\$0.30	10.00	2,600,000	2,600,000	-
			26,445,000	4,887,500	21,557,500

For the three and six months ended June 30, 2012, the Company recorded share-based payments expense of \$242,224 and \$345,857 respectively (2011 - \$58,246 and \$112,588). The fair value of the options was determined by the Black-Scholes pricing model using the following assumptions: risk free rate of interest of 1 - 1.33%; expected life – 1 - 2 years; expected volatility -100%; expected dividends – nil; and provision for forfeiture of 0%.

Subsequent to June 30, 2012 the Company extended the expiry date of 200,000 options from August 1, 2012 to December 20, 2012.

d) Share purchase warrants

The balance of warrants outstanding and related information for the period ended June 30, 2012 is as follows:

	Number of warrants	Weighted average exercise price (per share)	Weighted average Remaining life (years)
Balance, December 31, 2011	28,395,661	\$0.43	1.15
Issued	400,000	\$0.26	
Exercised	(4,678,885)	\$0.24	
Expired	(13,249,999)	\$0.60	
Balance, June 30, 2012	10,866,777	\$0.29	1.56

During the six months ended June 30, 2012, the weighted average trading price per share as traded on the TSXV on the days that warrants were exercised was \$0.39 per share.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2012 (unaudited)
(Expressed in Canadian dollars)

The balance of warrants outstanding as at June 30, 2012 was as follows:

<u>Expiry date</u>	<u>Warrants outstanding</u>	<u>Exercise price (per share)</u>	<u>Remaining life (years)</u>
July 6, 2012	1,769,000	\$0.20	0.02
October 20, 2012	2,027,777	\$0.25	0.31
February 1, 2014	400,000	\$0.26	1.59
October 28, 2014	200,000	\$0.225	2.33
December 9, 2014	6,470,000	\$0.35	2.44
	<u>10,866,777</u>		

Subsequent to June 30, 2012 an aggregate of 1,688,615 warrants were exercised for gross proceeds of \$337,723 and 80,385 warrants expired unexercised.

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 \$1,710,909 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 June 30, 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 \$72,000 with a corresponding deferred tax recovery of \$22,000 recorded to operations after recognition of a \$94,000 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 at June 30, 2012 (December 31, 2011 – 16,076,001). These shares were subsequently released from escrow on July 14, 2012.

7. Related party transactions

During the three and six months ended June 30, 2012 and 2011, the Company incurred the following expenditures charged by officers of the Company and/or companies they owned or in which they were significant shareholders:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	\$	\$	\$	\$
Management compensation	50,008	103,858	100,852	187,972
Legal fees	2,000	12,583	4,413	21,445
First Nation relations	-	56,841	-	119,228
	<u>52,008</u>	<u>173,282</u>	<u>105,265</u>	<u>328,645</u>

Included in accounts payable and accrued liabilities as at June 30, 2012 was \$25,403 (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 Unaudited Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 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 three and six months ended June 30, 2012 and 2011 was as follows:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
	\$	\$	\$	\$
Management compensation	87,000	69,000	174,000	123,000
Share-based payments	24,093	21,219	68,698	44,337
	111,093	90,219	242,698	167,337

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 six months ended June 30, 2012 and 2011 the following transactions were excluded from the consolidated statements of cash flows:

	Six months ended June 30 2012	Six months ended June 30 2011
	\$	\$
Non-cash investing and financing transactions		
Units issued for mineral property interest acquisitions	144,160	-
Mineral property interest expenditures included in accounts payable	470,129	365,859
Mineral property interest expenditures included in accounts payable as at December 31	(454,901)	(2,177,402)
Reclassification from prepaid expenses to deposits	(18,924)	-

9. Commitments

In addition to commitments pursuant to mineral property interest obligations (Note 4), as at June 30, 2012, the Company was committed to payments of \$935,000 under consulting services agreements and lease payments on office premises in the amount of \$37,503 for the next 12 months and \$122,687 during the remainder of the lease.

ENCANTO POTASH CORP.**Schedule 1**

Consolidated Schedule of Changes in Mineral Property Interests

Six months ended June 30, 2012 (unaudited)

(Expressed in Canadian dollars)

	MFN Project	Other First Nation Prospects	Spar and KP 452 Claim	Total
	\$	\$	\$	\$
Balance, December 31, 2011	13,255,684	3,967,437	6,747,824	23,970,945
Acquisition costs				
Shares and warrants	144,160	-	-	144,160
Deferred exploration expenditures				
3-D seismic	97,080	-	-	97,080
Assaying	132,676	-	-	132,676
Consulting	487,915	-	-	487,914
Drilling	15,410	-	-	15,410
Engineering studies	26,867	-	-	26,867
Environmental	118,267	-	-	118,267
Permitting	-	-	70,549	70,549
Pre-feasibility	602,075	-	-	602,075
Site reclamation	10,000	-	-	10,000
	1,490,290	-	70,549	1,560,839
Balance, June 30, 2012	14,890,134	3,967,437	6,818,373	25,675,944

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
	\$	\$	\$	\$
Balance, December 31, 2010	8,645,219	3,567,531	6,417,227	18,629,977
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
Balance, December 31, 2011	13,255,684	3,967,437	6,747,824	23,970,945