

# **ENCANTO POTASH CORP.**

Suite 380 – 580 Hornby Street  
Vancouver, British Columbia, V6C 3B6

## **ANNUAL INFORMATION FORM**

FOR THE YEAR ENDED DECEMBER 31, 2010

Dated: November 23, 2011

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## GLOSSARY OF GENERAL TERMS

In this Annual Information Form, unless there is something in the subject matter or context inconsistent therewith, the following capitalized words and terms have the following meanings:

Affiliate	A company is an “Affiliate” of another company if: <ul style="list-style-type: none"><li>(a) One of them is the subsidiary of the other; or</li><li>(b) Each of them is controlled by the same Person;</li></ul>
Associate	means, when used to indicate a relationship with a Person, <ul style="list-style-type: none"><li>(a) A partner, other than a limited partner, of that Person;</li><li>(b) A trust or estate in which that Person has a substantial beneficial interest or for which that Person serves as trustee or in a similar capacity;</li><li>(c) An issuer in respect of which that Person beneficially owns or controls, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the issuer, or</li><li>(d) A relative, including the spouse, of that Person or a relative of that Person’s spouse, if the relative has the same home as that Person;</li></ul>
Common Shares:	means the common shares of the Corporation;
company:	means unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;
Corporation:	means Encanto Potash Corp., a company incorporated under the laws of British Columbia;
ERL:	means Encanto Resources Ltd., a private Alberta company and a wholly-owned subsidiary of the Corporation;
Exchange:	means TSX Venture Exchange;
NI 43-101 or National Instrument 43-101:	means National Instrument 43-101 "Standards of Disclosure for Mineral Projects" adopted by the Canadian Securities Administrators;
Person:	means a company or individual; and
Shareholder:	means a holder of Common Shares of the Corporation.

Terms used and not defined in this Annual Information Form that are defined in National Instrument 51-102 – "Continuous Disclosure Obligations" shall bear that definition. Other definitions are set out in National Instrument 14-101 – "Definitions".

## METRIC CONVERSION TABLE

For ease of reference, the following conversion factors are provided:

<b>Metric Unit</b>	<b>U.S. Measure</b>	<b>U.S. Measure</b>	<b>Metric Unit</b>
1 metre	3.281 feet	1 foot	0.3048 metres
1 kilometre	0.621 miles	1 mile	1.6093 kilometres
1 hectare	2.4711 acres	1 acre	0.4047 hectares
1 gram	0.0322 troy ounces	1 troy ounce	31.1033 grams
1 kilogram	2.2026 pounds	1 pound	0.4541 kilograms
1 tonne	1.1023 short tons	1 short ton	907 kg or .907 tonnes
1 gram/tonne	0.029 troy ounces/ton	1 troy ounce/ton	34.28 grams/tonne

## DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference into this Annual Information Form from documents filed with the securities commissions or similar authorities in Canada. Copies of documents incorporated herein by reference may be obtained upon request without charge from the Corporation at Suite 380 – 580 Hornby Street, Vancouver, British Columbia, V6C 3B6, or copies of documents incorporated by reference are also available electronically at [www.sedar.com](http://www.sedar.com). The following documents, filed with the securities commission or similar authority in each of the provinces and territories of Canada are specifically incorporated by reference into, and form an integral part of this Annual Information Form:

- (a) Technical Report dated May 26, 2009 entitled "Technical Report for Saskatchewan Potash Properties Ochapowace/Chacachas Prospect T29,R5-6W2, Piapot/Muscowpetung Prospect, T21, R17-18W2, Daystar Prospect T29, R16W2" as prepared by Behre Dolbear & Company, Ltd.;
- (b) Technical Report and Preliminary Economic Assessment dated September 27, 2011 entitled "Technical Summary and Preliminary Economic Assessment of the Muskowekwan Project" as prepared by Tetra Tech, Inc., Wardrop Engineering Inc., North Rim Exploration Ltd., NovoPro Projects Inc., and Agapito Associates, Inc.
- (c) Audited financial statements of the Corporation, together with the accompanying report of the auditor, for the fiscal years ended December 31, 2010, 2009 and 2008 together with supporting management's discussion and analysis of results of operations and financial condition for the period.

## PRELIMINARY NOTES

### *Financial Statements and MD&A*

The Corporation's audited financial statements and management's discussion and analysis ("MD&A") have been filed with Canadian securities regulatory authorities and are available electronically on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and filed with appropriate regulatory authorities in Canada. All financial information in this Annual Information Form is prepared in accordance with GAAP. The Corporation's fiscal year end is December 31.

### *Effective Date of Information*

All information in this Annual Information Form is as of December 31, 2010 unless otherwise indicated.

### *Forward-Looking Statements*

This Annual Information Form contains or incorporates by reference "forward-looking information" which means disclosure regarding possible events, conditions, acquisitions, or results of operations that is based on assumptions about future conditions and courses of action and may include future oriented financial information with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection, and may include, but is not limited to, statements with respect to the future financial and operating performance of the Corporation, its current and proposed subsidiaries and its current and proposed mineral projects, the future price of potash, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, working capital requirements, capital and exploration expenditures, costs and timing of mine development, processing facility construction and the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation and/or its current and proposed subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; the outcome of negotiations, conclusions of economic evaluations and studies; changes in project parameters and returns as plans continue to be refined; future prices of potash; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability; insurrection or war; political uncertainty; arbitrary changes in law; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. As a result, actual actions, events or results may differ materially from those described in forward-looking statements and there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of the Annual Information Form and the Corporation disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

### *Currency and Exchange Rates*

All dollar amounts in this Annual Information Form are expressed in Canadian dollars, unless otherwise indicated.

*Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources*

This Annual Information Form (including the documents incorporated by reference therein) uses the terms "measured", "indicated" and "inferred" mineral resources. United States investors are advised that while such terms are recognized and required under Canadian securities legislation, the United States Securities and Exchange Commission does not recognize them. "Inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility.

It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into mineral reserves. United States investors are also cautioned not to assume that all or part of an inferred mineral reserve exists or is economically or technically mineable.

**ARTICLE 1 CORPORATE STRUCTURE**

**1.1 Name, Addresses and Incorporation**

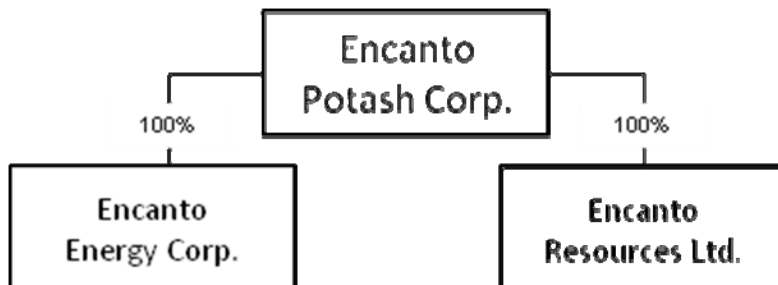
The full corporate name of the Corporation is "Encanto Potash Corp." The head office of the Corporation is 380 – 580 Hornby Street, Vancouver, BC, V6C 3B6. The registered office of the Corporation is Suite 300-576 Seymour Street, Vancouver, British Columbia V6B 3K1.

The Corporation was incorporated under the laws of British Columbia, Canada, in 1986. The Corporation currently is a reporting issuer in the provinces of British Columbia and Alberta and trades on the TSXV under the trading symbol "EPO". As of June 7, 2011 the Corporation has qualified for trading on the OTCQX under the trading symbol "ENCTF".

**1.2 Intercorporate Relationships**

The Corporation has the following subsidiaries<sup>1</sup>:

<b>Name of Corporation</b>	<b>Jurisdiction</b>	<b>% Ownership</b>
a) Encanto Resources Ltd.	Alberta	100%
c) Encanto Energy Corp.	Alberta	100%



<sup>1</sup>The Corporation had one other subsidiary, Encanto Holdings Ltd., which was dissolved on November 16, 2011.

## **ARTICLE 2 GENERAL DEVELOPMENT OF THE BUSINESS OF THE CORPORATION**

### **2.1 Three Year History and Significant Acquisitions**

On July 13, 2009, the Corporation under its previous name Angus Ventures Corp (in this paragraph “Angus”) acquired all of the issued and outstanding common shares of ERL in exchange for 87,531,153 common shares of Angus. As a result of this transaction, the shareholders of ERL acquired more than 50% of Angus’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 ERL obtained control of the consolidated entity. Under the purchase method of accounting ERL has been identified as the acquirer, and accordingly the entity is considered to be a continuation of ERL with the net assets of Angus at the date of the RTO deemed to have been acquired by ERL.

Effective July 14, 2009, the Corporation changed its name from Angus Ventures Corp., to Encanto Potash Corp.

The Corporation is an exploration stage company that is building a mineral property inventory that is focused on potash prospects located in Saskatchewan.

#### **Saskatchewan Potash Properties**

##### *Muskowekwan First Nation Prospect*

Through ERL, on October 16, 2010 the Corporation entered into a joint venture agreement (“JVA”) with Muskowekwan First Nation (“MFN”) and Muskowekwan Resources Ltd. (“MRL”) on two separate groups of MFN reserve lands (collectively the “MFN Prospect”) aggregating approximately 36,300 acres in Saskatchewan and pursuant to which the Corporation has obtained the exclusive right to work with MFN and MRL in proceeding to the mine operation stage. In connection with the JVA and its preceding Exploratory Participation Agreement, MFN applied for and received a permit for each of the two groups of reserve lands from the Crown authorizing the Corporation, MFN and MRL to proceed under the terms of the JVA as contemplated.

The Corporation has conducted an exploration program which consisted of a 2D Seismic Survey, a 3D Seismic Survey, and five exploration drill holes. From the results of the 2010 exploration program, the Corporation commissioned a Technical Report dated April 29, 2011 entitled “Technical Summary Report for 2011 Encanto Potash Inc. Potash Resource Assessment for Muskowekwan First Nations Home Reserve, Saskatchewan, Canada” as prepared by North Rim Exploration Ltd., which recommended a two-phase project with an first phase cost of approximately \$2,500,000, including a Preliminary Economic Assessment of approximately \$500,000.

Subsequent to the publication of the Technical Report dated April 29, 2011, a Technical Report and Preliminary Economic Analysis dated September 27, 2011 entitled “Technical Summary and Preliminary Economic Assessment of the Muskowekwan Project”, technical information from which supersedes that of the previous technical report dated April 29, 2011, as prepared by Tetra Tech, Inc., Wardrop Engineering Inc., North Rim Exploration Ltd., NovoPro Projects Inc., and Agapito Associates, Inc. was commissioned by the Corporation, which recommends:

- (a) a two-phase geological study with a first phase cost of approximately \$2,150,000; and
- (b) a project execution phase, including mining and milling assessments, with total estimated costs of \$9,800,000.

### *Other First Nations Prospects*

As at December 31, 2010, the Corporation is a party to an Exploration Participation Agreement (“EPA”) with Ochapowace First Nation and an MOU with Chacachas First Nation (collectively “the Bands”). The Corporation has obtained two permits (one for each prospect) from the Crown to explore and develop potash minerals on the these First Nation Bands' reserve lands which are all located in Saskatchewan.

While the terms of the respective MOU and EPA are not identical, they contain material terms largely identical to the terms for the EPA's originally executed with MFN and MRL.

The significant monetary commitments are as follows:

- Payment of an aggregate amount of \$100,000, which was paid.
- Issuance of a total of 400,000 common shares of the Corporation to the Bands, which have been issued..
- Issuance to each Band of a warrant (issued) to acquire an additional 200,000 shares of the Company with such exercise prices and expiry dates as set out in the respective MOU or EPA, of which 200,000 warrants expired during 2010.

In addition, the EPA and MOU provide that in the event preliminary exploration work leads to a “second phase work program” on any respective 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 such Band, at an exercise price as set out in the respective EPA or MOU.

The Corporation conducted an exploration program which consisted of a 2D Seismic Survey as well as completing one exploration drill hole of approximately 1,250 meters on the Ochapowace property. The program was not as successful as the Muskowekwan exploration program and the Corporation decided to proceed with the 3D Seismic Survey on the Muskowekwan property at this time as the grade was more prospective. The Corporation has placed its exploration program of the Ochapowace and Chacachas Band lands on care and maintenance as it focusses on the MFN property.

### *Spar Property and KP452 Claim*

By an agreement dated July 24, 2009, effective August 11, 2009, between the Corporation and Lion Energy Corp. (formerly Raytec Metals Corp.) (“Lion”), the Corporation acquired all of Lion's interests in its potash properties (the “Lion Potash Properties”) in Saskatchewan for 19,846,525 common shares at \$0.25 per share for a fair value of \$4,961,631, being the total acquisition and exploration costs incurred by Lion up until July 24, 2009 in the acquisition and exploration of the Lion Potash Properties.

Lion incurred \$6,500,000 of expenditures on the Corporation's potash property interests by December 31, 2009 to earn a 51% interest in all of the Corporation's properties (including the Lion Potash Properties). Of these expenditures approximately \$4,900,000 was incurred on the MFN Prospect and \$1,600,000 was incurred on reserve lands owned by other First Nations. On February 3, 2010, the Corporation exercised its option to repurchase this 51% interest in the Corporation's potash properties by issuing 26,000,000 common shares to Lion for a fair value of \$5,460,000.

The Corporation 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 Corporation paid this amount in September 2009. The Lion Potash Properties vendor retains a 2% net smelter return on the property.

### **Saskatchewan Oil and Gas**

Through ERL, on July 31, 2010, the Corporation entered into a joint venture agreement (“Sundance JVA”) with Sundance Energy Corporation (“Sundance”) pursuant to which:

- a) the Corporation and five First Nations intend to grant Sundance a license on all seismic (2D and 3D) data owned by the Corporation and the First Nations with respect to the lands of the First Nations in consideration for 10,000,000 Sundance Shares (5,000,000 for the Corporation and 1,000,000 to each First Nation); and
- b) the Corporation has entered into a joint venture agreement with the Muskowekwan and Ochapowace First Nations with respect to the exploration and development of oil and gas on the First Nations’ lands, which the Corporation has assigned to Sundance in consideration for \$100,000 and 2,800,000 Sundance shares for each agreement respectively.

To date, joint ventures have been entered into with two First Nations and have been assigned to Sundance with their approval. In consideration of such, the Corporation has received \$200,000 from Sundance and an additional 5,600,000 Sundance shares. Sundance may enter into joint venture agreements with the other three (3) First Nations (Chacachas, Muscowpetung and Day Star). If agreements are entered into, and Sundance is successful in acquiring an Indian Oil and Gas permit on one or more of the additional First Nations, then Sundance will pay the Corporation \$100,000 and issue from their Treasury 2,800,000 shares of Sundance for each permit acquired except for the Chacachas permit. The Sundance JVA was amended on August 1, 2011 such that only 1,400,000 shares of Sundance are payable to the Corporation with respect to this permit in consideration for the terms granted to the Corporation by Sundance for joint participation in a 3D Seismic Survey over the Chacachas reserve lands.

## **ARTICLE 3 BUSINESS OF THE CORPORATION**

### **3.1 General**

#### **Business**

The Corporation is in the business of the exploration and development of potash properties of merit and indirectly the exploration and development of oil and gas properties of merit. The Corporation currently has interests in those mineral properties referred to in "General Development of the Business of the Corporation – Three Year History and Significant Acquisitions" above and in "Mineral Projects" below. Its current focus is on the First Nations Band lands in Saskatchewan, Canada, more particularly described under "Mineral Projects" below.

#### **Stage of Development**

The Corporation is in the exploration stage and does not produce, develop or sell any products at this time. The progress on, and results of, work programs on the Corporation's material mineral properties is set out below in the "Mineral Projects" section of this Annual Information Form.

### **Specialized Skill and Knowledge**

All aspects of the Corporation's business require specialized skills and knowledge. Such skills and knowledge include the areas of geology, drilling, logistical planning and implementation of exploration programs, mining, metallurgy and accounting. While recent increased activity in the resource mining industry has made it more difficult to locate competent employees and consultants in such fields, the Corporation has found that it can locate and retain such consultants and believes it will continue to be able to do so.

### **Competitive Conditions**

Competition in the mineral exploration industry is intense. The Corporation competes with other mining companies, many of which have greater financial resources and technical facilities for the acquisition and development of, and production from, mineral concessions, claims, leases and other interests, as well as for the recruitment and retention of qualified employees and consultants.

### **Components**

All of the raw materials the Corporation requires to carry on its business are readily available through normal supply or business contracting channels in Canada. The Corporation expects to be able to conduct its contemplated programs including working with the First Nations employment offices.

### **Cycles**

The mining business is subject to mineral price cycles. The marketability of minerals and mineral concentrates is also affected by worldwide economic cycles.

### **Economic Dependence**

The Corporation's business is not substantially dependent on any contract such as a contract to sell the major part of its products or services or to purchase the major part of its requirements for goods, services or raw materials, or on any franchise or licence or other agreement to use a patent, formula, trade secret, process or trade name upon which its business depends other than the agreements with the First Nations.

### **Changes to Contracts**

It is not expected that the Corporation's business will be affected in the current financial year by the renegotiation or termination of contracts or sub-contracts.

### **Environmental Protection**

Environmental requirements are being adhered to and monitored on an ongoing basis. Reclamation of any surface disturbances are completed as soon as possible and the mitigation of any environmental impact of the campsite are in accordance with regulations and are subject to inspection by the provincial authorities. Limited amounts of deleterious materials are stored at the exploration sites.

### **Employees**

As at the date of this Annual Information Form, the Corporation has one employee. The Corporation primarily relies upon consultants to carry on its business and many of its activities, in particular, to supervise work programs on its mineral properties.

## **Reorganizations**

On July 13, 2009, the Corporation acquired all of the issued and outstanding common shares of ERL in exchange for 87,531,153 common shares of the Corporation. As a result of this transaction, the shareholders of ERL acquired more than 50% of Angus's issued and outstanding common shares and the transaction was accounted for as a RTO. Upon completion of the RTO, the shareholders of ERL obtained control of the consolidated entity. Under the purchase method of accounting ERL has been identified as the acquirer, and accordingly the entity is considered to be a continuation of ERL with the net assets of Angus at the date of the RTO deemed to have been acquired by ERL.

## **Social or Environmental Policies**

The Corporation has not implemented any social or environmental policies that are fundamental to its operations.

### **3.2 Risk Factors**

**AN INVESTMENT IN SECURITIES OF THE CORPORATION IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK AND SHOULD ONLY BE MADE BY INVESTORS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.**

Prior to making an investment decision investors should consider the investment risks set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Corporation consider the risks set out below to be the most significant to potential investors in the Corporation, but not all of the risks associated with an investment in securities of the Corporation. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Directors are currently unaware or which they consider not to be material in relation to the Corporation's business, actually occur, the Corporation's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Corporation's securities could decline and investors may lose all or part of their investment.

### **Exploration, Development and Production Risks**

An investment in the Corporation's Common Shares is speculative due to the nature of the Corporation's involvement in the evaluation, acquisition, exploration and, if warranted, development and production of minerals.

Mineral exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Corporation will result in new discoveries in commercial quantities.

While the Corporation has a limited number of specific identified exploration or development prospects, management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce reserves. No assurance can be given that the Corporation will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. The Corporation has no earnings record, no reserves and no producing resource properties.

### **Prices, Markets and Marketing of Natural Resources**

Potash is a commodity whose price is determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for potash have fluctuated widely in recent years.

In addition to establishing markets for its natural resources, the Corporation must also successfully market its natural resources to prospective buyers. The marketability and price of natural resources which may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation has limited direct experience in the marketing of potash.

Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of natural resources and environmental protection are all factors which may affect the marketability and price of natural resources. The exact effect of these factors cannot be accurately predicted, but any one or a combination of these factors could result in the Corporation not receiving an adequate return for shareholders.

### **Substantial Capital Requirements and Liquidity**

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of natural resources in the future. The Corporation may have limited ability to expend the capital necessary to undertake or complete its projects or to fulfil the Corporation's obligations under any applicable agreements. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or if, debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospectus.

### **Financing Risks**

The Corporation is limited in both financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. There can be no assurance that the Corporation will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

### **Additional Funding Requirements**

From time to time, the Corporation may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities, delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties, and reduce or terminate its operations. If the Corporation's future revenues decrease as a result of lower commodity prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or be available on favourable terms.

## **Competition**

The Corporation actively competes for acquisitions, leases, licences, concessions, claims, skilled industry personnel and other related interests with a substantial number of other companies, many of which have significantly greater financial resources than the Corporation.

The Corporation's ability to successfully bid on and acquire additional property rights to participate in opportunities and to identify and enter into commercial arrangements with other parties will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

## **Environmental Risks**

All phases of the natural resources business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that facility sites and mines be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of tailings or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Companies engaged in the exploration and development of mineral properties generally experience increased costs, and delays as a result of the need to comply with applicable laws, regulations and permits. The Corporation believes it is in substantial compliance with all material laws and regulations which currently apply to its activities.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in natural resource exploration and development activities may be required to compensate those suffering loss or damage by reason of its activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of natural resources companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in developments of new properties.

## **Resources**

There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of commercial accumulations of natural resources.

## **Regulatory Requirements**

Natural resource activities may be affected in varying degrees by political and financial instability, inflation and haphazard changes in government regulations relating to this industry. Any changes in regulations or shifts in political or financial conditions are beyond the Corporation's control and may adversely affect the Corporation's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and safety.

## **Reliance on Operators and Key Employees**

The success of the Corporation will be largely dependent upon the performance of its management and key employees. The Corporation does not have any key man insurance policies and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Corporation. In assessing the risk of an investment in the Corporation's Common Shares, potential investors should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the management of the Corporation. An investment in the Corporation's Common Shares is suitable only for those investors who are willing to risk a loss of their entire investment and who can afford to lose their entire investment.

## **Insurance**

The Corporation's involvement in the exploration for and development of natural resource properties may result in the Corporation becoming subject to liability for certain risks, and in particular unexpected or unusual geological operating conditions, including rock bursts, cave ins, fires, floods, earthquakes, pollution, blow-outs, property damage, personal injury or other hazards. Although the Corporation will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable, or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer or such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

No assurance can be given that insurance to cover the risks to which the Corporation's activities will be subject will be available at all or at economically feasible premiums. Insurance against environmental risks (including potential for pollution or other hazards as a result of the disposal of waste products occurring from production) is not generally available to the Corporation or to other companies within the industry. The payment of such liabilities would reduce the funds available to the Corporation. Should the Corporation be unable to fund fully the cost of remedying an environmental problem, the Corporation might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

## **Permits and Licenses**

The operations of the Corporation will require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

## **Title Matters**

Although title to the Properties has been reviewed by the Corporation, formal title opinions have not been obtained by the Corporation and, consequently, no assurances can be given that there are no title defects affecting such properties. The Properties may be subject to prior unregistered liens, agreements or transfers, native land claims or other undetected title defects. There is no guarantee that title to the Properties will not be challenged or impugned. The Corporation is satisfied, however, that evidence of title to each of the Properties is adequate and acceptable by prevailing industry standards.

## **Availability of Equipment and Access Restrictions**

Natural resource exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

## **Conflict of Interest of Management**

Certain of the Corporation's directors and officers are also directors and officers of other natural resource companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers relating to the Corporation will be made in accordance with their duties and obligations to deal fairly and in good faith with the Corporation and such other companies.

## **The Market Price of the Common Shares May Be Subject to Wide Price Fluctuations**

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Corporation, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Corporation, general economic conditions, changes in mineral reserve or resource estimates, results of exploration, changes in results of mining operations, legislative changes, and other events and factors outside of the Corporation's control.

In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

The Corporation is unable to predict whether substantial amounts of Common Shares will be sold in the open market. Any sales of substantial amounts of Common Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Common Shares.

## **No Dividends**

The Corporation has not paid any dividends since incorporation and does not anticipate paying any dividends in the foreseeable future.

## **3.3 Mineral Projects**

### **MUSKOWEKWAN FIRST NATION PROSPECT**

As noted above, on October 16, 2010 the Corporation entered into a JVA with MFN and MRL on two separate groups of MFN reserve lands aggregating approximately 36,300 acres in Saskatchewan and pursuant to which the Corporation has obtained the exclusive right to explore for, develop and produce potash minerals. In connection with the JVA and the previous Exploration Participation Agreements between the Corporation, MFN and MRL, MFN applied for and received a permit for each of the two groups of reserve lands from the Crown authorizing the Corporation, MFN and MRL to proceed under the terms of the JVA and EPA's as contemplated.

The Muskowekwan EPA lands are located approximately 100 kilometres north of Regina, and consist of 43,000 acres of gentle rolling plains. Several oil wells drilled all around the Muskowekwan EPA lands have shown potash beds are regionally present in the stratigraphy.

The Corporation has conducted an exploration program which consisted of a 2D Seismic Survey, a 3D Seismic Survey, and one exploration drill hole of approximately 1,250 meters. The final results of the program were reported in the second quarter of 2010. The results of this program led to a further exploration program which included a drilling of four stratigraphic test holes.

A Technical Report dated April 29, 2011 entitled "Technical Summary Report for 2011 Encanto Potash Inc. Potash Resource Assessment for Muskowekwan First Nations Home Reserve, Saskatchewan, Canada" was prepared by North Rim Exploration Ltd (the "North Rim Technical Report") and filed by the Corporation on SEDAR at [www.sedar.com](http://www.sedar.com).

Subsequent to the filing of the North Rim Technical Report, the Corporation requested that a Preliminary Economic Assessment be prepared on the same properties. A Preliminary Economic Assessment entitled "Technical Summary and Preliminary Economic Assessment of the Muskowekwan Project" (the "PEA") as prepared by Tetra Tech, Inc., Wardrop Engineering Inc., North Rim Exploration Ltd., NovoPro Projects Inc., and Agapito Associates, Inc. was commissioned by the Corporation, dated September 27, 2011 and ultimately filed on SEDAR at [www.sedar.com](http://www.sedar.com).

The following is information taken from the PEA. Unless otherwise stated, information in this AIF of a scientific or technical nature regarding the Muskowekwan EPA lands is summarized, derived or extracted from the PEA. For a complete description of the assumptions, qualifications and procedures associated with the information in the PEA, reference should be made to the full text of the PEA, which is available for review on SEDAR at [www.sedar.com](http://www.sedar.com) which is specifically incorporated by reference into, and forms an integral part of, this AIF.

### Summary

The following summary set out herein has been taken in its entirety from the PEA. All defined terms as specifically defined in the PEA. All terms set out below are those terms as specifically defined in the PEA or as defined in this Annual Information Form for the purposes of consistency.

### *Introduction*

The project is located on the Muskowekwan Indian Reserve 85 (IR85, INAC Permit Number 368519) which is situated in south-eastern Saskatchewan approximately 100 kilometers north-northeast of Regina. The project area is approximately 100 kilometers south-east of BHP Billiton's Jansen Project and approximately 125 kilometres north-east of Mosaic's Belle Plaine Mine. The project area includes 16,831 acres of land that belongs to the Muskowekwan First Nations IR85.

In 2010, ERL formed a formal Joint Venture Agreement (JVA) with the MFN and MRL. The purpose of the JVA is to progressively develop plans to delineate a potash resource substantial enough to support a potential mining operation on the Muskowekwan First Nations' land.

### *Resource Estimate*

The Mineral Resource is based on the assumption that the recovery of the potash will be by either solution mining or conventional underground mining methods as they exist today. The depth to the potential mineable formations is shallower and at lower formation temperatures than the only designed operating Saskatchewan solution mine, but deeper than operating Saskatchewan potash conventional mines therefore requiring further investigation into suitable extraction ratios. As a result of the depth and yet to be determined economic factors, this report will present both a conventional and solution mining Resource. The factors used to select the intervals for each Resource type scenario are presented below.

***The reader is cautioned that the two mining scenarios presented below should be treated as separate mineral resource calculations and should NOT be added together. The solution mining scenario was prepared as the base case with the conventional resource provided as an alternative case until additional engineering studies are completed.***

### *Solution Mining Resource Scenario Estimate*

Based on the solution mining methodology described in Hardy et al. (2010), the 'solution interval' is defined as the entire Patience Lake Member, the salt interbed and the entire Belle Plaine Member. It includes all barren interbed halite as well as insoluble rich layers. An 'economic cutoff grade' for the top and bottom of the resource interval was assumed to be where K<sub>2</sub>O values were greater than 10% (15% KCl) and where average 'mineable grade' was greater than 15% (23% KCl) (Hardy, Halabura, & Shewfelt, 2010). The Esterhazy was not included in the calculation as it has an average carnallite grade of 7.57% (2.59% MgCl<sub>2</sub>) and the grade was lower than the economic threshold cutoff.

**Table 1.1: Weight-Average Thickness and Grade Parameters of the Solution Mining Interval**

<b>Solution Indicated Parameters Summary</b>								
Sub-Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O (KCl) (%)	Carnallite (%)	MgCl <sub>2</sub> (%)	Insolubles (%)	Saltback (m)
Patience Lake	1189.50	1196.51	7.02	19.69 (31.17)	0.47	0.16	9.20	2.30
Interbed	1196.51	1202.50	5.99	3.96 (6.27)	0.46	0.16	3.20	9.32
Belle Plaine	1202.55	1210.95	8.40	17.41 (27.56)	0.59	0.20	4.57	15.32
<b>Solution Inferred Parameters Summary</b>								
Sub-Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O (KCl) (%)	Carnallite (%)	MgCl <sub>2</sub> (%)	Insolubles (%)	Saltback (m)
Patience Lake	1190.69	1197.85	7.16	19.85 (31.42)	0.46	0.16	9.38	2.28
Interbed	1197.85	1203.87	6.02	4.01 (6.35)	0.48	0.16	3.52	9.44
Belle Plaine	1204.04	1212.48	8.44	17.63 (27.91)	0.58	0.20	4.51	15.45

*Conventional Mining Resource Scenario Estimate*

In determining the Resource for the conventional mining scenario a “Geological Interval” was chosen to calculate the Resource and was selected based on clay seam stratigraphy and nomenclature outlined by Phillips (1982). The “Geological Interval” is defined as those intervals which include the uppermost bounding “marker” clay seams and the highest K<sub>2</sub>O values from assays. The intervals were also verified with wireline logs using consistent inflection points off of the gamma ray log. The reader is cautioned that the thickness calculated in Table 1.2 is not a ‘mining cut’ and will likely be reduced if a conventional mining method is determined feasible. Thick stable roof ‘salt back’ is necessary when mining potash conventionally. The tonnages presented for the Lower Patience Lake and Upper Belle Plaine must not be added together as current mining practices dictate that only one mining horizon is extracted. Studies of bi-level mining may be conducted in the future.

Current conventional Saskatchewan operating mines prefer to have at minimum of seven meters of stable salt back. Due to this criterion the Upper Patience Lake was not used in this calculation and drill holes 02-09 and 07-02 were removed from the Lower Patience Lake calculation.

**Table 1.2: Weighted-Average Thickness and Grade Parameters of the Potash Zone.**

<b>Solution Indicated Parameters Summary</b>								
Sub-Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O (KCl) (%)	Carnallite (%)	MgCl <sub>2</sub> (%)	Insolubles (%)	Saltback (m)
LPL	1192.06	1195.36	3.30	24.36 (38.56)	0.50	0.17	10.39	7.98
UBP	1201.39	1206.47	5.08	22.09 (34.97)	0.61	0.21	5.89	15.32
<b>Solution Inferred Parameters Summary</b>								
Sub-Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O (KCl) (%)	Carnallite (%)	MgCl <sub>2</sub> (%)	Insolubles (%)	Saltback (m)
LPL	1190.76	1194.07	3.31	24.14 (38.21)	0.50	0.17	10.55	8.00
UBP	1200.17	1205.32	5.15	22.28 (35.27)	0.60	0.21	5.85	15.26

*Indicated and Inferred Resource Summaries*

Inferred and Indicated Resources are based on the distance from the cored and assayed drill holes on the property. Various 43-101's were reviewed to determine an appropriate distance for the buffer radii and based on the interpreted geological constraints in the area the following maximum Resource radii were employed: Indicated 0 to 2.0 kilometers and Inferred 2.0 to 5.0 kilometers. A summary of Inferred and Indicated Resources for the 'solution mining' scenario is presented in Table 1-3a and 1-3b. The resources for the 'conventional mining scenario' are presented in Table 1-4a and 1-4b.

**Table 1-3: Solution Mining Indicated and Inferred Resource Summary**

<b>Table 1-3a: Solution Mining Indicated Resource Summary</b>							
Formation	Thickness (m)	Average K <sub>2</sub> O Grade (%) <sup>1</sup>	Average KCl Grade (%) <sup>1</sup>	In-Place Sylvinite Resource (MMT) <sup>2</sup>	Net K <sub>2</sub> O Tonnage (MMT) <sup>3</sup>	Net KCl Tonnage (MMT) <sup>3</sup>	Net KCl Tonnage Per Section (MMT/Sec) <sup>4</sup>
PLM	7.02	19.69	31.17	529.85	24.36	38.56	2.75
Interbed	5.99	3.96	6.27	452.03	4.29	6.79	0.48
BPM	8.39	17.41	27.56	614.33	25.61	40.54	2.98
<b>Total/Average Including Interbed</b>	<b>21.40</b>	<b>13.65</b>	<b>21.61</b>	<b>1,596.21</b>	<b>54.26</b>	<b>85.89</b>	<b>6.21</b>
<b>Total/Average Excluding Interbed</b>	<b>15.41</b>	<b>18.57</b>	<b>29.39</b>	<b>1,144.18</b>	<b>49.97</b>	<b>79.10</b>	<b>5.73</b>

<b>Table 1-3b: Solution Mining Inferred Resources Summary</b>							
Formation	Thickness (m)	Average K <sub>2</sub> O Grade (%) <sup>1</sup>	Average KCl Grade (%) <sup>1</sup>	In-Place Sylvinite Resource (MMT) <sup>2</sup>	Net K <sub>2</sub> O Tonnage (MMT) <sup>3</sup>	Net KCl Tonnage (MMT) <sup>3</sup>	Net KCl Tonnage Per Section (MMT/Sec) <sup>4</sup>
PLM	7.16	19.85	31.42	403.74	18.64	29.50	2.82
Interbed	6.02	4.01	6.35	339.45	3.25	5.15	0.49
BPM	8.44	17.63	27.91	464.61	19.60	31.03	3.04
<b>Total/Average Including Interbed</b>	<b>21.62</b>	<b>13.80</b>	<b>21.85</b>	<b>1,207.80</b>	<b>41.49</b>	<b>65.68</b>	<b>6.35</b>
<b>Total/Average Excluding Interbed</b>	<b>15.60</b>	<b>18.75</b>	<b>29.69</b>	<b>868.35</b>	<b>38.24</b>	<b>60.53</b>	<b>5.86</b>

1 "Average K<sub>2</sub>O Grade" and "Average KCl Grade" refer to the weighted averages.

2 "In-Place Sylvinite Resource" refers to the total tonnage of sylvinite in the project area (Volume of Rock \* Density of Sylvinite)

3 "Net K<sub>2</sub>O Tonnage" and "Net KCl Tonnage" refer to total estimated amount of extractable K<sub>2</sub>O and KCl resource in the project area. (i.e. Volume of Rock \* Density of Sylvinite \* Grade \* Deductions)

Deductions include 10% for unknown anomalies, a 35% extraction ratio, and 12% for plant losses.

4 Assuming 640 acres (2589988.11 m<sup>2</sup>) per section.

**Table 1.4: Conventional Mining Indicated and Inferred Resource Summary**

<b>Table 1-4a: Conventional Mining Indicated Resource Summary</b>							
Formation	Thickness (m)	Average K <sub>2</sub> O Grade (%) <sup>1</sup>	Average KCl Grade (%) <sup>1</sup>	In-Place Sylvinite Resource (MMT) <sup>2</sup>	Net K <sub>2</sub> O Tonnage (MMT) <sup>3</sup>	Net KCl Tonnage (MMT) <sup>3</sup>	Net KCl Resource Per Section (MMT/Sec) <sup>4</sup>
LBL	3.30	24.36	38.56	117.25	7.91	12.53	1.90
BP	5.07	22.09	34.97	344.29	21.06	33.34	2.65

<b>Table 1-4b: Conventional Mining Inferred Resources Summary</b>							
Formation	Thickness (m)	Average K <sub>2</sub> O Grade (%) <sup>1</sup>	Average KCl Grade (%) <sup>1</sup>	In-Place Sylvinite Resource (MMT) <sup>2</sup>	Net K <sub>2</sub> O Tonnage (MMT) <sup>3</sup>	Net KCl Tonnage (MMT) <sup>3</sup>	Net KCl Resource Per Section (MMT/Sec) <sup>4</sup>
LBL	3.31	24.14	38.21	88.61	5.93	9.39	1.89
BP	5.15	22.28	35.27	238.83	14.74	23.33	2.71

1 "Average K<sub>2</sub>O Grade" and "Average KCl Grade" refer to the weighted averages.

2 "In-Place Sylvinite Resource" refers to the total tonnage of sylvinite in the project area (Volume of Rock \* Density of Sylvinite)

3 "Net K<sub>2</sub>O Tonnage" and "Net KCl Tonnage" refer to total estimated amount of extractable K<sub>2</sub>O and KCl resource in the project area. (i.e. Volume of Rock \* Density of Sylvinite \* Grade \* Deductions)

Deductions include 10% for unknown anomalies, a 35% extraction ratio, and 12% for plant losses.

4 Assuming 640 acres (2589988.11 m<sup>2</sup>) per section.

## *Recommendations*

The following recommendations are made by the authors:

### **Phase 1**

- At the time of the completion of this report the TLE land agreement between MRL and ERL is awaiting a ratifying vote. A successful vote would add approximately 15,500 additional acres of land to the potential resource base.
- An additional well in the north east portion of the home reserve and another on the TLE lands once designated.
  - *Estimated cost: \$2 million*
- Complete a Preliminary Economic Assessment (PEA) or a Pre-Feasibility of which mining method would be more economical in the project area.
  - *Estimated cost: \$500,000*
- Evaluation of the potential resource in the Esterhazy if a solution mining scenario is to be considered.
  - *Estimated cost: \$100,000*
- If additional information is obtained, such as an additional well or the addition of the Esterhazy, an updated 43-101 should be completed
  - *Estimated cost: \$50,000.*

**Total estimated costs: \$2.65 million dollars**

### **Phase 2**

- Should the Corporation need additional Indicated Resources then it is recommended that a 3D seismic survey be completed on the remainder of the TLE lands. The estimated cost for this 3D program is \$1.5 million.
- Conditional upon favourable results and selection of mining method from Phase 1, continue studies to complete a Pre-Feasibility Study and Environmental Baseline Study. Costs for completing the Pre- Feasibility are not estimated at this time as a mining method has not been selected at the time of completion of this report.

## *Economic Analysis*

Preliminary economic analysis of the options indicate the conventional mine would have a IRR of 20.9% and the solution mine a 23.6% IRR. These are based on AACE Class 5 capital estimate, OPEX of equivalent accuracy and a base potash price of \$450/t FOB site. Further details are given in Sections 20 and 21 of the PEA.

### *Major Risks*

The major risks identified at this time include:

- Permitting and licensing issues – affects both project schedule and cost
- Organizational capacity to manage large capital projects – affects both project schedule and cost
- The financial security of project execution – cash flow can affect project schedule especially at peak purchasing and construction phases
- Availability of manpower – both for construction and operations can affect cost and schedule
- Water supplies unidentified – can affect project cost and schedule
- Limited conventional mine resources – affects mine life
- Conventional mine depth – could affect mine productivity and life (cost)

### *Conclusions and Recommendations*

Both mining methods have positive and negative attributes, but we believe that the solution mine is the stronger option and should be the basis of all further investigations. The pros and cons of solution mining include:

- Longer mine life
- Lower man power requirements
- Lower CAPEX/tonne
- Higher IRR
- Greater water usage

It will require approximately six (6) years for the solution mine to be brought into production. This includes further investigation plans, environmental licensing, preliminary design, detailed design and construction.

Our main recommendations at this time include:

- An additional well in the north east portion of the home reserve and another on the TLE lands once designated
  - Estimated cost: \$2,000,000
- Evaluation of the potential resource in the Esterhazy
  - Estimated cost: \$100,000
- Complete environmental licensing work (EIS submission)
  - Estimated cost: \$2,000,000
- Complete a pre-feasibility study of the solution mining option complete with various trade-off studies
  - Estimated cost: \$7,000,000

### *Property Description*

For information on the MFN Prospect description and location please see pages 11 to 17 of the PEA.

*Physiography, Accessibility, Climate, Local Resources, Infrastructure*

For information on the physiography, accessibility, climate, local resources and infrastructure of the MFN Prospect please see pages 19 to 22 of the PEA.

*Project History*

For information on the project history of the MFN Prospect please see page 23 of the PEA.

*Geological Setting and Mineralization*

For information on the geological setting of the MFN Prospect please see pages 24 to 51 of the PEA.

*Deposit Type*

For information on the deposit type please see pages 52 to 53 of the PEA.

*Exploration*

For information on the exploration please see pages 54 to 58 of the PEA.

*Drilling*

For information on the drilling please see pages 59 to 66 of the PEA.

*Sample Preparation, Analysis and Security*

For information on the sample preparation, analysis and security please see pages 67 to 73 of the PEA.

*Data Verification*

For information on the data verification please see pages 74 to 77 of the PEA.

*Adjacent Properties*

For information on the adjacent properties please see page 183 of the PEA.

*Mineral Processing and Metallurgical Testing*

No feasibility studies have been performed at this point outlining Mineral Processing and Metallurgical Testing. No reports have been completed summarizing capital costs and operating costs for the mine.

*Mineral Resource Estimations*

For information on the mineral resource estimates please see pages 79 to 91 of the PEA.

*Mineral Reserve Estimations*

No mineral reserve estimates have been performed at this point, as no preliminary feasibility study has been performed at this time.

### Operations and Development

For a discussion on potential mining operations and development (including recovery methods) please see pages 93 to 160 of the PEA.

### Other Relevant Data and Information

No other data and information is considered necessary at this time.

### Interpretation and Conclusions

For information on interpretations and conclusions please see pages 188 to 193 of the PEA.

### Recommendations

For information on the recommendations please see pages 194 – 196 of the PEA.

## **SPAR PROPERTY AND KP452 CLAIM**

As noted above, by an agreement dated July 24, 2009, effective August 11, 2009, between the Corporation and Lion, the Corporation acquired the Lion Potash Properties for a fair value of \$4,961,631 (19,846,525 common shares at \$0.25 per share), being the total acquisition and exploration costs incurred by Lion up until July 24, 2009 in the acquisition and exploration of the Lion Potash Properties.

Furthermore, Lion incurred \$6,500,000 of expenditures on the Corporation's potash property interests by December 31, 2009 thereby earning a 51% interest in the Corporation's properties (including the Lion Potash Properties). Of these expenditures, approximately \$4,900,000 was incurred on the MFN Prospect and \$1,600,000 was incurred on reserve lands owned by other First Nations. On February 3, 2010, the Corporation exercised its option to repurchase this 51% interest in the Corporation's potash properties by issuing 26,000,000 common shares to Lion for a fair value of \$5,460,000.

The Corporation 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. There is a 2% net smelter return royalty payable to the original vendor attached to the Lion Potash Properties.

Although the Company continues to see value in the Spar Property, no significant work is presently contemplated as the Company is currently focusing its resources on the MFN Prospect. In view of this, the Company is contemplating seeking a joint venture partner for the Spar Property.

## **OCHAPOWACE/CHACACHAS PROSPECT**

As at December 31, 2010, through ERL, the Corporation is a party to an exploratory participation agreement ("EPA") with Ochapowace First Nation and a Memorandum of Understanding ("MOU") with Chacachas First Nation (collectively "the Bands"). The Corporation has obtained two permits from the Crown to explore and develop potash minerals on the reserve lands of the Bands, all located in Saskatchewan.

This Prospect consists of approximately 78,000 acres (31,565 hectares) of First Nation mineral lands and is situated approximately 130 kilometers east of the city of Regina. The Prospect spans a region encompassing Township 19, and ranges 5-6 West of the second Meridian. A memorandum of agreement

was entered into among the Ochapowace Band and ERL on March 25, 2008 and was later updated with an Exploratory Participation Agreement between the Ochapowace Band and ERL on June 5, 2009. A memorandum of agreement was also entered into between the Chacachas Band and ERL on March 25, 2008.

The Corporation conducted an exploration program which consisted of a 2D seismic survey as well as completing one exploration drill hole to a depth of approximately 1,250 meters on the Ochapowace First Nation reserve lands. Based on the active structuring at the Prairie Evaporite level plus the lower potash grade encountered in the test well the Corporation decided to proceed with a 3D Seismic Survey on the MFN Prospect only. The Corporation continues to value the Ochapowace and Chacachas properties, however no work is contemplated on them currently as the Corporation is focusing on the MFN Prospect.

### *Exploration*

Except for the MFN Prospect on which a 2D seismic survey, a 3D seismic survey, and five exploration drill holes were drilled, and the Ochapowace/Chacachas Prospect on which 2D seismic exploration has been conducted, the only geologic information on these Potash Prospects comes from oil and gas wells, most of which are some distance from the Prospects. The Corporation's review of the regional geological data indicates that there is a reasonable probability of commercial grades of potash occurring within the four prospects. Hence, further geological exploration is warranted.

The vicinity around the Ochapowache/Chacachas Prospect is outside the depositional limit of the Patience Lake Member. The Belle Plaine Member is missing in 3 of the 7 wells in the area and varies from 13 to 27 feet (4 to 8 meters) in the other 4 wells. The White Bear member is present in some wells and is approximately 15 feet (5 meters) thick. The Esterhazy Member is present in all wells and varies between 20 and 50 feet (6 and 15 meters) thick. The potash mines in Esterhazy and Rocanville are mining an interval of about 8 feet (2.44 meters) in height that constitutes a higher-grade interval within the Esterhazy Member. The preliminary results of the seismic work on the Ochapowace/Chacachas Prospect has identified several areas of structural stability that would be the initial sites of exploratory drilling on this prospect and an area for initial drilling has been identified.

In the vicinity of the Piapot/Muscowpetung Prospect, the thickness of the potash-bearing beds is also variable. The Patience Lake Member is 35 to 70 feet (11 to 21 meters) thick, the Belle Plaine Member is missing in 2 of 8 wells but is 13 to 36 feet (4 to 11 meters) thick when present, and the Esterhazy Member varies between 42 and 77 feet (13 and 24 meters) thick.

Near the Day Star Prospect the Patience Lake Member varies between 17 and 57 feet (5 and 17 meters) thick and is usually greater than 30 feet (9 meters) thick, the Belle Plaine Member varies between 15 and 80 feet (5 and 24 meters) thick, and while the Esterhazy Member varies between 31 and 64 feet (10 and 20 meters) in thickness, it generally exceeds 50 feet (15 meters) in thickness.

At least 3 potash-bearing beds are present in the vicinity of all of the Potash Prospects in potentially extractable, although variable, thicknesses. Each Prospect has at least one potash-bearing bed that may exceed 50 feet (15 meters) in thickness and beds of 30 or more feet (9 or more meters) thick are common. While further exploration drilling, seismic exploration and engineering studies are required to determine the economic potential of the potash-bearing beds underlying the Potash Prospects, the available geologic information suggests that significant amounts of potash will be delineated under each Prospect.

The currently available information provides exploration information about the Prospects, but no resource or reserve estimates can be made at this time.

### *Mineralization*

The primary potash minerals are sylvite (KCl) and sylvinite, the intimate mixture of sylvite and halite (NaCl). While carnallite ( $\text{KCl}\cdot\text{MgCl}_2\cdot 6\text{H}_2\text{O}$ ) contains potassium, recovering the potassium from carnallite requires more extensive and expensive processing; hence carnallite is generally viewed as a contaminant in addition to the insoluble minerals (clay size).

General aspects of key mining parameters will affect decisions made as exploration of the prospects proceeds. All of these factors are related to the geology and mineralization of the potash-bearing beds. The key parameters for general mining evaluation in the Prairie Evaporite potash zones are:

1. **Depth to Mineralization:** At present, conventional underground mines in Saskatchewan are at depths of 3,500 to 3,600 feet (1,068 to 1,098 meters). Mining deeper than 3,700 feet (1,128 meters) in the potash region of Saskatchewan is largely unproven and the higher rock temperatures and ground stresses may impact the mining room spans, pillar sizes, and extraction ratios.
2. **Thickness of Mineralization:** Mineralization thickness is a factor used in determining a mining method and resource volumes. Conventional dry mining techniques are typically limited to resource thicknesses of 7 feet (2 meters) or more, although in the Carlsbad Potash District of New Mexico, dry mining using drum miners is practiced in beds as thin as 4 feet (1 meter). Solution techniques allow mining of thin potash zones and, in some cases, the low-grade potash in the interburden materials. The Mosaic Company (Mosaic) has solution mined deep potash beds as thin as 3 feet (1 meter). At its Moab, Utah, USA facility, Intrepid Potash solution mines thin beds of potash ranging in thickness from 3 to 7 feet (1 to 2 meters).
3. **Grade of the Potash Bed:** This can control the concentration of the solution mining product liquor, the rate of solution mining, and the effectiveness of secondary mining. For conventional mining, it is a fundamental input toward efficiency and mine design. Higher grades theoretically improve processing efficiencies.
4. **Clay Layers:** The presence of clay layers in the immediate roof can lead to premature roof fallout and limit the size of the cavern in solution mining. In conventional mining, clay layers in the immediate roof can cause stability problems and possible water inflow problems. It is important that geotechnical studies and roof control stabilization technologies be considered for mines with shaley, clay-bearing, or thin roof beams. Typically, the clay layers are associated with the Patience Lake Member, mined in the Saskatoon region. The Esterhazy Member tends to be devoid of these layers and hence can provide more stable mining conditions in southeastern part of Saskatchewan.
5. **Thickness of Salt Back:** Salt back thickness is closely allied with the clay layer issue. Conventional mining practice has relied on maintaining greater than 16 feet (5 meters) thickness of the salt back for roof stability and for sealing off any water content of the sediments immediately above (Holter 1969). Preferably, one would desire a salt back thickness greater than ~45 feet (~15 meters) and hence this will be one of the dictating factors determining which potash member is to be mined.
6. **Depth of Burial:** As rock temperature increases with depth, the process of solution mining becomes more efficient. The geophysical logs used in this report record Bottom Hole Temperatures (BHTs) of 35.5°C to 40.5°C (95°F to 105°F).
7. **Carnallite Content:** As the ratio of carnallite to potash increases, the efficiency of cavern dissolution and potash recovery in solution mining decreases. Carnallite also reduces the efficiency

of recovery for conventionally mined potash both in the stability of the underground mine and recovery within the processing plant.

8. The presence of disturbance anomalies that reduce the thickness or grade of the potash zones.
9. The presence of faults or similar geologic features that displace the potash beds.
10. **The Dip of the Potash Beds:** Excessive dip can limit the size of the caverns and the resource recovery. Typically, the regional dip of the beds in Saskatchewan does not create any mining problems. More extreme dips associated with structural disturbances can cause mining problems but these tend to be very localized in size.

The Corporation's planned exploration drilling and seismic programs will provide data allowing the foregoing factors to be evaluated, and confirm whether extractable potash may occur in one or more beds underlying a Prospect.

### *Drilling*

The Corporation has completed two exploratory programs on the MFN Prospect, consisting of a total of five drilled holes with depths ranging from 1,183 to 1,261m. In the first phase, one hole was drilled, yielding values of 25.2% K<sub>2</sub>O (39.9% KCl) over 3.6 metres in the Patience Lake potash bed, and 25.5% K<sub>2</sub>O (40.4% KCl) over 2.4 metres in the Belle Plaine potash bed. Drilling in the Esterhazy member returned values of 5.3 metres of 12.4% K<sub>2</sub>O (19.6% KCl).

A second phase exploratory program was then conducted in 2010 to drill four drill holes (Encanto Lestock 07-02-27-15W2, Encanto Lestock 11-18-27-18W2, Encanto Lestock 15-16-27-15W2, and Encanto Punnichy 15-14-27-16W2). The procedures followed on drilling were as follows:

- Drilled with a 349.0 mm bit diameter and gel chemical drilling mud to an approximate depth of 165.0 mKB, where surface casing was set;
- Cemented 244.5 mm surface casing;
- Drilled a 222.0 mm diameter borehole with brine drilling mud from surface casing to core point, which was located approximately 20.0 m above the Souris River Formation / Dawson Bay Formation interface;
- **Exception** - The Dawson Bay was not cored in Encanto Lestock 07-02-27-15W2;
- 199.0 mm core barrels were made up and cored down into the Dawson Bay Formation Second Red Bed Member;
- Set up a drillstem test tool string and conducted a bottom-hole drillstem test over the Dawson Bay Formation (DST results in C-2);
- **Exception** - An inflate straddle drillstem test was instead completed on another test hole after the coring of the Prairie Evaporite;
- Switched over from brine to invert drilling fluid. Made up core barrels and continued to core to the base of the Esterhazy Member, or until no visible sylvite was present at the base of the cored interval; and
- Drilled ahead with a 200.0 mm bit diameter to total depth, which was approximately 30.0 meters past the base of the Esterhazy Member;
- Weatherford logged the open hole section using the wireline program provided by North Rim and Exploration and cement plugs were set as per the abandonment report.

Procedures for coring and core retrieval were as follows:

- The brake was first bolted on to the coring barrel. A core hand would run the brake and let the first piece of core out of the barrel while the other core hand broke the core into approximately 0.5 m pieces. The core was then wiped off and labelled with a grease marker on the bottom of core to indicate which end was the bottom.
- With a clearly marked core bottom, the core was placed on the catwalk with the bottom of the core starting at the far left corner of the core holders on the catwalk.
- The core was marked and placed on the catwalk using the methods described above. At the end of each 18.0 m core a core chaser or “rabbit” was run through the barrel to ensure no core was remaining inside the barrel. Once the core was laid out on the floor the well site geologist and North Rim Core Supervisor examined the core to ensure that the in situ Prairie Evaporite stratigraphy was maintained. The core was fitted together and the drill fluid was cleaned by using Varsol or Citrusol. A straight black line was drawn along the core axis with arrows pointing up hole to ensure that the core direction was maintained.
- The core boxes were clearly labelled with the location, unique well ID, interval cut, meters recovered and total number of boxes in the core run. The boxes were brought to the catwalk in ascending order starting at number one.
- The core was boxed, starting at the top of the cored interval and continuing towards the base of the interval. The core was gently broken with a hammer, when required, and was placed in the correct boxes under the supervision of the North Rim Core supervisor. After the core was boxed, it was carried to the core trailer where it was properly wrapped and stored. All core was kept out of the rain to avoid pitting.
- If the core contained carnallite, it was bagged and sealed inside the core trailer to preserve the carnallite. A small amount of rice was poured inside the bags to absorb excess moisture.

Drilling assay results are as follows for the five wells:

Well #	Member	Depth to Top	Thickness (m)	K <sub>2</sub> O %*	KCl %*	Carnallite %*	Insolubles %*
2-9-27-15-W2	Patience Lake	1193.6m	3.64	25.24	39.95	0.08	10.2
2-9-27-15-W2	Belle Plaine	1203.4m	2.43	25.48	40.33	0.09	5.4
2-9-27-15-W2	Esterhazy	1237.6m	5.34	12.36	19.56	5.84	1.39
7-2-27-15W2	Patience Lake	1187.6m	3.43	25.31	40.06	0.65	8.97
7-2-27-15W2	Belle Plaine	1197.5m	5.10	23.85	37.75	0.57	4.92
7-2-27-15W2	Esterhazy	1231.5m	2.06	23.70	37.51	0.30	1.44
11-18-27-15W2	Patience Lake	1183.79m	3.31	22.22	35.16	0.53	12.10
11-18-27-15W2	Belle Plaine	1194.59m	3.66	26.19	41.46	0.52	5.41
11-18-27-15W2	Esterhazy	1226.44m	2.56	22.25	35.22	10.36	1.71
15-14-27-16W2	Patience Lake	1218.51m	2.73	30.60	48.44	0.43	9.31
15-14-27-16W2	Belle Plaine	1229.47m	3.85	25.21	39.90	0.44	3.46
15-14-27-16W2	Esterhazy	1261.96m	2.36	11.49	18.19	0.18	0.65
15-16-27-15W2	Patience Lake	1183.19m	2.99	27.00	42.74	0.49	9.10
15-16-27-15W2	Belle Plaine	1192.72m	4.11	24.79	39.24	3.92	7.28
15-16-27-15W2	Esterhazy	1225.67m	4.60	17.65	27.94	9.14	1.07

\* Weighted average

The results are interpreted to mean that potash mineralization is projected to be present within the MFN Prospect, as all five wells penetrated potash-bearing beds. The beds considered to have economic potential for solution mining are Patience Lake and Belle Plaine. The beds considered to have economic potential for conventional mining are the Lower Patience Lake and Belle Plaine.

The following tables present the weighted-averages for the indicated and inferred resources with respect to the solution mining scenario:

Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O %	Carnallite %	Insolubles %	Saltback (m)
LPL	1189.50	1196.51	7.02	19.69	0.47	9.20	2.30
Interbed	1196.51	1202.50	5.99	3.96	0.46	3.20	9.32
UBP	1202.55	1210.95	8.39	17.41	0.59	4.57	15.32

Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O %	Carnallite %	Insolubles %	Saltback (m)
LPL	1190.69	1197.85	7.16	19.85	0.46	9.38	2.28
Interbed	1197.85	1203.87	6.02	4.01	0.48	3.52	9.44
UBP	1204.84	1212.48	8.44	17.63	0.58	4.51	15.45

The following tables present the weighted-averages for the indicated and inferred resources with respect to the conventional mining scenario:

Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O %	Carnallite %	Insolubles %	Saltback (m)
LPL	1192.06	1195.36	3.30	24.36	0.50	10.39	7.98
UBP	1201.39	1206.47	5.07	22.09	0.61	5.89	15.32

Member	From (m)	To (m)	Thickness (m)	K <sub>2</sub> O %	Carnallite %	Insolubles %	Saltback (m)
LPL	1190.76	1194.07	3.31	24.14	0.50	10.55	8.00
UBP	1200.17	1205.32	5.15	22.28	0.60	5.85	15.26

#### *Sampling Preparation, Analysis and Security*

Core sampling and analysis was prepared for samples taken from the MFN Prospect. North Rim Exploration Ltd. (“North Rim”) was responsible for retrieval of the core at the drill site and shipment to the North Rim Core Lab, where it was boxed and secured on-site. The North Rim Core Lab is alarm-equipped and controlled for temperature and humidity so as to prevent rapid core deterioration.

Sample intervals were determined by North Rim geologists. Geochemical assay sampling was separated into two separate intervals. The first began at the top of the Patience Lake Member to the base of the Belle Plaine Member. The second interval included the entire Esterhazy Member. The salt interbed between the Belle Plaine and Esterhazy Members was not sampled. The first and last samples taken over the two intervals were intended to capture the presence of all sylvites. Once the intervals were determined the core was slabbed lengthwise into halves and placed back into their respective boxes in proper stratigraphic order.

Samples collected for the geochemical assay were secured in plastic bags, identified and were delivered to the Saskatchewan Research Council (“SRC”), an ISO-accredited facility, for analysis. SRC employees then prepared and crushed the samples, divided the crushed samples evenly into vials, and proceeded to grind the materials in each vial for one minute in a pot.

SRC then sent the materials to their geochemical laboratory to be analyzed using SRC’s Basic Potash Package (Soluble Inductively Coupled Plasma [ICP], % Insolubles and % Moisture). With each set of 40 samples, 2 potash standards, 1 quartz blank and 1 sample pulp replicate analysis was completed. After processing the entire group of samples, a split sample replicate was completed. After receiving results from the lab, quality assurance and control completed checks to ensure accuracy.

According to SRC Geoanalytical Laboratories Customer Quality Control policy the sample preparation and analytical procedures are of the highest quality and are NI 43-101 compliant.

*Mineral Resources and Mineral Reserves*

As stated above, the Indicated Mineral Resources for the potential conventional mining intervals on the MFN Prospect are estimated to be:

- Lower Patience Lake Submember: 7.91MMt of K<sub>2</sub>O
- Upper Belle Plaine Member: 21.06MMt of K<sub>2</sub>O

The Inferred Mineral Resources for the potential conventional mining intervals on the MFN Prospect are estimated to be:

- Lower Patience Lake Submember: 5.93MMt of K<sub>2</sub>O
- Upper Belle Plaine Member: 14.74MMt of K<sub>2</sub>O

No Measured Mineral Resources has been estimated for the MFN Prospects because engineering studies have not been completed to establish specific mining horizons, resource recovery, process selection, and preliminary operating and capital costs..

No resource estimate has been completed nor are there any historical resources for any of the Corporation's other Potash Prospects.

*Exploration and Development*

As of December 31, 2010, the Corporation has spent \$13 million on the acquisition of land rights for the three Prospects and for 2D seismic surveys and interpretation on the Prospects (the MFN and Ochpowace/Chacachas)

**ARTICLE 4 DIVIDENDS**

No dividends on the Common Shares have been paid by the Corporation. Management anticipates that the Corporation will retain all future earnings and other cash resources for the future operation and development of its business. The Corporation does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Corporation's board of directors after taking into account many factors including the Corporation's operating results, financial condition and current and anticipated cash needs.

**ARTICLE 5 DESCRIPTION OF CAPITAL STRUCTURE**

The Corporation's authorized capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares, of which 251,718,968 Common Shares are issued and outstanding as at the date of this Annual Information Form. The holders of Common Shares are entitled to one vote for each Common Share held, and shall be entitled to dividends if and as when declared by the board of directors.

Holders of Common Shares are entitled on liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares. All of the Common Shares are fully paid and non-assessable.

## ARTICLE 6 MARKET FOR SECURITIES

### 6.1 Trading Price and Volume

The following table sets out the high and low daily closing prices and the volumes of trading of the Corporation's Common Shares on the Exchange since January 1, 2010 for the periods indicated, as reported by the Exchange. The closing price of the Common Shares on December 31, 2010, was \$0.45.

	Price Range		Trading Volume
	High(\$)	Low(\$)	
December, 2010	0.510	0.360	30,220,412
November 2010	0.440	0.200	56,173,985
October 2010	0.250	0.210	14,950,485
September 2010	0.220	0.160	14,162,712
August 2010	0.300	0.200	2,779,084
July 2010	0.180	0.110	22,400,627
June 2010	0.180	0.140	6,477,188
May 2010	0.190	0.140	3,758,193
April 2010	0.220	0.180	7,163,792
March 2010	0.240	0.180	12,643,869
February 2010	0.260	0.200	16,792,260
January 2010	0.290	0.180	11,573,522

### 6.2 Prior Sales

During the fiscal year ended December 31, 2010, the Corporation issued the following shares, share purchase warrants and the following stock options to purchase securities:

Class of Securities	Date Issued	Number Issued	Price Per Security
Common Shares (Lion Energy)	February 8, 2010	26,000,000	N/A <sup>(1)</sup>
Flow Through Shares (Private Placement)	July 6, 2010	33,333,332	\$0.15
Units (Private Placement)	July 6, 2010	6,666,667	\$0.15 <sup>(2)</sup>
Agent Warrants (from Private Placement)	July 6, 2010	2,400,000	N/A <sup>(3)</sup>
Options	July 13, 2010	7,950,000	N/A <sup>(4)</sup>
Units (Private Placement)	October 20, 2010	11,650,000	\$0.18 <sup>(5)</sup>
Common Shares (MFN)	October 22, 2010	200,000	N/A <sup>(6)</sup>
Warrants (Muskowekwan)	October 22, 2010	200,000	N/A <sup>(6)</sup>

Options	September 2, 2010	200,000	N/A <sup>(7)</sup>
Options	November 12, 2010	250,000	N/A <sup>(8)</sup>
Options	November 29, 2010	250,000	N/A <sup>(9)</sup>
Units (Private Placement)	December 17, 2010	12,500,000	\$0.40 <sup>(10)</sup>
Agent Warrants (from Private Placement)	December 17, 2010	749,999	N/A <sup>(11)</sup>
Flow Through Shares (Private Placement)	December 17, 2010	1,000,000	\$0.50
Options	December 20, 2010	400,000	N/A <sup>(12)</sup>

Notes:

- (1) These common shares were issued to Lion Energy Inc. pursuant to a repurchase agreement between them and the Corporation.
- (2) Each Unit consists of one Common Share and one half of one share purchase warrant and were sold at a price of \$0.15 per Unit. The Warrants are exercisable at a price of \$0.20 per Common Share until July 6, 2012.
- (3) Exercisable at a price of \$0.20 per Common Share until July 6, 2012.
- (4) Exercisable at a price of \$0.15 per Common Share until July 13, 2020.
- (5) Each Unit consists of one Common Share and one half of one share purchase warrant and were sold at a price of \$0.18 per Unit. The Warrants are exercisable at a price of \$0.25 per Common Share until October 12, 2012.
- (6) On October 22, 2010, the Corporation signed a joint venture agreement with the Muskowekwan First Nations. In consideration for granting the leases, the Corporation issued 200,000 common shares and 200,000 common share purchase warrants exercisable at \$0.22 with an expiry date of October 22, 2012 to its corporate nominee, Muskowekwan Resources Ltd.
- (7) Exercisable at a price of \$0.17 per Common Share until September 2, 2012.
- (8) Exercisable at a price of \$0.22 per Common Share until November 12, 2020.
- (9) Exercisable at a price of \$0.44 per Common Share until November 29, 2015.
- (10) Each Unit consists of one Common Share and one share purchase warrant and were sold at a price of \$0.40 per Unit. The Warrants are exercisable at a price of \$0.60 per Common Share until June 17, 2012.
- (11) Exercisable at a price of \$0.60 per Common Share until June 17, 2012.
- (12) Exercisable at a price of \$0.42 per Common Share until December 20, 2012.

**ARTICLE 7 ESCROWED SECURITIES**

The following securities are subject to escrow or contractual restrictions on transfer:

Designation of Class	Number of Securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of class as at December 31, 2010
Common	32,152,002	13.27%

Pursuant to regulatory requirements certain shareholders were required to deposit 51,900,003 of their common shares in the Corporation into escrow. 10% were released immediately on July 14, 2009 and the remainder to be issued in 15% tranches every six months for a period of three years thereafter. As at December 31, 2010, 31,140,002 common shares remained in escrow. These shares will be released in equal tranches on January 14, 2011 (released) July 14, 2011 (released) and every six months thereafter until July 14, 2012.

An additional 1,012,000 shares issued pursuant to warrant exercises were also subject to escrow conditions and were added to the original remaining escrow amount. These additional shares will be released in equal tranches pursuant to the above release schedule.

## **ARTICLE 8 DIRECTORS AND OFFICERS**

### **8.1 Name, Occupation and Security Holdings**

The following are the names, province and country of residence of the directors and officers of the Corporation, the positions and offices they hold with the Corporation and their principal occupations during the five preceding years.

Each director will hold office until the next annual general meeting of the Shareholders of the Corporation unless his office is earlier vacated in accordance with the *Business Corporations Act* (British Columbia) and the Articles of the Corporation.

<b>Name, Province or State and Country of Residence, and Position with the Corporation</b>	<b>Present Principal Occupation, Business or Employment</b>	<b>Date Served as Director / Officer Since</b>
James Walchuck BC, Canada  President, Chief Executive Officer and Director	President, CEO and Director of Encanto Potash Corp., since January 1, 2009. Chief Executive Officer of Tournigan Gold Corporation (“Tournigan”), a company listed on the Exchange, from September 2005 to July 2008; President of Tournigan from May 2005 to July 2008.	December 18, 2008
Robert McMorran BC, Canada  Chief Financial Officer and Director	President of Malaspina Consultants Inc., a private company providing accounting and administrative services to junior public companies, since 1997.	March 6, 2009
Gordon Keep BC, Canada  Non-Executive Chairman and Director	Executive Vice-President of Fiore Financial Corporation, a private financial advisory firm.	December 18, 2008

<b>Name, Province or State and Country of Residence, and Position with the Corporation</b>	<b>Present Principal Occupation, Business or Employment</b>	<b>Date Served as Director / Officer Since</b>
Hon. John D. Reynolds P.C. BC, Canada  Director	Since 2006, a senior strategic advisor with McMillan LLP; from 1997 to 2006 Member of Parliament for West Vancouver – Sunshine Coast.	December 18, 2008
Tyler Cran AB, Canada  Director	President of T.D. Cran Investments Ltd., a private holding company in the energy and real estate industries and President of Carefree Energy Partners Inc., a private energy and resource company active in the oil and gas exploration and development business and renewable fuel industry.	March 6, 2009
Brian Thurston BC, Canada  Director	Owner Operator of CANMEX Consulting and Leasing, President, CEO and Corporate Secretary of Red Star Capital.	August 12, 2009
Ross Moulton AB, Canada  Vice President, Exploration	Co-founder of Encanto Resources Ltd., Consulting geologist currently working for Encanto Potash Corp, Sundance Energy Corp. (Expl. V.P) and Minergy Resources, a private international base metals and oil and gas exploration company incorporated in Mauritius	July 13, 2009
James L. Harris BC, Canada  Secretary	Corporate and securities lawyer; Chairman of the Board of Entrée Gold Inc.	December 18, 2008

As at the date of this AIF the directors and officers of the Corporation, as a group, own, directly or indirectly, 9,788,669 Common Shares of the Corporation, representing approximately 3.88% of the total issued and outstanding Common Shares of the Corporation.

#### Audit Committee

The Audit Committee is responsible for reviewing the Corporation's financial reporting procedures, internal controls and the performance of the Corporation's external auditors. The Audit Committee is also responsible for reviewing the quarterly and annual financial statements of the Corporation prior to the approval by the full Board of Directors. The Audit Committee has direct communication channels with the external auditors and has, on occasion, met with them in the absence of management. The members of the Audit Committee are Gordon Keep, John Reynolds and Tyler Cran.

### Compensation Committee

The Compensation Committee of the Corporation is a committee of the Board of Directors whose primary function is to monitor and make recommendations to the Board in respect of the total compensation paid by the Corporation to its senior executives. The members of the Compensation Committee are Brian Thurston, Gordon Keep, and John Reynolds.

### Corporate Governance Committee

The Corporate Governance Committee is responsible for overseeing and assessing the functioning of the Board and the committees of the Board and for the development, recommendation to the Board, implementation and assessment of effective corporate governance principles. The members of the Corporate Governance Committee are Tyler Cran, Gordon Keep, and John Reynolds.

### **Directors and Officers**

The following sets forth particulars on the directors and officers of the Corporation, including the positions they hold with the Corporation, their responsibilities with the Corporation, the proportion of their time devoted to the Corporation, and their relevant educational background. The directors and officers will devote their time to the Corporation on an as needed basis.

**James Walchuck:** Mr. Walchuck is registered as a Professional Engineer in Ontario and British Columbia. He received a Bachelor of Science from Dalhousie University in Halifax, Nova Scotia in 1977 and a Bachelor of Engineering from Technical University of Nova Scotia in 1979. Mr. Walchuck has over thirty years of national and international experience in the mining industry, including work in North America, Slovakia, the UK, Ghana, and Tanzania. From September 2005 until July 2008, Mr. Walchuck has served as President and CEO, of Tournigan Gold Corporation, a company listed on the Exchange, with advanced gold and uranium/molybdenum projects in Europe and exploration projects in North America. He served as VP Mining of Tournigan from March 2004 prior to his appointment as President and COO in May 2005. He was the Manager Mining for Barrick at the Bulyanhulu Gold Mine in Tanzania from 1999 to 2002. Prior to his six year involvement with Bulyanhulu (first as Sr. Project Manager with Sutton Resources then as Manager Mining for Barrick), Mr. Walchuck was Manager of Mining and then Manager - Corporate Operations for Royal Oak Mines. This was preceded by a five year term as Chief Mining Engineer for Tarkwa Goldfields in Ghana. Currently, Mr. Walchuck is the President, CEO and a Director of the Corporation. He also serves as a director for several natural resource companies.

**Robert McMorran:** Mr. McMorran is a chartered accountant and is the president of Malaspina Consultants Inc., a private company that provides accounting and administrative services to junior public companies. Mr. McMorran received a Bachelor of Science from Simon Fraser University in 1976 and a Licentiate in Accounting from the University of British Columbia in 1978. Mr. McMorran has over 25 years experience in dealing with financial reporting and the administration of public companies, the last fourteen years through Malaspina. During this time Mr. McMorran has served as an officer and/or director of several public companies, primarily involved in mineral exploration and development. He was CFO of the Canada Dominion Resources Group family of flow-through limited partnerships from 1998 to 2006. He is currently a director and or officer of several junior resource companies. Mr. McMorran is currently the CFO and a Director of the Corporation.

**Gordon Keep:** Gordon Keep has extensive business experience in investment banking and creating public natural resource companies. Mr. Keep currently is Executive Vice-President of Fiore Financial Corporation, a private boutique merchant banking firm. He also serves as an officer and/or director for several natural resource companies. From January 2001 to July 2007, Mr. Keep was Managing Director of Corporate Finance at Endeavour Financial Corporation, September 1997 until March 2004, he was Senior Vice President and a director of Lions Gate Entertainment Corp., and from April 1987 until October 1997, he was Vice President, Corporate Finance in the Natural Resource group of Yorkton Securities Inc. He obtained his B.Sc. in Geological Science from Queen's University in 1979 and his Master's of Business Administration from the University of British Columbia in 1983 and is a Professional Geologist in the province of British Columbia.

**Tyler Cran:** Mr. Cran had a career as a land manager in the oil industry starting in 1973. Since 1985, Mr. Cran has been active in both the energy and real estate industries in a variety of management or executive capacities. Currently, Mr. Cran is a semi-retired businessman and is from time to time a director and senior officer of both public and private companies

**Hon. John D. Reynolds, P.C.:** Mr. John Reynolds has served as both an MLA in British Columbia from 1983 to 1991 and as a Member of Parliament in Ottawa, Ontario in 1972 to 1977 and then from 1997 to 2006. Prior to his recent retirement from Federal politics he was the Official Opposition House Leader for the Conservative Caucus. Previously he had been leader of the Opposition in the House of Commons. He is currently a Member of the Queen's Privy Council for Canada and has been a Senior Strategic Advisor for the law firm McMillan LLP since March 2006. He currently sits on multiple boards of mineral exploration companies listed on the exchange, and is President of Gainey Consultants Inc., since January 2006.

**Brian Thurston:** Mr. Thurston, HBSc (Geology) is a mining executive with over 19 years of exploration management and operational experience working on projects in Africa, North and South America. He is a Director of various private and public companies focused mainly on the mining sector. Mr. Thurston provides consulting and leasing services to mining companies.

**Ross Moulton:** Mr. Moulton has more than 35 years of oil and gas experience with various private and public exploration and production companies. Prior experience includes 6 years at Texaco Exploration Canada Ltd and 18 years at Phillips Petroleum Corporation. He has also been a Director of Mart Resources, Exploration V.P. for Centurion Energy Ltd, and has acted as consultant for numerous companies including Devon Energy and Anderson Exploration. Mr. Moulton is a professional geologist. Most recently he was Exploration Vice President at Arapahoe Energy Corp.

**James Harris:** Mr. James Harris obtained a B.A. in 1974 from the University of Calgary and in 1977 his LL.B. from the University of Alberta Law School in Edmonton, Alberta. He was called to the Alberta Bar in 1979, became a member of the Law Society of England in 1984, and was called to the British Columbia Bar in 1985. With over twenty years of experience, Mr. Harris specialises in corporate, securities, mining and general business law. His clients are or have been listed on the TSX Venture and Toronto Stock Exchanges, and the OTC Bulletin Board and NASDAQ in the United States

## **8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Other than as described below, during the ten years preceding the date of this Annual Information Form and as at the date of this Annual Information Form, no director or executive officer of the Corporation has, to the knowledge of the Corporation, been a director, chief executive officer or chief financial officer of any company that:

- i. was subject to a cease trade order or similar order or an order that denied the relevant company success to any exemption under securities legislation. that was in effect for a period of more than 30 consecutive days, and that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- ii. was subject to a cease trade order or similar order or an order that denied the relevant company success to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days, and that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

On July 3, 2008, CY Oriental Holdings Ltd., a company of which Mr. Reynolds is a director, was cease traded by order of the British Columbia Securities Commission for a failure to file financial statements and related management discussion and analysis within the required time period.

On June 20, 2002, Onsat.net Canada Inc., a company of which Mr. Cran was a director, was cease traded by order of the British Columbia Securities Commission for failure to file financial statements in a timely manner. In addition, on July 5, 2002, a similar cease trade order was issued by the Alberta Securities Commission.

On March 3, 2010, Oil Sands Property Holdings Ltd., Oil Sands Development Corporation and Oil Sands Hotel (2007) Ltd., three related companies carrying on one common business, were the subject of a Receivership Order from the Court of Queen's Bench of Alberta. At the time of the receivership order, Tyler Cran, was a director and officer of these companies.

On December 3, 2008, Merit Mining Corp., a company from which Robert McMorran and James Walchuck had resigned their offices, but which they respectively had within the prior 12 months been the Chief Financial Officer and a Director of, filed a Notice of Intention to Make a Proposal under the Bankruptcy and Insolvency Act. On April 14, 2009, unsecured creditors approved the Proposal and on May 6, 2009, the Supreme Court of British Columbia made an Order approving the Proposal.

During the ten year period preceding the date of this Annual Information Form and as at the date of this Annual Information Form, no director or executive officer of the Corporation or a securityholder who holds a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (i) is a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (ii) has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

### **8.3 Conflicts of Interest**

The directors and officers of the Corporation are directors, officers and/or shareholders of other private and publicly listed corporations, including corporations that engage in mineral exploration and development. Conflicts may arise between their duties to the Corporation and their duties to such other corporations. All such conflicts will be dealt with pursuant to the provisions of the applicable corporate legislation. In the event that such a conflict of interest arises at a meeting of the Directors, a Director affected by the conflict must disclose the nature and extent of his interest and abstain from voting for or against matters concerning the matter in respect of which the conflict arises. Directors and executive officers are required to disclose any conflicts or potential conflicts to the board of Directors as soon as they become aware of them.

### **ARTICLE 9 PROMOTERS**

The Corporation does not presently have, and has not within the last two most recently completed financial years had, any promoters.

### **ARTICLE 10 LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Management knows of no legal proceedings, contemplated or actual, involving the Corporation which could materially affect the Corporation.

Management knows of no:

- (a) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2010; or
- (b) any other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or
- (c) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2010.

### **ARTICLE 11 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

For purposes of the following discussion, "**Informed Person**" means (a) a director or executive officer of the Corporation; (b) a director or executive officer of a person or company that is itself an Informed Person or a subsidiary of the Corporation; (c) any person or company who beneficially owns, or controls or directs, directly or indirectly, voting securities of the Corporation or a combination of both carrying more than 10 percent of the voting rights attached to all outstanding voting securities of the Corporation, other than the voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Corporation itself if it has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

Except as disclosed elsewhere in this Annual Information Form or in the Notes to the Corporation's financial statements for the financial year ended December 31, 2010, none of:

- (1) the Informed Persons of the Corporation while serving in such capacity;

- (2) the proposed nominees for election as a director of the Corporation; or
- (3) any Associate or Affiliate of the foregoing persons,

has, during any of the financial years ended December 31, 2010, 2009, or 2008 and during the current financial year, any material interest in any transactions or any proposed transactions which has materially affected or will materially affect the Corporation.

#### **ARTICLE 12 TRANSFER AGENT AND REGISTRAR**

The Registrar and Transfer Agent for the Corporation's Common Shares is Computershare Investor Services Inc., 2nd Floor, 510 Burrard Street, Vancouver, BC V6C 3B9.

#### **ARTICLE 13 MATERIAL CONTRACTS**

The following is a list of all contracts which the Corporation or its subsidiaries are a party to, and which currently can reasonably be regarded as material to a securityholder of the Corporation:

- (1) a Joint Venture Agreement ("JVA") entered into between Encanto Resources Ltd., Muskowekwan First Nation ("MFN"), and Muskowekwan Resources Ltd. ("MRL") dated October 16, 2010,
- (2) a financial advisory and office facilities agreement (the "Endeavour Mandate") with Endeavour Financial Ltd. of Vancouver, British Columbia ("Endeavour") effective July 17, 2008 as amended July 31, 2009, and October 1, 2011.

Under the terms of the Endeavour Mandate, Endeavour is currently paid a monthly work fee of \$10,000. A success fee is payable to Endeavour on completion of any business combination or similar transaction equal to 2% of the value of the transaction. In the event of an equity financing 1% of the gross proceeds of any equity offering completed by the Corporation and/or its subsidiaries or affiliated companies. The term of the Endeavour Mandate is until August 11, 2011, after which time it will be in force on a month-to-month basis.

#### **ARTICLE 14 INTERESTS OF EXPERTS**

The following are the persons or companies:

1. who were named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or relating to, the fiscal year ending December 31, 2010, being the Corporation's most recently completed financial year; and
2. whose profession or business gives authority to the statement, report or valuation made by the person or company:
  - (a) BDO Canada LLP, Chartered Accountants:
    - (i) provided an auditor's report dated April 28, 2011 in respect of the Corporation's financial statements for the years ended December 31, 2010 and 2009 and incorporated by reference into this Annual Information Form; and

BDO Dunwoody LLP is independent in accordance with the auditors' rules of professional conduct in British Columbia.

- (b) Behre Dolbear & Company, Ltd.:
  - (i) provided a technical report dated May 26, 2009 in respect of the Saskatchewan Potash Properties Ochapowace/Chacachas Prospect T29, R5-6W2, Piapot/Muscowpetung Prospect, T21, R17-18W2, Daystar Prospect T29, R16W2.
- (c) North Rim Exploration Ltd.:
  - (i) provided a technical report dated April 29, 2011 in respect of the potash resource assessment for the Muskowekwan First Nations Home Reserve, Saskatchewan, Canada INAC Permit #368519.

#### **ARTICLE 15 ADDITIONAL INFORMATION**

Additional information concerning the Corporation is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which may be accessed at [www.sedar.com](http://www.sedar.com). Copies of such information may also be obtained on the Corporation's website at [www.encantopotash.com](http://www.encantopotash.com).

Additional financial information is provided in the Corporation's Financial Statements and the Management's Discussion and Analysis for the year ended December 31, 2010. Copies of such documents may be obtained in the manner set forth above.