MAGNA RESOURCES LTD.
An Exploration Stage Enterprise

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2011 and 2010

Management’s Responsibility for Financial Reporting

The accompanying financial statements of Magna Resources Ltd. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company’s circumstances. The significant accounting policies of the Company are summarized in Note 2 to the financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the years presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date and for the periods presented by the audited financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists that Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)

Rudy De Jonge
President and CEO

(signed)

Alec Peck
CFO

Independent Auditors' Report

To the Shareholders of Magna Resources Ltd.:

We have audited the accompanying consolidated financial statements of Magna Resources Ltd., which comprise the consolidated balance sheets as at July 31, 2011 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Magna Resources Ltd. as at July 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1in the financial statements which indicates that the Company incurred an accumulated deficit of $1,247,477. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The financial statements as at and for the year ended July 31, 2010 were audited by Chang Lee LLP of Vancouver, Canada, prior to its merger with MNP. Chang Lee expressed an unmodified opinion on these statements in their report dated November 26, 2010.

MNP LLP
Chartered Accountants

Vancouver, British Columbia
November 25, 2011

MAGNA RESOURCES LTD.
An Exploration Stage Enterprise

CONSOLIDATED BALANCE SHEETS
AS AT JULY 31,

		2011		2010
ASSETS				
Current				
Cash and cash equivalents	**$**	**34,250**	$	58,311
HST receivable		**8,232**		1,176
Marketable securities (Note 3)		**106,382**		-
Other assets (Note 3)		**-**		49,433
Other receivable		**2,766**		-
		151,630		108,920
Other Assets				
Website development		**4,633**		-
Mineral Properties (Note 3)		**294,179**		137,100
	$	**450,442**	$	246,020
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**$**	**51,392**	$	56,501
Future income tax liabilities (Note 5)		**9,372**		-
		60,764		56,501
Shareholders' Equity				
Share capital (Note 4b)		**1,322,961**		1,220,052
Contributed surplus (Note 4b)		**225,103**		225,103
Warrants (Note 4b)		**89,091**		-
Deficit		**(1,247,477)**		(1,255,636)
		389,678		189,519
	$	**450,442**	$	246,020

Nature of Operations (Note 1)
Commitments (Note 9)
Subsequent Events (Note 10)

On behalf of the Board:

"*Rudy de Jonge*" ______________________ President — Rudy de Jonge

"*Darryl Yea*" ______________________ Director — Darryl Yea

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

MAGNA RESOURCES LTD.
An Exploration Stage Enterprise

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED JULY 31,

		2011		2010
EXPENSES				
Accounting and audit	**$**	**25,009**	$	17,666
Bank charges and interest		**406**		658
Dissemination		**175**		-
Foreign exchange		**4,086**		3,127
General office		**239**		358
Legal fees		**8,532**		23,254
Licenses		**710**		-
Management fees		**10,000**		-
Meals and entertainment		**701**		-
Transfer agent and filing fees		**10,181**		11,427
Travel		**1,225**		-
LOSS BEFORE OTHER INCOME AND OTHER EXPENSES		**(61,264)**		(56,490)
Other income and (expenses)				
Unrealized gain on marketable securities		**65,002**		-
Gain on disposal of property		**14,171**		-
NET INCOME (LOSS) BEFORE INCOME TAXES		**17,909**		(56,490)
Future income tax expense		**(9,750)**		-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**8,159**		(56,490)
DEFICIT, BEGINNING OF THE YEAR		**(1,255,636)**		(1,199,146)
DEFICIT, END OF YEAR	**$**	**(1,247,477)**	$	(1,255,636)
Earnings per share - basic	**$**	**0.00**	$	(0.01)
Earnings per share - diluted	**$**	**0.00**	$	(0.01)
Weighted average number of common shares – basic		**10,550,984**		10,010,000
Weighted average number of common shares – diluted		**10,677,321**		10,010,000

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

MAGNA RESOURCES LTD.
An Exploration Stage Enterprise

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31,

	2011	2010
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 8,159**	$ (56,490)
Adjustment for items not involving cash:		
Increase in marketable securities	**(65,002)**	-
Gain on disposal of mineral	**(14,171)**	-
Future income tax expense	**9,750**	-
Foreign exchange	**4,086**	-
Changes in non-cash operating working capital:		
Increase in GST receivables	**(7,056)**	4,449
(Increase) decrease in other receivable	**(2,840)**	-
(Increase) decrease in other assets	**-**	(49,433)
(Increase) decrease in prepaid expenses	**-**	36,747
Increase (decrease) in accounts payable and accrued liabilities	**(4,285)**	(4,288)
Net cash flows used in operating activities	**(71,359)**	(69,015)
CASH FLOWS FROM (USED IN) INVESTMENT ACTIVITIES		
Mineral properties acquisition	**(156,606)**	(137,100)
Proceeds from disposal of mineral property	**15,300**	-
Website development	**(4,633)**	-
Net cash flows used in investing activities	**(145,939)**	(137,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued for cash (net of issuance cost)	**192,000**	-
Adjustment to share issuance	**-**	207
Net cash flows from (used in) financing activities	**192,000**	207
Effect of foreign exchange rate	**1,237**	5,142
Net change in cash and cash equivalents	**(24,061)**	(200,766)
Cash and cash equivalents, beginning of year	**58,311**	259,077
Cash and cash equivalents, end of year	**$ 34,250**	$ 58,311
Supplemental disclosure with respect to cash flows:		
Interest paid in cash	**$ -**	$ -
Income taxes paid in cash	**$ -**	$ -

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

1. NATURE OF OPERATIONS

Magna Resources Ltd. (the "Company") was incorporated on June 5, 2006 under the laws of British Columbia. The Company's principal business activity is the acquisition and exploration of mineral properties.

The amounts shown as mineral properties and deferred exploration expenditures represent net costs to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The recoverability of these amounts and any additional amounts required to place these properties into commercial production are dependent upon certain factors. These factors include the existence of ore deposits sufficient for commercial production and the Company's ability to obtain the required additional financing necessary to develop its mineral properties.

The Company has a working capital as at July 31, 2011 of $90,866 (2010 – $52,419) and an accumulated deficit of $1,247,477 (2010 - $1,255,636). The Company has net income of $8,159 for the year ended July 31, 2011 (2010 – net loss of $56,490). These financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue as a going concern is in substantial doubt and is dependent upon the ability of the Company to obtain additional financing to meet its operating obligations and repaying its liabilities.

Failure to arrange adequate financing on acceptable terms would have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going-concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company presented in Canadian dollars have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies are summarized below:

Basis of Consolidation

These audited consolidated financial statements include the accounts of the Company and its 50% interest in American Potash LLC ("American Potash") joint venture, a Nevada limited liability corporation. The joint venture has been accounted for in the Company's audited consolidated financial statements using the proportionate consolidation method, whereby the Company records on a line-by-line basis its proportionate share of the assets, liabilities, revenues and expenses of the investees. All intercompany balances and transactions are eliminated on consolidation.

Estimates, Assumptions and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Areas requiring significant management estimates relate to the determination of impairment of mineral properties, asset retirement obligation, expected tax rates for future income tax recoveries, and fair value of stock-based payments.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. There were no cash equivalents as at July 31, 2011 and 2010.

Marketable Securities

Marketable securities are classified as held for trading securities and are recorded at market value. Unrealized holding gains and losses on held for trading securities are included in the statement of operations in accordance with the Company's designation of marketable securities as held for trading assets.

Foreign Currency Translation

The Company's reporting currency is CAD dollars. American Potash's functional currency is US dollars. It is considered to be an intergrated operation. Accordingly, monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Income and expenses are translated at rates which approximate those in effect on transaction dates. Gains or losses arising on conversion are included in income or expense.

Asset Retirement Obligations

Asset retirement obligations represent the estimated discounted net present value of statutory, contractual or other legal obligations relating to site reclamation and restoration costs that the Company will incur on the retirement of assets and abandonment of mine and exploration sites. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any significant asset retirement obligations.

Mineral Properties

The cost of mineral properties and related exploration and development costs are capitalized and deferred until the properties are placed into production, sold or abandoned. These costs will be amortized against revenue from future commercial production or written off if the properties are sold, allowed to lapse, abandoned or impaired. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. It is reasonably possible that economically recoverable reserves may not be discovered and accordingly a material portion of the carrying value of mineral properties and related deferred exploration costs could be written off. Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected title defects.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Website Development

Website development costs are expensed as incurred unless they meet all the criteria for deferral and their recovery is reasonably assured in which case these costs are capitalized. As of July 31, 2011, $4,633 of website development costs is capitalized and the website is under construction (2010 - $nil). These costs consist of website development costs paid to a third party and meet the capitalization criteria. These capitalized costs are amortized based on their estimated useful life over three years and expensed to operations. Internal costs related to the development of the website content are charged to operations as incurred.

Impairment of Long-Lived Assets

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3063 ("Section 3063"), "Impairment of Long-Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal.

If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as at July 31, 2011 and 2010.

Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of the assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income taxes and liabilities of a change in rates is included in operations in the period that includes the substantive enactment date where the probability of a realization of a future income tax asset is less likely than not, a valuation allowance is recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-Based Compensation

The Company accounts for stock options granted using CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this Handbook section, the Company is required to expense, over the vesting period, the fair value of the options and awards granted. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Share Purchase Warrants

The Company bifurcates units consisting of common shares and share purchase warrants using the relative fair value approach by allocating the proceeds received from private placement offerings between the shares and the warrants based on their relative fair values at the time of issuance. The fair value of the shares is measured using the market trading price at the date of issuance and the fair value of the warrants is measured using Black-Shcoles model.

Risk Management

The Company is engaged in mineral exploration and development and is accordingly exposed to environmental risks associated with mineral exploration activity.

The Company is currently in the initial exploration stages on its property interests and has not determined whether significant site reclamation costs will be required. The Company would only record liabilities for site reclamation when reasonably determinable and when such costs can be reliably quantified.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net earnings and other comprehensive income (loss) and includes all changes in total equity during a period, except for those resulting from investments by owners and distributions to owners. Unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments on hedges of net investments in self-sustaining foreign operations are recorded in the statement of comprehensive income (loss) and included in accumulated other comprehensive income (loss) until recognized in the statement of operations. Accumulated other comprehensive income (loss) is included on the balance sheet as a separate component of shareholders' equity.

Financial Instruments

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of the financial instruments depends on their initial classification.

The Company designated its financial instruments as follows:

- Cash and cash equivalents and marketable securities are classified as held-for-trading;
- Other receivable as loans and receivables;
- Accounts payable and accrued liabilities as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair value

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observability of the inputs used in the measurement. For the years ended July 31, 2011 and 2010, the fair value of cash and cash equivalents was measured using Level 1 inputs.

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value of cash and cash equivalents, marketable securities, other receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments or their capacity of prompt liquidation.

Financial risk management

The Company's activities expose it to a variety of financial risks including credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada. Management believes that the credit risk with respect to cash and cash equivalents is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient capital to meet liabilities when due after taking into account the Company's holdings of cash and cash equivalents that might be raised from equity financings. As at July 31, 2011, the Company had a cash and cash equivalents balance of $34,250 (2010 - $58,311) and current liabilities of $60,764 (2010 - $56,501). All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 60 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. With respect to financial assets, the Company's practice is to invest cash in cash equivalents in order to maintain liquidity. Fluctuations in interest rates affect the fair value of cash equivalents. The interest rate risk is remote as there were no cash equivalents as of July 31, 2011.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to mineral property acquisition costs that are denominated in US Dollars. Sensitivity to a plus or minus 5% change in the foreign exchange rates would affect net loss by approximately $60 (2010: $ Nil) for the year ended July 31, 2011.

New Accounting Pronouncements

In January 2009, the CICA issued Section 1582 “Business Combinations” to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (“IFRS”). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” which replace Section 1600 “Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 “Business Combinations”.

On February 13, 2008, Canada's Accounting Standard Board confirmed January 1, 2011 as the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards (“IFRS”). The official changeover date will apply for interim and financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company has determined that the key elements of this IFRS changeover on the Company will be in the areas of accounting for resource properties' acquisition and exploration costs, impairment of long-lived assets, accounting for share capital including stock options, warrant valuations, and flow-through shares and general IFRS disclosure requirements.

3. MARKETABLE SECURITIES AND MINERAL PROPERTIES

US Potash Prospects

American Potash, owned 50% by each of the Company and Confederation Minerals Ltd. (“Confederation”), has entered into an option agreement with Sweetwater River Resources LLC (“Sweetwater”), John Glasscock and Kent Ausburn (the “Sweetwater Option Agreement”) (collectively called the “Optionors”), to acquire pending applications to the United States Bureau of Land Management (“BLM”) for Utah property and the State of Arizona for exploration permits, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. On November 2, 2010 the Sweetwater Option Agreement was amended to exclude the Arizona permits and properties.

Under the Sweetwater Option Agreement, American Potash possesses exclusive priority application rights for 31 potash exploration permits covering approximately 63,000 acres (255 sq. km.) of land in the Paradox Basin, Utah. 24,040 acres (97 sq. km.) of the total 63,000 acres are within a proposed Known Potash Lease Area (“KPLA”), which may become available only under a separate competitive bidding process. KPLA boundaries are currently under review and until such time that they are defined, the size of the final area of interest remains uncertain. During the course of application, the Company incurred geological works of $294,179 that were required by the United States Bureau of Land Management (“BLM”) for preparation of exploration plans for the Utah properties. The permits in Utah are pending for approval from the BLM.

The Sweetwater Option Agreement entitles American Potash to acquire a 100% interest in permits, subject to a 2% royalty to the Optionors which may be bought back for $2,000,000 USD. The option may be exercised by having Confederation and the Company each to pay a total of $135,000 USD and each to issue in aggregate, 1,000,000 shares to the Optionors upon receiving grant of permits for Utah property of not less than 25,000 acres (the “Grant Date”). The Company’s payment and share issuance obligations under the agreement are as follow:

- $35,000 USD upon signing the option agreement (paid);
- 100,000 common shares of the Company on the Grant Date;
- $25,000 USD cash and 300,000 common shares of the Company on or before the first anniversary of the Grant Date;
- $25,000 USD cash and 300,000 common shares of the Company on or before the second anniversary of the Grant Date;
- $25,000 USD cash and 300,000 common shares of the Company on or before the third anniversary of the Grant Date; and
- $25,000 USD cash on or before the fourth anniversary of the Grant Date.

The option period is the earlier of the fourth anniversary of the Grant Date or December 31, 2018.

The Company will pay a finder’s fee in connection with this acquisition. The fee will be US $3,500 and 10,000 common shares of the Company, payable on the Grant Date, and thereafter 10% of the cash and stock payments made under the option agreement, payable as and when such payments are made.

In addition, American Potash has nine non-contiguous Utah State trust land potash lease units in the potash-bearing Paradox Basin in Grand County, Utah. Each lease unit consists of one State section and covers a contiguous area of approximately one square mile. The nine lease units total approximately 9.5 square miles or 6,090 acres. The nine State potash lease units are all within the border of a large block of contiguous BLM potash prospecting permit applications held exclusively by American Potash, separated into contiguous north and south blocks by a proposed BLM Known Potash Lease Area. American Potash has submitted documentation requesting drill permits and is awaiting the granting thereof.

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)

Lithium Placer Mining Claims

In July, 2011 American Potash acquired 160 Federal lithium placer mining claims totally 3,200 acres in northwestern Paradox Basin, southeast Utah, USA. These claims are located on BLM administered Federal lands and are staked over a portion of existing American Potash BLM pending potash prospecting permit areas.

During the year ended July 31, 2011 the Company incurred $157,079 in Utah property acquisition expenditures.

See also Note 10a.

Arizona property

On November 2, 2010, American Potash agreed to amend the Sweetwater Option Agreement to remove the Arizona permits and Arizona properties from the agreement because Sweetwater wanted to grant the option to Passport Potash Inc. ("Passport") to acquire 100% of Sweetwater's rights and interest in the Arizona properties, subject to a 2% royalty, in consideration of payments. In return, Sweetwater agreed to compensate American Potash for the expenditures already incurred by allocating a portion of option payments to American Potash. The allocation is based on a pre-determined formula. As a result, American Potash is entitled to 70.69% of the following:

i. 500,000 free trading shares (received) of Passport (the "Passport Shares") on the earlier of December 15, 2010 or within five business days of the date of receipt of the TSX Exchange acceptance of the option agreement (the "Acceptance Date"); and

ii. Three cash payments of $30,000 each within 12 (paid), 18 and 24 months of the Acceptance Date.

iii. Passport has the right, but not the obligation, to make the cash payments. Under the Agreement, Passport is subject to a 2% NSR royalty, with Passport retaining the option to buy one-half of the royalty for $150,000 USD and the remaining one-half of the royalty for an additional $150,000 USD.

The allocation of the payments and the royalty to Sweetwater and American Potash is according to each of their respective percentage of total expenses incurred by them on the Arizona permits.

During the year ended July 31, 2011 the Company received as consideration a 50% proportionate interest in 353,450 common shares of Passport Potash Inc. pursuant to an amendment of option agreement dated November 2, 2010 for a total of $91,897. The market value of 50% of the 353,450 common shares of Passport Potash Inc., being 176,725 shares held by the Company, as of July 31, 2011, was $106,382 (2010 - $Nil).

	2011	2010
Acquisition Cost - Potash		
Balance, beginning of year	**$ 137,100**	$ -
Acquisitions during the year	**157,079**	137,100
Balance, end of year	**$ 294,179**	$ 137,100

4. SHARE CAPITAL

a) Authorized: Unlimited common shares with no par value

b) Issued and Outstanding:

	Number of Shares	**Common share**	**Warrants**	**Contributed surplus**
Balance, July 31, 2009	10,010,000	$ 1,219,845	$ -	$ 255,103
Adjustment to share issuance costs	-	207	-	-
Balance, July 31, 2010	10,010,000	1,220,052	-	255,103
Shares issued for cash @ $0.16 per share	1,200,000	192,000	-	-
Fair value of warrants	-	(89,091)	89,091	-
Balance, July 31, 2011	11,210,000	$ 1,322,961	$ 89,091	$ 255,103

During the year ended July 31, 2011, the Company completed a non-brokered private placement raising an aggregate of $192,000 by the issuance of 1,200,000 units (“Units”) at a price of $0.16 per Unit. Each Unit consists of one common share and one share purchase warrant (“Warrant”). Each Warrant is exercisable into one additional common share for a period of five years at a price of $0.20 per share (“Warrant Share”), expiring February 26, 2016. The Warrants were valued at $207,777 based on the Black Scholes model which utilizes the following assumptions: expected dividend yield of nil, an expected volatility of 131%, expected life of 5 years and a risk free interest rate of 2.60%. The relative fair value allocated is $89,091.

b) Escrow Shares

As at July 31, 2011 the Company has 1,089,000 (2010 – 3,267,000) common shares held in escrow by the Company’s transfer agent. 10% of the common shares in escrow were released on October 16, 2008, the date the Company’s securities were listed on a Canadian exchange, 15% are released every six months thereafter.

d) Stock Options

The Company has a stock option plan whereby the Company is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable as at July 31, 2009	1,200,000	$ 0.24
Expired stock options – February 7, 2010	(142,500)	(0.25)
Expired agent options – October 16, 2010	(200,000)	(0.25)
Outstanding and exercisable as at July 31, 2011 and 2010	857,500	$ 0.25

4. SHARE CAPITAL (Cont'd)

Exercise price	Number of options	Expiry Date
$ 0.25	857,500	June 8, 2014

5. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Income (Loss) before income taxes	$ 8,159	$ (56,490)
Income tax recovery at statutory rates of 26.5% (2010 – 28.5%)	2,162	(16,460)
Temporary difference	(5,374)	(5,780)
Permanent difference	958	1,248
Non-deductible expense for tax	(17,190)	-
Change in valuation allowance	29,194	20,992
Total income tax expense (recovery)	$ 9,750	$ -

Details of future income tax assets are as follows:

	2011	2010
Future income tax assets (liabilities):		
Non-capital losses available for future periods	$ 117,058	$ 106,314
Benefit of share issuance costs	10,141	16,123
Marketable securities	(9,372)	-
Valuation allowance	(127,199)	(122,437)
Net future income tax assets (liabilities)	$ (9,372)	$ -

The Company has approximately $473,698 of non-capital losses, which may be applied to reduce taxable income in future years. If not utilized, the losses expire through to 2031, as follows:

2027	$	10,228
2028	$	76,344
2029	$	241,781
2030	$	72,441
2031	$	72,904
Total	$	473,698

Future tax benefits which may arise as a result of these non-capital losses have not been recognized in theses financial statements and have been offset by a valuation allowance.

6. RELATED PARTY TRANSACTIONS

On June 1, 2011, the Company entered into an agreement with St. Cloud Mining Services Inc., a company wholly owned by a director of the Company, to provide management/consulting services to the Company at a rate of $5,000 per month. As at July 31, 2011, $ 30,600 is payable to St. Cloud Mining Services Inc.

7. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of any identified business opportunities and to maintain a flexible capital structure for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalent, accounts payable and accrued liabilities.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture arrangements, acquire or dispose of assets or adjust the amount of cash.

The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable growth. The Company is not subject to externally imposed capital requirements.

8. GEOGRAPHIC INFORMATION

The Company's activities are all in one industry segment of mineral property acquisition and exploration. The Company's mining operations are centralized whereby management of the Company is responsible for business results and the everyday decision-making. The Company's operations therefore are segmented on a geographic basis. All of the Company's resource properties are located in the United States. The Company's assets are located in the following geographic locations:

	2011	2010
Total assets:		
Canada	$ 31,934	$ 58,170
United States	418,508	187,850
	$ 450,442	$ 246,020

9. COMMITMENTS

a) See Note 3.

b) On April 1, 2011, American Potash renewed a consulting agreement with an independent party to provide advice and consultation to American Potash regarding exploration, leasing and mining on public lands. Compensation is $5,000 USD for 35 hours of service per month for a period of one year. Additional hours to complete services will be billed at $165 USD per hour.

c) On June 1, 2011, the Company entered into an agreement with St. Cloud Mining Services Inc. (wholly owned by one of the directors), to provide management/consulting services to the Company at a rate of $5,000 per month.

10. SUBSEQUENT EVENTS

a) In September, 2011 American Potash acquired an additional 960 acres of potash and lithium leases as part of the Green River Potash Project in the Paradox Basin, Southeast Utah.

b) On September 25, 2011, the Company announced agreement in principal for a private placement of $2,000,000 by Confederation into the Company and the sale of Confederation's 50% interest in American Potash to the Company for shares (collectively the "Transaction"). The Transaction will increase Confederation's effective interest in American Potash to over fifty six percent. Prior to completion of the Transaction, the Company will complete a 2 for 1 subdivision (the "Stock Split") of its outstanding common shares, resulting in 22,240,000 common shares of the Company being issued and outstanding. Thereafter, Confederation will subscribe for up to 6,666,666 common shares of the Company at $0.30 per share and transfer to the Company all shares of American Potash owned by Confederation in exchange for an additional 22,420,000 common shares of the Company, thereby receiving a total of 29,086,666 shares of the Company. This transaction is subject to the board of directors, shareholders and regulatory approval.

c) Subsequent to year end, American Potash disposed of its marketable securities. Magna's portion is comprised of 175,475 common shares and received gross proceeds of $86,726 upon disposition. A total commission expense of $985 has been paid in relation to the sale of the marketable securities.