ENCANTO POTASH CORP.

Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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Independent Auditor's Report

To the shareholders of Encanto Potash Corp.

We have audited the accompanying consolidated financial statements of Encanto Potash Corp. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted 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 auditor's 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 presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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 Encanto Potash Corp. and its subsidiary as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company has not yet achieved profitable operations and has accumulated losses of $43,110,991 since inception. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants
Vancouver, British Columbia
April 28, 2016

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ENCANTO POTASH CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Note	December 31 2015 $	December 31 2014 $	January 1 2014 $
			(Restated Note 4)	(Restated Note 4)
Assets				
Current				
Cash		**92,779**	24,865	778,728
Taxes recoverable and accounts receivable		**166,370**	67,261	162,623
Prepaid expenses		**24,010**	26,232	122,894
		283,159	118,358	1,064,245
Non-current				
Deposits		**129,914**	135,664	135,664
Equipment		**22,591**	22,766	30,977
Investment		**-**	3,048	63,600
Mineral property interests	**8**	**28,967,385**	33,359,679	38,029,903
		29,403,049	33,639,515	39,324,389
Liabilities				
Current				
Accounts payable and accrued liabilities		**2,482,880**	2,603,928	3,234,183
Flow-through premium liability	**9**	**41,000**	105,262	186,675
Part XII.6 tax and indemnification of shareholders	**12**	**445,000**	-	-
Derivative put option liability		**-**	-	425,000
Convertible debenture – liability component	**11**	**6,982,229**	-	-
		9,951,109	2,709,190	3,845,858
Non-current				
Convertible debenture – liability component	**11**	**-**	6,772,337	6,217,761
		9,951,109	9,481,527	10,063,619
Shareholders' Equity				
Share capital	**12**	**56,056,359**	52,875,099	48,865,018
Contributed surplus	**12**	**5,810,936**	5,609,288	4,611,130
Convertible debenture – equity component	**11**	**695,636**	695,636	695,636
Deficit		**(43,110,991)**	(35,022,035)	(24,911,014)
		19,451,940	24,157,988	29,260,770
		29,403,049	33,639,515	39,324,389

Nature of operations – Note 1
Going concern – Note 2
Commitments – Notes 8, 11, 12 and 19

APPROVED BY THE DIRECTORS

"James Walchuck" Director *"Gordon Keep"* Director

ENCANTO POTASH CORP.
Consolidated Statements of Comprehensive Loss
Years ended December 31
(Expressed in Canadian dollars)

	Note	2015	2014
		$	$
Corporate development consultants	14, 19	**778,323**	711,379
Depreciation		**6,317**	8,211
First Nation consulting		**264,376**	644,414
First Nation development and designation		**-**	315,000
Investor communications		**153,156**	207,547
Legal and audit		**218,250**	478,050
Management compensation	14	**754,364**	866,756
Office		**184,095**	181,676
Regulatory compliance		**50,762**	95,496
Share-based payments	12	**201,648**	410,436
Travel and accommodation		**49,897**	130,424
Loss before items listed below		**(2,661,188)**	(4,049,389)
Finance expense	13	**(559,896)**	(968,882)
Gain on sale of investment		**5,982**	-
Impairment on investment		**-**	(10,357)
Part XII.6 tax and indemnification of shareholders	12	**(445,000)**	-
Write-off / Impairment of mineral property interests	8	**(4,534,116)**	(5,269,068)
Loss before income taxes		**(8,194,218)**	(10,297,696)
Deferred income tax recovery	9	**105,262**	186,675
Total comprehensive loss		**(8,088,956)**	(10,111,021)
Loss per share			
- Basic and diluted		**(0.02)**	(0.03)
Weighted average number of shares outstanding			
- Basic and diluted		**347,603,621**	324,279,669

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

ENCANTO POTASH CORP.
Consolidated Statements of Cash Flows
Years ended December 31
(Expressed in Canadian dollars)

	2015	2014
	$	$
Cash flows (used in) provided by		
Operating activities		
Net loss	**(8,088,956)**	(10,111,021)
Items not affecting cash		
Depreciation	**6,317**	8,211
Deferred income tax recovery	**(105,262)**	(186,675)
Finance expense	**209,892**	579,489
Gain on sale of investment	**(5,982)**	-
Impairment or loss on investment	**-**	10,357
Impairment / write off of mineral property interests	**4,534,116**	5,269,068
Share-based payments	**201,648**	410,436
	(3,248,227)	(4,020,135)
Net change in non-cash working capital items		
Taxes recoverable and accounts receivable	**(99,109)**	95,362
Prepaid expenses	**2,222**	96,662
Accounts payable and accrued liabilities	**278,060**	1,619,558
Part XII.6 tax and indemnification of shareholders	**445,000**	-
	(2,622,054)	(2,208,553)
Investing activities		
Recovery of deposits	**5,750**	-
Proceeds on sale of investment	**9,030**	50,194
Purchase of equipment	**(6,142)**	-
Deferred mineral property interest expenditures	**(461,180)**	(2,848,656)
	(452,542)	(2,798,462)
Financing activities		
Proceeds on shares issued	**3,386,300**	4,744,901
Share issuance costs	**(243,790)**	(591,749)
Proceeds on mineral property interest put option	**-**	100,000
Proceeds from loan	**-**	750,000
Repayment of loan	**-**	(750,000)
	3,142,510	4,253,152
Increase (Decrease) in cash	**67,914**	(753,863)
Cash, beginning of year	**24,865**	778,728
Cash, end of year	**92,779**	24,865

Supplemental cash flow information – Note 18

ENCANTO POTASH CORP.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Common shares	Share Capital	Contributed surplus	Convertible debenture	Deficit	Total
	number	$	$	$	$	$
Balance, December 31, 2013 (as restated, Note 4)	**306,266,709**	**48,865,018**	**4,611,130**	**695,636**	**(24,911,014)**	**29,260,770**
Shares issued in consideration for:						
Cash, pursuant to:						
- Prospectus offering	20,856,700	3,650,901	-	-	-	3,650,901
- Private placements	8,735,000	1,094,000	-	-	-	1,094,000
Share issuance costs	-	(629,558)	37,809	-	-	(591,749)
Bonus warrants	-	-	24,913	-	-	24,913
Derivative put option	-	-	525,000	-	-	525,000
Share-based payments	-	-	410,436	-	-	410,436
Flow-through premium liability	-	(105,262)	-	-	-	(105,262)
Comprehensive loss	-	-	-	-	(10,111,021)	(10,111,021)
Balance, December 31, 2014 (as restated, Note 4)	**335,858,409**	**52,875,099**	**5,609,288**	**695,636**	**(35,022,035)**	**24,157,988**
Shares issued in consideration for:						
Cash, pursuant to:						
- Private placements	33,594,165	3,466,050	-	-	-	3,466,050
Share issuance costs	-	(243,790)	-	-	-	(243,790)
Share-based payments	-	-	201,648	-	-	201,648
Flow-through premium liability	-	(41,000)	-	-	-	(41,000)
Comprehensive loss	-	-	-	-	(8,088,956)	(8,088,956)
Balance, December 31, 2015	**369,452,574**	**56,056,359**	**5,810,936**	**695,636**	**(43,110,991)**	**19,451,940**

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

1. Nature of operations

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

Encanto is an exploration and development company focused on potash properties in the Province of Saskatchewan. The Company is primarily focused on the development of potash mineral deposits located on the Muskowekwan First Nation reserve lands located approximately 100 km north of Regina, Saskatchewan. The Company is a reporting issuer in the provinces of Alberta and British Columbia and trades on the TSX Venture Exchange ("TSXV") under the trading symbol "EPO".

2. Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

At December 31, 2015, the Company has a working capital deficit of $9,667,950, has not yet achieved profitable operations, has commitments due in the coming fiscal year and had an accumulated deficit of $43,110,991 since inception and expects to incur further losses in the development of its business, all of which indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to develop its mineral property interests and to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. As part of its ongoing strategic plan the Company is exploring alternate financing opportunities including equity financings, debt financings and strategic partner arrangements. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

3. Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

These financial statements were approved by the board of directors for use on April 28, 2016.

4. Change in accounting policy

Effective January 1, 2015, the Company retrospectively changed its accounting policy for equity offerings consisting of a common share and warrants when both instruments are classified as equity. The Company no longer bifurcates the proceeds between the common share and the warrant where both qualify as equity instruments.

The change in accounting policy resulted in changes to the Company's shareholder's equity. There were no other changes to the Company's financial statements.

Total shareholder's equity

	Note	As previously reported	Effect of change in accounting policy	As restated under new policy
As of January 1, 2014				
Share capital	**(a)**	48,747,561	117,457	48,865,018
Contributed surplus	**(a)**	4,728,587	(117,457)	4,611,130
Convertible debenture – equity component		695,636	-	695,636
Deficit		(24,911,014)	-	(24,911,014)
		29,260,770	-	29,260,770
As of December 31, 2014				
Share capital	**(a)**	52,690,304	184,795	52,875,099
Contributed surplus	**(a)**	5,794,083	(184,795)	5,609,288
Convertible debenture – equity component		695,636	-	695,636
Deficit		(35,022,035)	-	(35,022,035)
		24,157,988	-	24,157,988

(a) – The proceeds of equity offerings where both instruments were classified as equity were fully allocated to share capital.

5. Summary of significant accounting policies

a) Principles of consolidation

The consolidated financial statements include the results of the Company and its wholly-owned subsidiary Encanto Resources Ltd ("ERL"). The results of the subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

Intercompany balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

b) Equipment and amortization

The Company's equipment is carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes expenditures directly attributable with bringing the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Once the assets are put into their intended use by management, their cost is amortized over the estimated useful economic life on the declining balance method at a rate of 30% per year.

c) Mineral properties

The Company is in the exploration stage and defers all expenditures related to its mineral properties once the legal rights to a property have been acquired. Exploration costs incurred prior to acquiring the legal rights to a property are charged to operations as general exploration expense. Exploration costs that are not attributable to a specific property are charged to operations as general exploration expense.

Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned. Under this method, the amounts shown as mineral property represent net costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of any such assets may exceed their recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company shall measure, present and disclose any resulting impairment loss.

The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

Management performs impairment tests on exploration and evaluation assets before the assets are transferred to development properties.

If the properties are put into commercial production, the expenditures will be depleted using the unit of production basis. If the properties are impaired, sold or abandoned, the expenditures will be charged to operations in the related period.

d) Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Decommissioning and restoration provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the legal or constructive obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of facts such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. These costs are charged against income or loss over the economic life of the related asset, through amortization using the unit of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in income or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in income or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

As at December 31, 2015 and December 31, 2014, the Company had no decommissioning or restoration provisions.

f) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss except for losses in value that are considered a significant or prolonged decline in the fair value of that investment below its cost, which are recognized in income or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income or loss.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

g) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through profit and loss.

h) De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in income or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the fair value of the consideration paid and payable is recognized in income or loss.

The Company recognizes a contract that will be settled by (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset as an equity instrument. This requirement is often referred to as the "fixed for fixed" criterion. If the fixed for fixed criterion is not met, an instrument would be considered a financial liability. The Company reassesses such instruments on whether the fixed for fixed criterion is met at each reporting period end and reclassifies such financial liability instruments to an equity instrument if the fixed for fixed criterion has been met.

As at December 31, 2015 and 2014 the put option does not qualify as a financial liability as the number of shares has been fixed. (Note 8)

i) Income taxes

Income tax on the income or loss for the periods presented comprises current and deferred tax. Income tax is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or in other comprehensive loss/income.

Current tax expense is the estimated tax payable on the taxable income for the period, using tax rates enacted or substantively enacted by the reporting date, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date applicable to the period of expected realization or settlement.

A deferred tax asset for unused tax losses, tax credits and deductible temporary difference is recognized only to the extent that it is probable that future taxable incomes will be available against which the deferred tax asset can be utilized.

The Company recognizes a deferred tax liability with corresponding deferred tax charges to operations with regards to the taxable temporary difference that arises from the difference between the carrying amounts of eligible expenditures capitalized as assets and its tax base.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax asset and liabilities on a net basis.

j) Share capital

The Company's common shares, share warrants and options, and flow-through shares are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. For equity offerings of units consisting of a common share and warrants, when both instruments are classified as equity, the Company does not bifurcate the proceeds between the common share and the other equity instrument

k) Flow-through shares

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through premium liability"). At renouncement by the Company of eligible resource exploration and evaluation expenditures to flow-through share subscribers, a deferred tax liability is recognized at each period end for the portion of such expenditures incurred to date, and the flow-through premium liability is reversed proportionately. The reduction to the flow-through premium liability is recognized through income or loss as a reduction of deferred income tax expense. The Company recognizes a deferred tax liability with a corresponding deferred tax charge to operations

with regard to the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset and its tax base.

l) Share-based payments

The Company has established a stock option plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates.

Where equity-settled share options are awarded to employees, the fair value of the options is estimated at the date of grant and is charged to the consolidated statement of comprehensive loss over the vesting period based on the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss. When the value of goods or services received in exchange for the equity instruments cannot be reliably estimated, the fair value is estimated based on the equity instruments issued. Equity instruments granted as costs related to the issuance of shares are recorded as a reduction of share capital.

Where the terms and conditions of equity instruments are modified before they vest, the increase in the fair value of the equity instruments, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company accounts for the cancellation as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized over the remainder of the vesting period.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

m) Basic and diluted loss per share

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive. During the years ended December 31, 2015 and 2014 basic and diluted loss per share are the same. The effect of potential issuances of 97,830,441 (2014 – 101,222,915) shares in respect of stock options, common share purchase warrants, convertible debt and put option were not included in the computation of diluted loss per share as the effect would have been antidilutive.

6. Accounting standards issued but not yet effective

The standards and interpretations that are issued up to the date of issuance of the Company's financial statements and applicable to the Company, but were not effective during the year ended December 31, 2015, are disclosed below. The Company intends to adopt these standards when they become effective. The Company is in the process of assessing the impact of the adoption of these standards and interpretations.

a) IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on financial liabilities and derecognition of financial instruments. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted.

b) IAS 7 Statement of Cash Flows
In January 2016, IASB amended IAS 7, "Statement of Cash Flows", The amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment will be mandatory for reporting periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

7. Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires estimates and assumptions that affect the amounts reported in these consolidated financial statements. Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

a) Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. The factors considered by management are disclosed in Note 2.

b) Impairment of mineral property interests
Management assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of any such assets may exceed their recoverable amount. When management determines that there are existing facts and circumstances that suggest the carrying amount exceeds the recoverable amount, the Company shall measure, present and disclose any resulting impairment.

c) Mineral property title
Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements. To the best of the Company's knowledge, title to all of its properties is in good standing.

d) **Put option agreement**
The Company entered into an agreement on the Ochapowace First Nation prospect (Note 8) during the year ended December 31, 2013 with a related party and significant shareholder. In the Company's assessment this was a financing transaction rather than a disposition of a mineral property interest.

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

a) **Share based payments and derivative liabilities**
The Company uses the fair-value method of accounting for derivative liabilities and share-based payments (related to incentive stock options and compensation warrants granted, modified or settled). Under this method, derivative liabilities and compensation costs attributable to options and awards granted are measured at fair value at the issue or grant date. The derivative liabilities are subsequently re-measured at each reporting period and the share-based payments are expensed over the vesting period. In determining the fair value for both derivative liabilities and share-based payments, the Company uses option pricing models and makes estimates of the expected volatility of the stock, the expected life and risk-free interest rate. The expected volatility is based on historical volatility of the Company's stock over a period commensurate with the expected life of the stock option. Changes to these estimates could result in the fair value of the derivative liabilities and share-based payments expense being less than or greater than the amount recorded.

b) **Deferred income taxes**
The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur.

Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

c) **Convertible debt**
Convertible debentures are separated into their liability and equity components on the consolidated statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability, using estimated interest rates based upon non-convertible debt issued by comparable issuers, and accounted for at amortized cost using the effective interest rate method. (Note 11)

d) **Impairment of mineral property interests**
The determination of the recoverable amount for value in use requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential, recent transactions involving similar projects, and future operating performance. A mineral project's fair value less cost to sell requires the use of estimates as to

the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

8. Mineral property interests – Schedule 1

a) Muskowekwan First Nation project

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

On October 22, 2010, the Company also signed development fee, operating and royalty agreements with the MFN and MRL. Pursuant to the development fee agreement, MFN will be paid a fee totalling $1,000,000 based on certain milestones being achieved of which $735,000 has been paid and expensed and $265,000 is due upon the grant of a mining lease by the Federal government on the MFN Project. Under the operating agreement, the Company is the appointed operator with responsibility to carry out the exploration and development program planned for the property interests on the MFN Project.

On February 1, 2012 the Company entered into two mineral rights option agreements with MRL to add new lands to the JVA, bringing the total land package under the JVA up to 61,114 acres.

b) Chacachas and Ochapowace First Nation prospects

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

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

On August 9, 2013 the Company entered into a farm out agreement (the "Farm-Out Agreement") to earn a 55% working interest in certain oil and gas permits located on the Ochapowace First Nation reserve land. To earn the 55% interest, the Company was required to fund the drilling of a test well. The drilling of the well was completed during December 2013. During the year ended December 31, 2015 the leases under the Farm-Out Agreement expired.

On October 9, 2013 the Company entered into an agreement, with a Director (the "Related Party"), to sell an 80% interest in the Company's potash rights under the Ochapowace EPA and a 50% working interest in the oil and gas permits under the Farm-Out Agreement dated August 9, 2013 for proceeds of $1,150,000 which were received in the fourth quarter of fiscal 2013. On January 28, 2014, pursuant to the agreement, the Related Party paid a further $100,000 towards the completion of a NI 43-101 compliant reserve report. The Company had also granted the Related Party the right, until October 9, 2015, to put these interests back to the Company for common shares of the Company.

During the year ended December 31, 2014 the number of common shares of the Company to be issued in the event the Related Party put the interest back to the Company was fixed as being equal to the amount of funds advanced divided by $0.17 per share or 7,352,941 shares. The fair value of the liability of $485,500 was reclassified to equity in accordance with the Company's accounting policy.

During the year ended December 31, 2015 the right to put these interests back to the Company was extended to January 9, 2016 and subsequent to December 31, 2015 the put option expired unexercised. With the expiry of the put option, the Related Party no longer has the right to cause the Company to reacquire the interests.

During the year ended December 31, 2015 the Company entered into a private placement with the Related Party for total gross proceeds of $1,000,000 which included an assignment of a further 15% interest in the potash rights of the Ochapowace First Nation prospect (the "Prospect") (Note 12). The Company allocated a value of $155,250 to the 15% assignment of the Prospect, based on the Prospect's estimated recoverable amount (see below).

As a result of the assignment of the 15% interest of the potash rights of the Ochapowace First Nation prospect (Note 12) and the subsequent expiration of the put option, for amounts less than the proportionate carrying amount of the Prospect, the Company performed an impairment review and concluded that an indicator of impairment did exist, necessitating an estimate of the Prospect's recoverable amount. Management estimated the recoverable amount of the Prospect, resulting in an impairment write down of $4,534,116. The recoverable amount of the Prospect was estimated through reference to the terms of the disposal of a portion of the Prospect as well as recent trends involving peer companies and similar potash projects. This is considered a level 3 valuation as it is based on prices or valuation techniques that are not based on observable market data.

c) SPAR property

During the year ended December 31, 2015 the Company did not renew the permit of KP441 and no longer holds any title to the claim. An impairment write down of $5,269,068 to take the property value down to $nil was taken during fiscal 2014.

9. Flow-through premium liability

The flow-through premium liability balance arose in connection with the flow-through share offerings the Company completed. The reported amount is the unamortized balance of the premium recorded from issuing the flow-through shares. This balance does not represent a cash liability to the Company but rather this balance will be amortized to the statement of comprehensive loss pro-rata with the amount of qualifying flow-through expenditures that are incurred by the Company after the tax benefit is renounced to the shareholders.

	$
Balance, December 31, 2013	186,675
Flow-through financing	105,262
Exploration costs incurred	(186,675)
Balance, December 31, 2014	105,262
Flow-through financing	41,000
Exploration costs incurred	(32,097)
Reversal of liability due to shareholder indemnification (Note 12f)	(73,165)
Balance, December 31, 2015	**41,000**

10. Loan

On February 20, 2014 the Company received $750,000 pursuant to a loan agreement (the "Loan"). The Loan bore interest at 15% per annum and was repayable on or before April 20, 2014. The Loan included the issuance of 1,000,000 bonus share purchase warrants exercisable at $0.20 with an expiry date of February 20, 2015. The fair value of the bonus warrants was estimated at $24,913 based on the Black-Scholes option pricing model using the following assumptions: risk- free interest rate - 1.00%; expected life – 0.5 years; expected volatility - 73%; and expected dividends - nil. The Company also incurred cash financing fees of $22,500. On April 15, 2014 the Loan and accrued interest were repaid in full.

11. Convertible debenture

On November 28, 2012, the Company issued a convertible debenture ("the 2012 Debenture") for the principal sum of $2,500,000. The 2012 Debenture bore interest at 5% and was repayable 2 years from the date of issue or could be converted into shares at the holder's option at a rate of $0.25 per convertible debenture share. On November 28, 2013, the principal of the 2012 Debenture was converted by the debenture holder at $0.25 per common share. A total of $52,095 of interest is payable as at December 31, 2015.

On January 14, 2013, the Company issued a convertible debenture ("the 2013 Debenture") for the principal sum of $7,000,000. The 2013 Debenture bears interest at 5% and is repayable on January 14, 2016 or can be converted into shares at the holder's option at a rate of $0.25 per convertible debenture share. The 2013 Debenture may be prepaid in whole or in part by the Company by giving 60 days prior written notice, provided that the volume weighted average trading price of the Company's common shares for the 20 consecutive trading days ending on the date that is five days prior to the date such written notice is given is greater than $0.50 per common share.

For accounting purposes, the 2012 Debenture and the 2013 Debenture have been separated into their liability and equity components using the effective interest rate method. The fair value of the liability component of each debenture at the time of issue was calculated as being equivalent to the discounted cash flows for the debentures assuming an effective interest rate of 18% and 17% respectively. The effective interest rates were based on the estimated rate for a debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability component. Issuance costs of $156,135 and $346,860 respectively, were incurred and have been recorded against the liability and equity components and are being amortized to the statements of comprehensive loss over the life of the convertible debenture.

During the year ended December 31, 2014, the repayment date and conversion feature of the 2013 Debenture were extended from January 14, 2015 to January 14, 2016. The extension was accounted for as a modification and the remaining issuance costs and discount were amortized and accreted over the extended life of the 2013 Debenture.

	Liability Component	**Equity Component**
	$	**$**
Balance – December 31, 2013	6,217,761	695,636
Amortization of issuance costs	132,621	-
Accretion of discount	421,955	-
Balance – December 31, 2014	6,772,337	695,636
Amortization of issuance costs	51,012	-
Accretion of discount	158,880	-
Balance – December 31, 2015	6,982,229	695,636

As at December 31, 2015 a total of $640,000 of interest payable was accrued with respect to the 2013 Debenture.

Subsequent to December 31, 2015 the 2013 Debenture matured and became payable. It was replaced with a new convertible debenture in the aggregate principal amount of $7,700,000. The new convertible debenture bears interest at the rate of 7.5% per annum and will mature on September 1, 2017 and can be converted into shares at the holder's option at a rate of $0.10 per convertible debenture share.

12. Share capital

a) Authorized:
Unlimited common shares without par value
100,000,000 Class A non-voting preference shares, par value $10 each
100,000,000 Class B non-voting preference shares, par value $50 each

b) Shareholder rights plan
On November 28, 2012 the Company's shareholders approved the adoption of a shareholder rights plan (the "Rights Plan"). The primary objective of the Rights Plan is to ensure shareholders are given fair treatment in the event of any take-over bid for the Company's common shares and provide shareholders adequate time to properly evaluate an offer. Under the Rights Plan, share purchase rights ("Rights") are issued to holders of common shares at the rate of one Right for each common share of the Company outstanding. On the occurrence of certain triggering events, the Rights separate from the common share and will entitle holders to acquire common shares of the Company at a 50% discount to the prevailing market price of the shares.

c) Financings
On December 30, 2015 the Company closed a private placement of 6,833,332 flow-through shares at a price of $0.06 per share for gross proceeds of $410,000. The Company incurred share issuance costs of $58,332 in respect of this financing. Related parties subscribed for a total of 1,500,000 flow-through shares.

On December 10, 2015 the Company closed a private placement of 8,333,333 common shares at a price of $0.12 per share with Related Party for gross proceeds of $1,000,000. The Company received $765,000 of the private placement in cash proceeds and the remaining proceeds of $235,000 were netted against the interest payable balance with the Related Party. As part of the private placement the Company also assigned a further 15% interest in the potash rights of the Ochapowace First Nation prospect to Related Party. The Company assigned a value of $844,750 to the common shares issued. The Company incurred share issue costs of $65,121 in relation to the private placement.

On May 4, 2015 the Company closed a private placement of 18,427,500 units at a price of $0.12 per unit for gross proceeds of $2,211,300. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one common share at $0.17 until May 4, 2016. The Company incurred cash share issuance costs of $120,337 respect of this placement. Related parties subscribed for a total of 6,992,000 units.

On October 9, 2014 the Company closed a private placement of 5,585,000 units at a price of $0.10 per unit for gross proceeds of $558,500. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one common share at $0.30 until October 9, 2016. The Company also incurred other share issuance costs of $17,983 in respect of this placement. Related parties subscribed for a total of 1,005,000 units.

On April 15, 2014, the Company completed a short form prospectus offering to raise gross proceeds of $3,650,901 through the issuance of the following:

i) $2,650,912 from the issuance of 15,593,600 units at a price of $0.17 per unit, with each such unit consisting of one common share and one half of one share purchase warrant, each whole warrant entitling the holder to purchase one non flow-through common share at a price of $0.30 per share expiring on October 15, 2015.

ii) $999,989 from the issuance of 5,263,100 flow-through units at a price of $0.19 per flow-through unit, with each such flow-through unit consisting of one flow-through common share and one half of one share purchase warrant, each whole warrant entitling the holder to purchase one non flow-through common share at a price of $0.30 per share expiring on October 15, 2015.

The Company also issued 834,268 warrants to Agents as part of the short form prospectus that entitle the holder to purchase one common share at a price of $0.30 expiring April 15, 2015. The fair value of the warrants was estimated at $37,809 based on the Black-Scholes option pricing model using the following assumptions: risk- free interest rate - 1.30%; expected life – 1 years; expected volatility - 77%; and expected dividends - nil. The Company also incurred other share issuance costs of $513,212 in respect of this offering.

On February 18, 2014, the Company closed a private placement of 3,150,000 units at a price of $0.17 per unit for gross proceeds of $535,500. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one common share at $0.30 until August 18, 2015. The Company incurred share issuance costs of $60,554 in respect of this financing.

d) Stock options

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Market Price (as that term is defined in the policies of the TSXV). Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days, or 30 days for a person engaged in investor relations activities, or within reasonable discretion of the board, of termination of employment or holding office as director or officer of the Company

The balance of options outstanding and related information for the years ended December 31, 2015 and 2014 is as follows:

	Number of options	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance December 31, 2013	29,300,000	$0.21	6.72
Granted	4,280,000	$0.17	
Expired	(480,000)	$0.26	
Balance, December 31, 2014	33,100,000	$0.20	6.29
Granted	2,320,000	$0.17	
Expired	(3,475,000)	$0.17	
Balance, December 31, 2015	31,945,000	$0.20	5.92
Unvested	(137,500)	$0.15	8.78
Exercisable, December 31, 2015	**31,807,500**	**$0.20**	**5.91**

The weighted average fair value of the options granted during the year ended December 31, 2015 was $0.07 (2014 - $0.07). During the year ended 2015 all options granted vested immediately. During the year ended December 31, 2014, a total of 2,911,250 options granted vested immediately and the remaining 1,368,750 vested semi-annually over an 18 month period from the date of grant.

For the year ended December 31, 2015, the Company recorded share-based payments expense of $201,648 (2014 - $410,436). The fair value of the options granted during the year was determined using an option pricing model using the following weighted average assumptions:

	2015	**2014**
Risk free interest rate	1.00%	1.16%
Expected life	5 years	4.4 years
Expected volatility	78%	86%
Expected dividends	Nil	Nil

The balance of options outstanding as at December 31, 2015 was as follows:

Expiry date	**Exercise price**	**Remaining life (years)**	**Options Outstanding**	**Unvested**	**Vested**
April 28, 2018	$0.17	2.33	200,000	-	200,000
July 13, 2019	$0.17	3.53	6,750,000	-	6,750,000
September 16, 2019	$0.25	3.71	1,000,000	-	1,000,000
July 13, 2020	$0.15	4.54	5,350,000	-	5,350,000
September 1, 2021	$0.17	5.67	525,000	-	525,000
September 1, 2021	$0.26	5.67	3,650,000	-	3,650,000
April 24, 2022	$0.17	6.32	500,000	-	500,000
June 28, 2022	$0.17	6.50	200,000	-	200,000
June 28, 2022	$0.30	6.50	2,400,000	-	2,400,000
January 9, 2023	$0.17	7.03	920,000	-	920,000
January 9, 2023	$0.25	7.03	1,475,000	-	1,475,000
March 25, 2023	$0.17	7.24	275,000	-	275,000
October 18, 2023	$0.20	7.80	100,000	-	100,000
November 20, 2023	$0.20	7.89	2,000,000	-	2,000,000
February 19, 2024	$0.20	8.14	750,000	-	750,000
April 28, 2024	$0.17	8.33	2,980,000	-	2,980,000
October 9, 2024	$0.15	8.78	550,000	137,500	412,500
May 7, 2025	$0.17	9.36	2,320,000	-	2,320,000
			31,945,000	**137,500**	**31,807,500**

Subsequent to December 31, 2015 a total of 75,000 options exercisable at $0.17 until January 9, 2023 were amended to have an expiration date of February 28, 2017 and 80,000 options exercisable at $0.17 expired.

e) Share purchase warrants

The balance of warrants outstanding and related information for the year ended December 31, 2015 is as follows:

	Number of warrants	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2013	12,372,356	$0.32	1.12
Issued	20,997,618	$0.30	
Expired	(600,000)	$0.25	
Balance, December 31, 2014	32,769,974	$0.29	1.08
Issued	18,427,500	$0.17	
Expired	(20,714,974)	$0.30	
Balance, December 31, 2015	**30,482,500**	**$0.21**	**0.55**

The balance of warrants outstanding as at December 31, 2015 was as follows:

Expiry date	Warrants outstanding	Exercise price (per share)	Remaining life (years)
May 4, 2016	18,427,500	$0.17	0.34
October 9, 2016	5,535,000	$0.30	0.78
October 23, 2016	50,000	$0.30	0.81
December 9, 2016	6,470,000	$0.25	0.94
	30,482,500		

Subsequent to December 31, 2015 the warrants expiring May 4, 2016 were extended to an expiry date of May 4, 2018. In addition, the warrants expiring October 9, 2016 and October 23, 2016 were given a one year extension on their expiry date.

f) Flow-through shares

The Company raised capital through the issuance of flow-through shares during the year ended December 31, 2014, which provided indemnity to the shareholders for additional taxes payable if the Company was unable to, or failed to renounce the qualifying expenditures as agreed, without limiting the recourse of the subscriber. The Company was not able to spend $695,227 of the flow-through funds raised on qualifying expenditures. The Company is exposed to costs for the indemnification of the shareholders and Part XII.6 tax liability. The Company estimated the potential shareholder indemnification liability in the amount of $375,000 and the Part XII.6 liability as $70,000 at December 31, 2015 and recorded a charge to the Statement of Comprehensive Loss in the amount of $445,000. The accrued amounts are subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreements, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.

The Company is committed to incur on or before December 31, 2016 qualifying Canadian exploration expenses as defined under the *Income Act, Canada* ("Qualifying CEE") in the amount of $410,000 with respect to the flow-through share financings completed during the fiscal year ended December 31, 2015. None of the Qualifying CEE will be available to the Company for future deduction from taxable income.

Subsequent to December 31, 2015 the Company renounced $410,000 of flow-through share proceeds to the respective flow-through share subscribers with an effective date of renunciation of December 31, 2015.

g) Contributed surplus
Contributed surplus includes the value of stock option grants, agent and bonus warrant issuances prior to exercise and the equity portion of the derivative put option. During the year ended December 31, 2015 the Company recorded share-based payments of $201,648 (2014 - $410,436) and agent and bonus warrant valuation of $nil (2014 - $62,722) to contributed surplus. During the year ended December 31, 2014 a fair value of $39,500 was allocated to contributed surplus from the additional $100,000 advanced under the put option agreement (Note 8). When the put option no longer qualified as a derivative instrument its total fair value ($485,500) was reclassified to equity.

13. Finance expenses

During the year ended December 31, 2015 and 2014 the Company incurred the following finance expenses related to the convertible debentures and loan.

	2015	2014
	$	$
Amortization of issuance costs	51,012	180,038
Accretion of discounts	158,880	421,955
Interest expense	350,004	366,952
	559,896	968,945

14. Related party transactions

Compensation paid or payable to the directors, the Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer for services provided during the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
	$	$
Corporate development consultants	400,000	-
Management compensation	396,000	396,000
Share-based payments	114,159	210,309
	910,159	606,309

The Company incurred additional expenditures charged by related parties during the years ended December 31, 2015 and 2014 as follows:

	2015	2014
	$	$
Management compensation	204,364	209,094
Share issuance costs	36,213	49,364
	240,577	258,458

Included in accounts payable and accrued liabilities as at December 31, 2015 was $1,245,145 (December 31, 2014- $757,615) due to directors and officers of the Company and/or companies they control or of which they were significant shareholders. An individual who is a director of the Company

holds $5,000,000 of the total $7,000,000 convertible debenture and earned interest of $250,000 (2014 - $250,000) during the year on this debenture.

15. Income taxes

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

	2015	2014
Statutory tax rate	**26.00%**	**26.00%**
	$	**$**
Loss for the year before taxes	(8,194,218)	(10,297,696)
Expected income tax recovery at statutory rate	(2,130,000)	(2,677,000)
Add (deduct) reconciling items:		
Share issue costs	(63,000)	(154,000)
Items not deductible for tax purposes	150,000	118,000
Non-taxable portion of capital (gain) loss	(1,000)	1,000
Change in estimate	(18,000)	296,000
Flow through shares	79,000	324,000
Flow through premium liability	(105,262)	(186,675)
Income tax benefit not recognized	1,983,000	2,092,000
Income tax (recovery) expense as booked	(105,262)	(186,675)

The income tax expense (recovery) above represents deferred tax only.

The significant components of the Company's net deferred tax assets and liabilities as at December 31 are as follows:

	2015	2014
	$	**$**
Deferred tax assets:		
Equipment	5,000	7,000
Share issue costs	223,000	257,000
Capital loss carry forward	283,000	279,000
Non-capital losses carried forward	9,385,000	8,444,000
Marketable securities and other	43,000	11,000
	9,939,000	8,998,000
Offset against deferred tax liabilities	(2,892,000)	(3,934,000)
Unrecognized deferred tax assets	(7,047,000)	(5,064,000)
Deferred tax assets	-	-
Deferred tax liabilities:		
Mineral properties	(2,887,000)	(3,875,000)
Convertible debentures	(5,000)	(59,000)
Offset against deferred tax assets	2,892,000	3,934,000
Deferred tax liabilities	-	-
Net deferred tax balance	-	-

As at December 31, 2015, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. Their expiry dates are as follows:

	$
2026	24,000
2027	1,172,000
2028	722,000
2029	854,000
2030	1,586,000
2031	2,704,000
2032	7,947,000
2033	12,780,000
2034	4,929,000
2035	3,378,000
	36,096,000

The potential benefits of these carry-forward non-capital losses, capital losses and deductible temporary differences has not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit in the same entity will allow the deferred tax asset to be recovered.

In addition to the tax losses listed above there are certain resource related and other expenditures of approximately $17,865,000 (2014 - $18,456,000) which can be used to offset future Canadian taxable income.

16. Financial instruments

Classification of financial instruments

The Company's financial instruments consist of cash, deposits, investment, accounts payable and accrued liabilities, derivative put option liability and convertible debenture. The Company designated its cash and deposits as loans and receivables. The investment is designated as available-for-sale, which is measured at fair value. The accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost. The convertible debenture is designated as other financial liabilities, which is measured at amortized cost, using the effective interest rate.

Fair value of financial instruments

The Company classifies the fair value of its financial instruments according to a fair value hierarchy based on the amount of observable inputs used to value the instrument as follows:

- Level 1 - Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 - Level 2 valuation is based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 - Values based on prices or valuation techniques that are not based on observable market data.

The value of the investment has been assessed based on the fair value hierarchy described above. The investment is classified as level 1.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

Discussions of risks associated with financial assets and liabilities are summarized below:

Foreign exchange risk
As at December 31, 2015, all of the Company's cash was held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

Interest rate risk
When the Company holds surplus funds, the Company's policy is to invest in guaranteed investment certificates ("GIC's") that are highly liquid. As such, to the extent that the Company has surplus funds invested in GIC's it becomes exposed to nominal interest rate risk. As at December 31, 2015, the Company did not have any surplus funds invested in GIC's.

Equity price risk
Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Sundance while owned, was monitored by Management with decisions on sale taken at the Board level.

Credit risk
Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with a chartered Canadian bank.

Liquidity risk
The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. As at December 31, 2015, the Company had a working capital deficiency of $9,667,950 (including the flow-through premium liability) which is not sufficient to cover funding requirements for operations as currently planned for at least the next twelve months and has commitments due in the coming year (note 19).

17. Management of capital

The Company's objectives when managing capital are: to safeguard the Company's ability to continue as a going concern in order to facilitate the development of its mineral properties and to maintain an optimal capital structure, while ensuring the Company's strategic objectives are met; and to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The capital structure of the Company consists of convertible debt and equity attributable to common shareholders, comprised of issued capital, warrants, contributed surplus and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, issuing new debt, or acquiring or disposing of assets, and controlling the capital expenditures program. The Company is not subject to externally imposed capital requirements.

The Company's mineral property interests are in the exploration stage. As such, the Company is dependent on external financing to develop its properties and fund its activities. In order to carry out its planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available, and may even dispose of some of or all of its mineral property interests.

Management reviews its capital management policies on an ongoing basis. During the year ended December 31, 2015, there has been no change in the Company's management of capital policies.

18. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flow. During the years ended December 31, 2015 and 2014 the following investing and financing transactions were excluded from the consolidated statements of cash flows:

	2015	2014
	$	$
Non-cash investing and financing transactions		
Fair value of broker warrants	-	37,809
Fair value of bonus warrants	-	24,913
Assignment of mineral property interest	(155,250)	-
Private placement netted against interest payable	235,000	-
Flow through premium liability	41,000	105,262
Mineral property interest expenditures in accounts payable		
As at December 31, 2015 and 2014	(65,834)	(229,942)

19. Commitments

In addition to any commitments pursuant to mineral property interest obligations (Note 8), qualifying Canadian exploration expenses (Note 12f) and the convertible debenture (Note 11), as at December 31, 2015, the Company is committed to payments, for the next 12 months of $600,000 under a related party corporate development consulting agreement, $47,750 on lease payments for office premises and $462,000 in interest payable on the $7,700,000 convertible debenture entered into subsequent to December 31, 2015. (Note 11)

ENCANTO POTASH CORP.

Schedule 1

Consolidated Schedule of Changes in Mineral Property Interests

(Expressed in Canadian dollars)

	MFN Project	Chacachas Ochapowace First Nation Prospects	Spar Property	Total
	$	$	$	$
Balance, December 31, 2013	**27,352,678**	**5,429,087**	**5,248,138**	**38,029,903**
Deferred exploration expenditures				
3-D seismic	-	9,033	-	9,033
Consulting	66,897	29,127	-	96,024
Drilling	-	113,890	-	113,890
Feasibility	328,113	-	-	328,113
Permitting	18,467	12,387	20,930	51,784
	413,477	164,437	20,930	598,844
Impairment of mineral property interests	-	-	(5,269,068)	(5,269,068)
Balance, December 31, 2014	**27,766,155**	**5,593,524**	**-**	**33,359,679**
Deferred exploration expenditures				
Consulting	-	2,543	-	2,543
Drilling	304,762	-	-	304,762
Feasibility	26,511	-	-	26,511
Permitting	18,467	19,926	-	38,393
Reclamation	1,540	5,023	-	6,563
Recovery	(29,800)	(51,900)	-	(81,700)
	321,480	(24,408)	-	297,072
Assignment of mineral property interests	-	(155,250)	-	(155,250)
Impairment of mineral property interests	-	(4,534,116)	-	(4,534,116)
Balance, December 31, 2015	**28,087,635**	**879,750**	**-**	**28,967,385**