

ENCANTO POTASH CORP.

**Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2016 and 2015**

(Unaudited - Expressed in Canadian dollars)

Notice of no Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

	Note	June 30 2016	December 31 2015
		\$	\$
Assets			
Current			
Cash		455,606	92,779
Taxes recoverable and accounts receivable		171,094	166,370
Prepaid expenses		430,319	24,010
		1,057,019	283,159
Non-current			
Deposits		128,260	129,914
Equipment		19,823	22,591
Performance shares	6	1,320,000	-
Mineral property interests	7	28,139,885	28,967,385
		30,664,987	29,403,049
Liabilities			
Current			
Accounts payable and accrued liabilities		1,275,093	2,482,880
Flow-through premium liability	9e	134,750	41,000
Part XII.6 tax and indemnification of shareholders	9e	72,346	445,000
Convertible debenture – liability component	8	-	6,982,229
		1,482,189	9,951,109
Non-current			
Convertible debenture – liability component	8	6,895,400	-
		8,377,589	9,951,109
Shareholders' Equity			
Share capital	9	61,324,589	56,056,359
Contributed surplus		5,679,072	5,810,936
Convertible debenture – equity component	8	1,005,000	695,636
Deficit		(45,721,263)	(43,110,991)
		22,287,398	19,451,940
		30,664,987	29,403,049

Nature of operations – Note 1

Going concern – Note 2

Commitments – Notes 13

APPROVED BY THE DIRECTORS

"Norman Brewster" Director

"Gordon Keep" Director

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Comprehensive Loss

Three and six months ended June 30

(Unaudited - Expressed in Canadian dollars)

		Three months ended June 30		Six months ended June 30	
	Note	2016	2015	2016	2015
		\$	\$	\$	\$
Corporate development consultants	11	1,052,500	183,749	1,252,372	356,803
Depreciation		1,284	1,504	2,768	3,009
First Nation consulting		22,364	46,757	22,364	161,473
First Nation development and designation		265,000	-	265,000	-
Investor communications		47,000	34,920	70,100	84,106
Legal and audit		66,738	83,952	90,514	129,795
Management compensation	11	128,000	183,816	297,760	393,764
Office		41,003	49,879	81,798	89,883
Regulatory compliance		43,488	14,488	47,565	27,926
Share-based payments		-	181,591	-	195,806
Travel and accommodation		4,249	9,088	9,360	33,018
Loss before items listed below		(1,671,626)	(789,744)	(2,139,601)	(1,475,583)
Finance expense	10	(294,953)	(139,974)	(470,671)	(279,948)
Gain on sale of investment		-	-	-	5,982
Total comprehensive loss		(1,966,579)	(929,718)	(2,610,272)	(1,749,549)
Loss per share					
- Basic and diluted		(0.01)	(0.00)	(0.01)	(0.01)
Weighted average number of shares outstanding					
- Basic and diluted		382,719,722	347,529,159	376,049,499	341,693,784

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

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Cash Flows

Six months ended June 30

(Expressed in Canadian dollars)

	2016	2015
	\$	\$
Cash flows (used in) provided by		
Operating activities		
Net loss	(2,610,272)	(1,749,549)
Items not affecting cash		
Depreciation	2,768	3,009
Finance expense	218,171	104,946
Corporate development consultants	880,000	-
Share-based payments	-	195,806
Gain on sale of investment	-	(5,982)
	(1,509,333)	(1,451,770)
Net change in non-cash working capital items		
Taxes recoverable and accounts receivable	(4,724)	17,832
Prepaid expenses	(406,309)	(4,258)
Accounts payable and accrued liabilities	(477,055)	(346,299)
Part XII.6 tax and indemnification of shareholders	(78,000)	-
	(2,475,421)	(1,784,495)
Investing activities		
Deferred mineral property interest expenditures	(30,732)	(160,166)
Recovery of deposits	1,654	5,750
Proceeds on sale of investment	-	9,030
	(29,078)	(145,386)
Financing activities		
Proceeds on shares issued	3,072,815	2,211,300
Share issuance costs	(205,489)	(120,337)
	2,867,326	2,090,963
Increase in cash	362,827	161,082
Cash, beginning of period	92,779	24,865
Cash, end of period	455,606	185,947

Supplemental cash flow information – Note 12

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

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited - Expressed in Canadian dollars)

	Common shares number	Share Capital \$	Contributed surplus \$	Convertible debenture \$	Deficit \$	Total \$
Balance, December 31, 2014	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	18,427,500	2,211,300	-	-	-	2,211,300
Share issuance costs	-	(120,337)	-	-	-	(120,337)
Share-based payments	-	-	195,806	-	-	195,806
Comprehensive loss	-	-	-	-	(1,749,549)	(1,749,549)
Balance, June 30, 2015	354,285,909	54,966,062	5,805,094	695,636	(36,771,584)	24,695,208
Shares issued in consideration for:						
Cash, pursuant to:						
- Private placements	15,166,665	1,254,750	-	-	-	1,254,750
Share issuance costs	-	(123,453)	-	-	-	(123,453)
Share-based payments	-	-	5,842	-	-	5,842
Flow-through premium liability	-	(41,000)	-	-	-	(41,000)
Comprehensive loss	-	-	-	-	(6,339,407)	(6,339,407)
Balance, December 31, 2015	369,452,574	56,056,359	5,810,936	695,636	(43,110,991)	19,451,940
Shares issued in consideration for:						
Cash, pursuant to:						
- Private placements	27,628,000	3,072,815	-	-	-	3,072,815
Indemnification of shareholders	2,806,230	294,654	-	-	-	294,654
Corporate development	20,000,000	2,200,000	-	-	-	2,200,000
Share issuance costs	-	(1,734,332)	-	-	-	(1,734,332)
Flow-through premium liability	-	(93,750)	-	-	-	(93,750)
Put option expiry	-	-	(827,500)	-	-	(827,500)
Maturity of convertible debenture	-	-	695,636	(695,636)	-	-
Issuance of convertible debenture	-	-	-	1,005,000	-	1,005,000
Extension of warrants	-	1,528,843	-	-	-	1,528,843
Comprehensive loss	-	-	-	-	(2,610,272)	(2,610,272)
Balance, June 30, 2016	419,886,804	61,324,589	5,679,072	1,005,000	(45,721,263)	22,287,398

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

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

1. Nature of operations

Encanto Potash Corp. ("the Company" or "Encanto") was incorporated under the laws of British Columbia, Canada, in 1986. The Company's corporate head office is located at Suite 3123, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J1.

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

At June 30, 2016, the Company has a working capital deficit of \$425,170, has not yet achieved profitable operations, has commitments due in the coming fiscal year and had an accumulated deficit of \$45,721,263 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

These condensed interim consolidated financial statements for the three and six months ended June 30, 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company's December 31, 2015 annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The condensed interim consolidated financial statements have been prepared under the historical cost convention.

These financial statements were approved by the board of directors for use on August 29, 2016.

The condensed interim consolidated financial statements have been prepared using accounting policies consistent with those used in the Company's December 31, 2015 annual audited consolidated financial statements.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

4. Accounting standards issued but not yet effective

The standards and interpretations that were issued up to the date of issuance of the Company's condensed interim consolidated financial statements and were applicable to the Company, but were not effective during the six months ended June 30, 2016, 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.

5. Critical accounting estimates and judgments

There have been no material revisions to the nature of judgments and estimates of amounts reported in the Company's December 31, 2015 annual consolidated financial statements.

6. Performance shares

On June 10, 2016 the Company issued 20,000,000 performance shares. A total of 8,000,000 shares were issued based on past performance and have been recorded to corporate development consultants expense in the statement of comprehensive loss at their fair value on the date of issuance of \$880,000.

The remaining 12,000,000 shares were issued and are held in escrow and have been recorded as a deferred asset at their fair value of \$1,320,000 on the date of issuance until such time as the shares are released from escrow upon achieving the performance milestones described below:

- a) 6,000,000 escrow shares upon receipt by the escrow agent of written confirmation from the Company, that the Company or a trading company in which Encanto has a commercial interest, has successfully delivered its first shipment of potash to Metals and Minerals Trading Company of India ("MMTC") pursuant to a Memorandum of Understanding with MMTC dated October 9, 2015, as amended March 10, 2016, or has successfully delivered its first shipment of potash to any public sector undertaking of the Government of India; and

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

b) 6,000,000 escrow shares or, if 6,000,000 escrow shares have not been released pursuant to (a) above, then 12,000,000 escrow shares, upon receipt by the escrow agent of written confirmation from the Company that the Company or an affiliate has entered into a definitive off-take agreement with MMTC or a party arranged by MMTC or by the holders of the escrow shares for the long term supply of potash.

7. 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 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. As of June 30, 2016 the Company has expensed the full \$1,000,000 and \$245,000 remains unpaid. Subsequent to June 30, 2016 the Company paid a further \$130,000. 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 \$1,250,000 (the “put option”). During the year ended December 31, 2015 the expiry date of the put option was extended to January 9, 2016 and expired unexercised leaving the Company with a 5% interest in the Ochapowace potash rights. The mineral property interests was reduced by \$827,500 and recorded against contributed surplus.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

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 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 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 during the year ended December 31, 2015. 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.

8. Convertible debenture

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. 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. On January 14, 2016 the 2013 Debenture matured unpaid following which the Company negotiated the terms of a new convertible debenture ("the 2016 Debenture") with the holders of the 2013 Debenture.

On March 1, 2016 the Company issued the 2016 Debenture for the principal sum of \$7,700,000. The 2016 Debenture bears interest at 7.5% and is repayable on September 1, 2017 or can be converted into shares at the holder's option at a rate of \$0.10 per convertible debenture share. For accounting purposes, the 2016 Debenture has 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 20%. The effective interest rate was 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. The equity component is being amortized to the statements of comprehensive loss over the life of the 2016 Debenture.

	Liability Component	Equity Component
	\$	\$
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
Amortization of issuance costs	4,251	-
Accretion of discount	13,520	-
Maturity of 2013 Debenture	(7,000,000)	(695,636)
Issuance of 2016 Debenture	6,695,000	1,005,000
Accretion of discount	200,400	-
Balance, June 30, 2016	6,895,400	1,005,000

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

9. 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) Financings

On June 3, 2016 the Company closed the first tranche of a private placement in the amount of 24,503,000 non-flow-through units at a price of \$0.105 per unit for gross proceeds of \$2,572,815. Each unit consists of one common share and one warrant, each warrant entitling the holder to purchase one common share at a price of \$0.16 per share on or before December 3, 2018. Additionally, a total of 3,125,000 flow-through common shares were issued at a price of \$0.16 per share for gross proceeds of \$500,000. The Company incurred share issuance costs of \$205,489 with respect of this placement.

Subsequent to June 30, 2016 the Company closed the second tranche of the private placement in the amount 342,000 units at a price of \$0.105 per unit for additional gross proceeds of \$35,910. Each unit consists of one common share and one warrant, each warrant entitling the holder to purchase one common share at a price of \$0.16 per share on or before January 13, 2019

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. Proceeds received on the private placement were allocated fully to the common shares and a \$nil value was allocated to the warrants issued. The Company incurred cash share issuance costs of \$120,337 respect of this placement.

c) Stock options

The balance of options outstanding and related information for the six months ended June 30, 2016 is as follows:

	Number of options	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2015	31,945,000	\$0.20	5.92
Expired	(80,000)	\$0.17	
Balance, June 30, 2016	31,865,000	\$0.20	5.41

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

The balance of options outstanding as at June 30, 2016 was as follows:

Expiry date	Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
April 28, 2018	\$0.17	1.83	200,000	-	200,000
July 13, 2019	\$0.17	3.04	6,750,000	-	6,750,000
September 16, 2019	\$0.25	3.21	1,000,000	-	1,000,000
July 13, 2020	\$0.15	4.04	5,350,000	-	5,350,000
September 1, 2021	\$0.17	5.18	525,000	-	525,000
September 1, 2021	\$0.26	5.18	3,650,000	-	3,650,000
April 24, 2022	\$0.17	5.82	500,000	-	500,000
June 28, 2022	\$0.17	6.00	200,000	-	200,000
June 28, 2022	\$0.30	6.00	2,400,000	-	2,400,000
January 9, 2023	\$0.17	6.53	840,000	-	840,000
January 9, 2023	\$0.25	6.53	1,475,000	-	1,475,000
March 25, 2023	\$0.17	6.74	275,000	-	275,000
October 18, 2023	\$0.20	7.30	100,000	-	100,000
November 20, 2023	\$0.20	7.39	2,000,000	-	2,000,000
February 19, 2024	\$0.20	7.64	750,000	-	750,000
April 28, 2024	\$0.17	7.83	2,980,000	-	2,980,000
October 9, 2024	\$0.15	8.28	550,000	-	550,000
May 7, 2025	\$0.17	8.86	2,320,000	-	2,320,000
			31,865,000	-	31,865,000

d) Share purchase warrants

The balance of warrants outstanding and related information for the six months ended June 30, 2016 is as follows:

	Number of warrants	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2015	30,482,500	\$0.21	0.30
Issued	24,503,000	\$0.16	
Balance, June 30, 2016	54,985,500	\$0.19	1.88

The balance of warrants outstanding as at June 30, 2016 was as follows:

Expiry date	Warrants outstanding	Exercise price (per share)	Remaining life (years)
December 9, 2016	6,470,000	\$0.25	0.44
October 9, 2017	5,535,000	\$0.30	1.28
October 23, 2017	50,000	\$0.30	1.32
May 4, 2018	18,427,500	\$0.17	1.84
December 3, 2018	24,503,000	\$0.16	2.42
	54,985,500	\$0.19	1.88

During the six months ended June 30, 2016 the warrants expiring May 4, 2016 were extended to an expiry date of May 4, 2018, the warrants expiring October 9, 2016 were extended to an expiry date of October 9, 2017 and the warrants expiring October 23, 2016 were extended to an expiry date of October 23, 2017. The Company recorded a charge to both common shares and share issuance costs of \$1,528,843 in relation to the extension of warrants.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

Subsequent to June 30, 2016 the Company issued a further 342,000 warrants in connection with the private placement. The warrants have an exercise price of \$0.16 per share on expire on January 13, 2019.

e) Flow-through shares

The Company raised capital through the issuance of flow-through shares during the year ended December 31, 2014, and provided an 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. During the six months ended June 30, 2016 the Company issued 2,806,230 common shares in settlement on \$294,654 of the outstanding indemnification liability and paid Part XII.6 tax in the amount of \$78,000.

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 qualifying Canadian exploration expenses as defined under the *Income Act, Canada* ("Qualifying CEE") in the amount of \$410,000 and \$500,000 with respect to the flow-through share financings completed during the fiscal year ended December 31, 2015 and the three-month period ended June 30, 2016 respectively. The expenditures are committed to be incurred before December 31, 2016 and 2017 respectively. None of the Qualifying CEE will be available to the Company for future deduction from taxable income.

During the six months ended June 30, 2016 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 and no qualifying expenditures have been made to date.

10. Finance expenses

During the three and six months ended June 30, 2016 the Company incurred the following finance expenses related to the convertible debentures.

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Amortization of issuance costs	-	12,753	4,251	25,506
Accretion of discounts	150,578	39,720	213,920	79,440
Interest expense	144,375	87,501	252,500	175,002
	294,953	139,974	470,671	279,948

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

11. 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 three and six months ended June 30, 2016 and 2015 was as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Corporate development consultants	150,000	-	300,000	-
Management compensation	86,000	99,000	182,000	198,000
Share-based payments	-	105,264	-	111,066
	236,000	204,264	482,000	309,066

The Company incurred additional expenditures charged by related parties during the three and six months ended June 30, 2016 and 2015 as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Management compensation	42,000	50,156	85,700	105,306
Share issuance costs	37,183	22,113	37,183	49,364
	79,183	72,269	122,883	154,670

Included in accounts payable and accrued liabilities as at June 30, 2016 was \$396,906 (December 31, 2015- \$1,245,145) 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 \$5,432,900 of the total \$7,700,000 convertible debenture as at June 30, 2016.

12. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flow. During the six months ended June 30, 2016 and 2015 the following investing and financing transactions were excluded from the consolidated statements of cash flows:

	2016	2015
	\$	\$
Non-cash investing and financing transactions		
Issuance of bonus shares – deferred asset	1,320,000	-
Issuance of bonus shares – profit and loss	880,000	-
Settlement of Indemnification of shareholders	294,654	-
Mineral property interest expenditures in accounts payable	30,732	69,776
Mineral property interest expenditures in accounts payable as at December 31	(65,834)	(229,942)

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

13. Commitments

In addition to any commitments pursuant to mineral property interest obligations (Note 6), qualifying Canadian exploration expenses (Note 9e) and the convertible debenture (Note 8), as at June 30, 2016, the Company is committed to payments, for the next 12 months of \$450,000 under a related party corporate development consulting agreement, \$4,100 on lease payments for office premises and \$577,500 in interest payable on the \$7,700,000 convertible debenture.

ENCANTO POTASH CORP.**Schedule 1**

Consolidated Schedule of Changes in Mineral Property Interests

(Expressed in Canadian dollars)

	MFN Project	Chacachas Ochapowace First Nation Prospects	Total
	\$	\$	\$
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)
	<u>321,480</u>	<u>(24,408)</u>	<u>297,072</u>
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
Expiry of put option	-	(827,500)	(827,500)
Balance, June 30, 2016	28,087,635	52,250	28,139,885