

ENCANTO POTASH CORP.

**Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2018 and 2017**

(Unaudited-expressed in Canadian dollars)

Notice of no Auditor Review of Condensed Interim Consolidated 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 condensed consolidated 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 condensed 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 condensed 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

(Expressed in Canadian dollars)

	Note	June 30 2018 (Unaudited) \$	December 31 2017 (Audited) \$
Assets			
Current			
Cash		9,874	39,203
Taxes recoverable and accounts receivable		3,852	15,534
Prepaid expenses		12,400	12,878
		<u>26,126</u>	<u>67,615</u>
Non-current			
Deposits		88,520	89,078
Equipment		-	1,992
Deferred financing costs	8	1,216,963	1,124,329
Mineral property interests	9	30,737,619	30,727,037
		<u>32,069,228</u>	<u>32,010,051</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	14	14,978,287	13,751,706
Convertible debenture – liability component	10	7,700,000	7,700,000
		<u>22,678,287</u>	<u>21,451,706</u>
Non-current			
Promissory note	8	1,229,463	1,124,329
		<u>23,907,750</u>	<u>22,576,035</u>
Shareholders' Equity			
Share capital	11	62,382,648	62,382,648
Contributed surplus	11d	7,934,973	7,892,669
Convertible debenture – equity component	10	1,005,000	1,005,000
Deficit		(63,161,143)	(61,846,301)
		<u>8,161,478</u>	<u>9,434,016</u>
		<u>32,069,228</u>	<u>32,010,051</u>

Nature of operations – Note 1

Going concern – Note 2

Commitments – Notes 7, 8, 10 and 17

Subsequent event – Note 18

APPROVED BY THE DIRECTORS

“Stavros Daskos” Director “Raman Govind Rajan” Director
Aref Kanafani Director

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

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited-expressed in Canadian dollars)

	Note	For the three-month period ended		For the six-month period ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
		\$	\$	\$	\$
Corporate development consultants		257,242	484,080	527,880	679,080
Depreciation		-	71	147	142
First Nation development and designation		-	-	-	115,000
Foreign exchange		150,700	(259,598)	342,650	(259,598)
Investor communications		-	22,185	15,000	47,485
Legal and audit Management		24,777	12,320	24,777	21,272
compensation		-	198,000	-	396,000
Office		(2,896)	7,272	11,245	22,327
Rent		12,000	-	24,000	-
Regulatory compliance		3,945	7,886	14,986	28,970
Write-off of equipments		2,403	-	2,403	-
Share-based payments	11b	-	-	42,304	1,279,811
Travel and accommodation		1,273	31,877	1,273	37,303
Loss before items listed below		(449,444)	(504,093)	(1,006,665)	(2,367,792)
Finance expense	12	(165,780)	(329,329)	(308,177)	(624,282)
Part XII.6 tax		-	(9,375)	-	(12,795)
Total comprehensive loss		(615,224)	(842,797)	(1,314,842)	(3,004,869)
Loss per share					
Basic and diluted		(0.014)	(0.00)	(0.030)	(0.01)
Weighted average number of shares					
Basic and diluted		44,081,683	44,081,704	44,081,683	44,081,704

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

ENCANTO POTASH CORP.

Condensed Interim Consolidated Statements of Cash Flows

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

	<u>2018</u>	<u>2017</u>
	\$	\$
Cash flows (used in) provided by		
Operating activities		
Net loss	(1,314,842)	(3,004,869)
Items not affecting cash		
Depreciation	147	142
Finance expense	308,177	335,532
Write-off of equipments	2,403	-
Share-based payments	42,304	1,279,811
	<u>(961,811)</u>	<u>(1,389,384)</u>
Net change in non-cash working capital items		
Taxes recoverable and accounts receivable	11,682	30,245
Prepaid expenses	478	1,217
Accounts payable and accrued liabilities	680,904	835,375
	<u>(268,747)</u>	<u>(522,547)</u>
Investing activities		
Deferred mineral property interest expenditures	(10,582)	(451,588)
Recovery of deposits	-	8,928
	<u>(10,582)</u>	<u>(442,660)</u>
Financing activities		
Advance from funding agreement (note 8)	250,000	-
Decrease in cash	(29,329)	(965,207)
Cash, beginning of period	39,203	1,156,238
Cash, end of period	9,874	191,031

Supplemental cash flow information – Note 16

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

For the six-month period ended June 30, 2018

(Unaudited-expressed in Canadian dollars)

	<u>Common shares</u> number	<u>Share Capital</u> \$	<u>Contributed</u> <u>surplus</u> \$	<u>Convertible</u> <u>debenture</u> \$	<u>Deficit</u> \$	<u>Total</u> \$
Balance, January 1, 2018	44,081,683	62,382,648	7,892,669	1,005,000	(61,846,301)	9,434,016
Share-based payment	-	-	42,304	-	-	42,304
Comprehensive loss	-	-	-	-	(1,314,842)	(1,314,842)
Balance, June 30, 2018	<u>44,081,683</u>	<u>62,382,648</u>	<u>7,934,973</u>	<u>1,005,000</u>	<u>(63,161,143)</u>	<u>8,161,478</u>
Balance, January 1, 2017	44,081,683	62,382,648	5,741,716	1,005,000	(56,843,706)	12,285,658
Share-based payment	-	-	1,279,811	-	-	1,279,811
Comprehensive loss	-	-	-	-	(3,004,869)	(3,004,869)
Balance, June 30, 2017	<u>44,081,683</u>	<u>62,382,648</u>	<u>7,021,527</u>	<u>1,005,000</u>	<u>(59,848,575)</u>	<u>10,560,600</u>

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

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

1. Nature of operations

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

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, British Columbia, Saskatchewan and Ontario and trades on the TSX Venture Exchange ("TSXV") under the trading symbol "EPO".

2. Going concern

These interim condensed 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, 2018, the Company had a working capital deficit of \$22,652,161, has not yet achieved profitable operations, has commitments due in the coming fiscal year and had an accumulated deficit of \$63,161,143 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. On September 13, 2017, the Company signed an agreement with GEM Investments America LLC and GEM Global Yield LLC to undertake to invest up to \$100,000,000 over the next three years (Note 8). During the six-month period ended June 30, 2018, the Company assessed its liquidity position and has been advanced \$250,000 in accordance with the above agreement. 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 interim condensed 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") under Interim Accounting standard ("IAS" 34 – Interim financial reporting). The consolidated financial statements have been prepared under the historical cost convention.

These interim condensed consolidated financial statements were approved by the board of directors on August 29, 2018.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

4. Summary of significant accounting policies

a) Principles of consolidation

The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries Encanto Resources Ltd ("ERL") and Encanto Trading Corp. The results of the subsidiaries 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

All the Company's mining projects are currently in exploration and evaluation phase or in preparation for their development. The Company 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.

Although the Company has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

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.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

4. Summary of significant accounting policies (*Continued from previous page*)

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 June 30, 2018 and June 30, 2017, the Company had no significant decommissioning or restoration provisions.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

4. Summary of significant accounting policies (*Continued from previous page*)

f) Financial assets and liabilities

Financial assets and liabilities at amortized costs

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized costs less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net income (loss) in the period in which they arise. Where Company has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

g) 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.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

4. Summary of significant accounting policies (*Continued from previous page*)

h) 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

i) 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.

j) 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 loss and 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 loss and 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 loss and 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.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

4. Summary of significant accounting policies (Continued from previous page)

k) 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.

5. Accounting standards

New accounting standards effective for the first time and accounting standards issued but not yet effective

a) IFRS 9 Financial Instruments

In July 2014, the IASB published IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces improvements which include a logical model for classification and measurement of financial instruments, a single, forward-looking "expected credit loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

As a result of the adoption of IFRS 9, the Company has changed its accounting policy for financial instruments retrospectively, for ones that were recognized at the date of application, which was January 1, 2018. The change did not impact the carrying value of any financial instruments on this date. The following is the Company's new accounting policy under IFRS 9.

a) Classification

In implementing IFRS 9, the Company updated the financial instruments classification within its accounting policy as follows:

<u>Financial Assets / Liabilities</u>	<u>Original classification under IAS 39</u>	<u>New classification under IFRS 9</u>
Cash and cash equivalents	Loans and receivables at amortized costs	Financial Assets at amortized costs
Accounts payable and accrued liabilities	Other Financial Liabilities at amortized costs	Financial Liabilities at amortized costs

The Company determines the classification of financial assets as initial recognition. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

ENCANTO POTASH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

5. Accounting standards (Continued from previous page)

New accounting standards effective for the first time and accounting standards issued but not yet effective (Continued from previous page)

a) IFRS 9 Financial Instruments (Continued from previous page)

b) Measurement

Financial assets and liabilities at amortized costs

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized costs less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net income (loss) in the period in which they arise. Where Company has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company recognizes in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized. Given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings and the negligible historical level of dividends default, the loss allowance was \$ nil as at June 30, 2018 and December 31, 2017.

b) IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. It provides a more detailed framework for the timing of revenue recognition and increased requirements for disclosure of revenue. It uses a control-based approach to recognize revenue which is a change from the risk and reward approach under the current standard. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Company has assessed that there are no material reporting changes as a result of adopting this new standard.

c) IFRS 16 Leases

This standard replaces IAS 17-Leases and requires lessees to account for leases on the statement of financial position by recognizing a right to use asset and lease liability. The mandatory effective date is for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

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Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

6. 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.

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:

d) **Share based payments**

The Company uses the fair-value method of accounting for share-based payments (related to incentive stock options and compensation warrants granted, modified or settled). Under this method compensation costs attributable to options and awards granted are measured at fair value at the issue or grant date and are expensed over the vesting period. In determining the fair value for 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 share-based payments expense being less than or greater than the amount recorded.

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Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

6. Critical accounting estimates and judgments (*Continued from previous page*)

e) **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.

f) **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.

g) **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.

7. Off-take agreement

On December 30, 2016, the Company entered into an Off-Take Agreement with the National Federation of Farmers' Procurement Processing & Retailing Co-operatives of India Ltd. ("NACOF"). The Off-Take Agreement provides for the supply of a minimum of 5,000,000 tonnes per year for a guaranteed period of twenty years for muriate of potash.

Furthermore, upon signing the Off-Take Agreement, the Company was also required to pay a success fee under a consulting agreement with a related party of US\$5,500,000 (CDN\$7,242,400; 2017 - CDN\$6,899,750) in cash and 15,000,000 common shares (measured at fair value on the date of agreement at \$1,050,000) of the Company, subject to regulatory approval. The Company had accrued these costs to corporate development consultants on the statement of loss and comprehensive loss as at December 31, 2016. As at June 30, 2018 the Company has not received regulatory approval or paid CDN\$6,649,750 of the cash payment, which represents the success fee less a \$250,000 payment made during 2016. During the six-month period ended June 30, 2018, the Company has recorded a loss on foreign exchange of \$342,650.

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8. Deferred financing costs

On September 13, 2017, the Company signed a funding agreement with GEM Investments America LLC and GEM Global Yield LLC SCS to undertake to invest up to \$100,000,000 over the next three years. As a result, the Company is required to pay a minimum financing fee of \$1,400,000 and it is recognized as a corresponding promissory note and deferred financing fees discounted to present value at an amount of \$1,216,963. The Company has been advanced \$250,000 from this agreement in the first six months ended June 30, 2018.

9. Mineral property interests

	MFN Project
	\$
Balance, December 31, 2017	30,727,037
Feasibility	10,582
Balance, June 30, 2018	30,737,619

a) Muskowekwan First Nation ("MFN") 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.

10. Convertible 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 was repayable on September 1, 2017 or could have been converted into shares at the holder's option at a rate of \$0.10 (pre-consolidation) per convertible debenture share. The Company and the 2016 debenture holders are negotiating a restructuring/conversion of the 2016 debenture. As such, the debt component is reclassified as short-term debt until the negotiations are settled. The Company has continued to accrue interest on the 2016 debenture until such time as the terms of the restructuring are finalized.

For accounting purposes, the 2016 debenture has been separated into the liability and equity components using the effective interest rate method. The fair value of the liability component of the 2016 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.

	Liability Component	Equity Component
	\$	\$
Balance – December 31, 2017	7,700,000	1,005,000
Balance, June 30, 2018	7,700,000	1,005,000

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11. 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

On May 18, 2018, the Company announced that it has received final approval from the TSX Venture Exchange for its ten (10) to one (1) share consolidation. Effective at the opening of trading on May 18, 2018, Encanto's shares commenced trading on the TSX Venture Exchange on a consolidated basis. All common share and per common share amounts in these financial statements have been retroactively restated to reflect the share consolidation.

b) 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 six months period ended June 30, 2018 is as follows:

	Number of options	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2017	4,356,000	\$1.50	5.80
Granted	100,000	\$0.50	4.61
Expired	(30,500)	\$1.70	
Cancelled	(466,500)	\$1.67	
Balance, June 30, 2018	3,959,000	\$1.50	5.08

All outstanding options at June 30, 2018 have been vested and are exercisable.

During the six months ended June 30, 2018, the Company recorded share-based payments expense of \$42,304 (\$ 1,279,811 for the six-months ended June 30, 2017). The fair market value of the options granted during the period was determined using an option pricing model using the following assumption; for 100,000 granted options; risk free rate 2.1%; expected life 5 years; forfeiture rate nil; volatility 125%; share price at date of grant \$0.50 and a dividend rate of nil.

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Notes to the Condensed Interim Consolidated Financial Statements

For the six-month period ended June 30, 2018 and 2017

(Unaudited-expressed in Canadian dollars)

11. Share capital (Continued from previous page)

The balance of options outstanding as at June 30, 2018 was as follows:

<u>Exercise price</u>	<u>Weighted average remaining life (years)</u>	<u>Options outstanding and exercisable</u>
\$0.50	4.39	880,000
\$1.40	8.56	1,325,000
\$1.50	2.55	358,000
\$1.70	3.56	678,500
\$2.00	5.45	270,000
\$2.50	4.53	42,500
\$2.60	3.18	195,000
\$3.00	4.00	210,000
		3,959,000

c) Share purchase warrants

The balance of warrants outstanding and related information for the six months period ended June 30, 2018 is as follows:

	<u>Number of warrants</u>	<u>Weighted average exercise price (per share)</u>	<u>Weighted average remaining life (years)</u>
Balance, December 31, 2017	4,885,750	\$1.80	0.80
Expired	(1,842,750)	\$1.70	-
Balance, June 30, 2018	3,043,000	\$1.86	0.58

The balance of warrants outstanding as at June 30, 2018 was as follows:

<u>Exercise price</u>	<u>Weighted average remaining life (years)</u>	<u>Warrants Outstanding</u>
\$1.60	0.43	2,484,500
\$3.00	1.28	558,500
		3,043,000

d) Contributed surplus

During the six months period ended June 30, 2018, the Company recorded share-based payments expense of \$42,304 (\$ 1,279,811 for the six-months ended June 30, 2017).

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12. Finance expenses

During the three and six months ended June 30, 2018 and 2017, the Company incurred the following finance expenses related to the convertible debentures.

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accretion of discounts	-	184,954	-	335,532
Interest expense	165,780	144,375	308,177	288,750
	<u>165,780</u>	<u>329,329</u>	<u>308,177</u>	<u>624,282</u>

13. Related party transactions

Compensation paid or payable to the directors, the Chief Executive Officer and the Chief Financial Officer for services provided or earned during the three and six months period ended June 30, 2018 and 2017 was as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Corporate development consultants	150,000	150,000	300,000	300,000
Management compensation	-	156,000	-	312,000
Share-based payments	-	-	-	954,041
	<u>150,000</u>	<u>306,000</u>	<u>300,000</u>	<u>1,566,041</u>

The Company incurred additional expenditures charged by related parties during the three and six months ended June 30, 2018 and 2017 as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Management compensation	-	42,000	-	84,000
	<u>-</u>	<u>42,000</u>	<u>-</u>	<u>84,000</u>

Included in accounts payable and accrued liabilities as at June 30, 2018 was \$12,249,404 (2017 - \$11,793,754) due to directors and officers of the Company and/or companies they control or of which they were significant shareholders. This amount is composed primarily of balances owing related to the success fee (Note 7), consulting fees, management compensation, accrued interest on the convertible debentures (Note 10), and mineral property interests (Note 9). Included in mineral property interest additions for the six months period ended June 30, 2018 was \$nil (2017 - \$2,350,000) due to a company that is controlled by one of the directors, which represents the amount of consideration established and agreed to by the related parties and approved by the Board of Directors.

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Notes to the Condensed Interim Consolidated Financial Statements

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14. Financial instruments

Classification of financial instruments

The Company's financial instruments consist of cash, deposits, accounts payable and accrued liabilities, promissory note and convertible debenture. The Company designated its cash and deposits as loans and receivables. The accounts payable and accrued liabilities and promissory note are designated as other financial liabilities, which are measured at amortized cost. The fair value of cash, deposits, accounts payable and accrued liabilities, promissory note and convertible debenture approximates their carrying amount due to their short term to maturity. The convertible debenture is designated as other financial liabilities, which is measured at amortized cost, using the effective interest rate.

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

Foreign currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most of the Company's transactions are carried out in Canadian dollars, except for certain payables which are denominated in U.S. dollars. The Company does not enter into arrangements to hedge its foreign exchange risk. As at June 30, 2018, foreign currency denominated financial assets and liabilities in U.S. dollars and which expose the Company to the currency risk are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	\$	\$
Accounts payable and accrued liabilities	<u>5,891,721</u>	<u>5,891,721</u>

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 June 30, 2018, the Company had a working capital deficiency of \$22,652,161 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. The Company is currently in negotiations to restructure or convert certain convertible debentures. In addition, the Company has signed an agreement with GEM Investments America LLC and GEM Global Yield LLC SCS to take on investment up to \$100,000,000 (note 8).

15. 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.

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(Unaudited-expressed in Canadian dollars)

15. Management of capital (*Continued from previous page*)

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 and planning for development 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.

Management reviews its capital management policies on an ongoing basis. During the six months ended June 30, 2018, there has been no change in the Company's management of capital policies.

16. 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 period ended June 30, 2018 and 2017 the following investing and financing transactions were excluded from the consolidated statements of cash flows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Non-cash investing and financing transactions		
Deferred financing cost	92,634	-
Mineral property interest expenditures in accounts payable as at June 30, 2018 and 2017	2,325,000	165,543

17. Commitments

In addition to any commitments pursuant to deferred financing costs (Note 8) and the convertible debenture (Note 10), as at June 30, 2018, the Company is committed to payments, for the next 12 months of \$600,000 for corporate development and consulting fees.

18. Subsequent event

On July 13, 2018, the Company granted 100,000 options to the Chief Operating Officer. The options granted vest immediately. Each option entitles its holder to purchase one common share of the Company at a price of \$ 0.19 per common share for a period of 10 years.

On August 17, 2018, the Company closed a private placement of 1,666,666 units at a price of \$0.30 per unit for gross proceeds of \$500,000. Each unit consists of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.18 per share for a period of 2 years from closing.