ENCANTO POTASH CORP.

Consolidated Financial Statements
Years ended December 31, 2014 and 2013

(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 subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, 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 subsidiaries as at December 31, 2014 and 2013 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 $35,022,035 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 Accountants

Vancouver, British Columbia
April 28, 2015

ENCANTO POTASH CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Note	**December 31 2014**	December 31 2013
		$	$
Assets			
Current			
Cash		**24,865**	778,728
Taxes recoverable and accounts receivable		**67,261**	162,623
Prepaid expenses		**26,232**	122,894
		118,358	1,064,245
Non-current			
Deposits		**135,664**	135,664
Equipment		**22,766**	30,977
Investment		**3,048**	63,600
Mineral property interests	**7**	**33,359,679**	38,029,903
		33,639,515	39,324,389
Liabilities			
Current			
Accounts payable and accrued liabilities	**13**	**2,603,928**	3,234,183
Derivative put option liability	**7**	**-**	425,000
Flow-through premium liability	**8**	**105,262**	186,675
		2,709,190	3,845,858
Non-current			
Convertible debenture – liability component	**10**	**6,772,337**	6,217,761
		9,481,527	10,063,619
Shareholders' Equity			
Share capital	**11**	**52,690,304**	48,747,561
Contributed surplus	**11**	**5,794,083**	4,728,587
Convertible debenture – equity component	**10**	**695,636**	695,636
Deficit		**(35,022,035)**	(24,911,014)
		24,157,988	29,260,770
		33,639,515	39,324,389

Nature of operations – Note 1
Going concern – Note 2
Commitments – Notes 7, 11 and 18
Subsequent event – Note 19

APPROVED BY THE DIRECTORS

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

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

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

	Note	2014	2013
		$	**$**
Corporate development consultants		**711,379**	1,027,814
Depreciation		**8,211**	10,575
First Nation consulting		**644,414**	790,521
First Nation development and designation		**315,000**	310,484
Investor communications		**207,547**	342,040
Legal and audit		**478,050**	571,241
Management compensation	**13**	**866,756**	837,474
Office		**181,676**	202,678
Regulatory compliance		**95,496**	73,421
Share-based payments	**11**	**410,436**	570,879
Travel and accommodation		**130,424**	195,905
Loss before other items		**(4,049,389)**	(4,933,032)
Interest earned		**63**	38,230
Finance expense		**(968,945)**	(1,576,971)
Impairment or loss on investment		**(10,357)**	(360,400)
Write-off / Impairment of mineral property interests		**(5,269,068)**	(1,040,000)
Loss before income taxes		**(10,297,696)**	(7,872,173)
Deferred income tax recovery		**186,675**	2,557,001
Total comprehensive loss		**(10,111,021)**	(5,315,172)
Loss per share			
- Basic and diluted		**(0.03)**	(0.02)
Weighted average number of shares outstanding			
- Basic and diluted		**324,279,669**	285,270,967

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)

	2014	2013
	$	$
Cash flows (used in) provided by		
Operating activities		
Net loss	**(10,111,021)**	(5,315,172)
Items not affecting cash		
Depreciation	**8,211**	10,575
Deferred income tax recovery	**(186,675)**	(2,557,001)
Finance expense	**579,489**	1,116,460
Impairment or loss on investment	**10,357**	360,400
Share-based payments	**410,436**	570,879
Impairment / Write off of mineral property interests	**5,269,068**	1,040,000
	(4,020,135)	(4,773,859)
Net change in non-cash working capital items		
Taxes recoverable	**95,362**	175,585
Prepaid expenses	**96,662**	(29,963)
Accounts payable and accrued liabilities	**1,619,558**	478,540
	(2,208,553)	(4,149,697)
Investing activities		
Deferred mineral property interest expenditures	**(2,848,656)**	(7,677,152)
Proceeds on sale of investment	**50,194**	-
Deposits recovered	**-**	260,522
Purchase of equipment	**-**	(3,608)
	(2,798,462)	(7,420,238)
Financing activities		
Proceeds on shares issued	**4,744,901**	4,607,850
Share issuance costs	**(591,749)**	(341,856)
Proceeds on mineral property interest put option	**100,000**	1,150,000
Proceeds from loan	**750,000**	-
Repayment of loan	**(750,000)**	-
Proceeds on convertible debenture issued	**-**	7,000,000
Convertible debenture issuance costs	**-**	(346,860)
	4,253,152	12,069,134
(Decrease) Increase in cash	**(753,864)**	499,199
Cash, beginning of year	**778,728**	279,529
Cash, end of year	**24,865**	778,728

Supplemental cash flow information – note 17

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

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, 2012	**278,209,798**	**41,939,653**	**3,419,279**	**242,018**	**(19,595,842)**	**26,005,108**
Shares issued in consideration for:						
Cash, pursuant to:						
- Private placement	18,056,911	4,421,074	100	-	-	4,421,174
- Convertible debenture	10,000,000	2,742,018	-	(242,018)	-	2,500,000
Share issuance costs	-	(355,184)	13,329	-	-	(341,855)
Convertible debenture, issued	-	-	-	695,636	-	695,636
Derivative put option	-	-	725,000	-	-	725,000
Share-based payments	-	-	570,879	-	-	570,879
Comprehensive loss	-	-	-	-	(5,315,172)	(5,315,172)
Balance, December 31, 2013	**306,266,709**	**48,747,561**	**4,728,587**	**695,636**	**(24,911,014)**	**29,260,770**
Shares issued in consideration for:						
Cash, pursuant to:						
- Prospectus offering	20,856,700	3,543,554	2,085	-	-	3,545,639
- Private placements	8,735,000	1,028,747	65,253	-	-	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
Comprehensive loss	-	-	-	-	(10,111,021)	(10,111,021)
Balance, December 31, 2014	**335,858,409**	**52,690,304**	**5,794,083**	**695,636**	**(35,022,035)**	**24,157,988**

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" and in the United States on the OTCQX under the trading symbol "ENCTF".

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, 2014, the Company has a working capital deficit of $2,590,832, has not yet achieved profitable operations, has commitments due in the coming fiscal year and had an accumulated deficit of $35,022,035 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, 2015.

4. 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.

4. Summary of significant accounting policies (continued)

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 an asset's fair value less costs to sell. If the recoverable amount of an asset's fair value 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, 2014 and December 31, 2013, 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.

4. Summary of significant accounting policies (continued)

f) Financial assets (continued)

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.

4. Summary of significant accounting policies (continued)

h) De-recognition of financial assets and liabilities (continued)

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 revaluates such instruments on whether the fixed for fixed criterion is met on each reporting period and reclassifies such a financial liability instruments to an equity instrument if the fixed for fixed criterion has been met.

As at December 31, 2014 the put option does not qualify for a financial liability as the number of shares has been fixed.

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 an 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.

4. Summary of significant accounting policies (continued)

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, 2014 and 2013 basic and diluted loss per share are the same. The effect of potential issuances of 101,222,915 (2013 – 69,672,356) 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.

5. Accounting standards

a) **New standards and amendments effective for the first time**

The Company has adopted the new and revised standards and interpretations issued by the IASB or IFRIC listed below effective January 1, 2014. The adoption of these standards and amendments did not have a material impact on the consolidated financial statements of the Company.

IFRS 10, IFRS 12 and IAS 27

Amendments to IFRS 10, IFRS 12 and IAS 27 provides an exception to consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them.

IAS 32 Financial Instruments: Presentation

Amendments to IAS 32 clarify matters regarding offsetting financial assets and financial liabilities as well as related disclosure requirements.

IAS 36 Impairment of Assets

Amendments to IAS 36 align the disclosures required for the recoverable amount of an asset (or cash generating unit) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use.

IAS 39 Financial Instruments: Recognition and Measurement

Amendments to IAS 39 allows hedge accounting to continue when derivatives are novated to effect clearing with a central counterparty as a result of laws or regulations, if specific conditions are met.

IFRIC 21 Levies

IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

IFRS 2 - Share-based Payment

In December 2013, the IASB amended IFRS 2 – Share-based Payment. The amendment clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. The amendment is effective on a prospective basis for share-based payment transactions for which the grant date is on or after July 1, 2014.

b) 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, 2014, 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.

5. Accounting standards (continued)

b) Accounting standards issued but not yet effective (continued)
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.

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
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 facts and circumstances suggest that 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 7) 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:

6. Critical accounting estimates and judgments (continued)

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 10)

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 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.

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 (note 11(g)) 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.

(Expressed in Canadian dollars)

7. Mineral property interests - Schedule 1 (continued)

b) Chacachas and Ochapowace First Nation prospects (continued)

As at December 31, 2013 the $1,150,000 advanced was repayable in a variable amount of common shares and therefore the liability was a derivative liability and was measured at fair value. The fair value of $425,000 was determined using an option-pricing model. Assumptions used in the pricing model were as follows: average risk-free interest rate – 1.20%; expected life – 2 years; expected volatility – 70%; and expected dividends – nil.). The difference between the funds advanced and the fair value of the derivative liability at the closing date was classified as contributed surplus ($725,000).

During the year ended December 31, 2014 the option was fixed to receive shares of the Company equal to the amount of funds advanced divided by $0.17 per share or 7,352,941 shares. The fair value of the liability was reclassified to equity in accordance with Company's accounting policy.

	Derivative put option
	$
Balance - December 31, 2012	-
Funding received	425,000
Balance - December 31, 2013	425,000
Additional funding received	60,500
Reclassification	(485,500)
Balance - December 31, 2014	**-**

c) SPAR property

The Company continues to hold an undivided 100% interest in the KP441 claim and the property is subject to a 2% net smelter return royalty. An impairment write down of $5,269,068 was taken in relation to the KP441 claim as the Company does not intend to do work in fiscal 2015 as it is focusing on the MFN feasibility study.

During the year ended December 31, 2013 the Company did not renew the KP452 claim and wrote off $1,040,000 in capitalized costs and the Company received a refund of $240,000 from the Government of Saskatchewan related to previously paid deficiency deposits made on the Spar property.

8. Flow-through premium liability

The flow-through premium liability balance as of December 31, 2014 of $105,262 (2013 - $186,675) arose in connection with the flow-through share offerings the Company completed on April 15, 2014. 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.

During the year ended December 31, 2014, with respect to the flow-through share offerings the Company completed in December 2013, a total of $186,675 was fully amortized to the statement of comprehensive loss as the tax benefit was renounced to shareholders in February 2014, with an effective date of December 31, 2013, and all the qualifying flow-through expenditures were incurred.

(Expressed in Canadian dollars)

9. 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.

10. Convertible debenture

On November 28, 2012, the Company issued a convertible debenture for the principal sum of $2,500,000. The convertible 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 convertible debenture was converted by the debenture holder at $0.25 per common share.

On January 14, 2013, the Company issued a convertible debenture for the principal sum of $7,000,000. The convertible 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 convertible 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 convertible debentures have been separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the convertible debenture 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

	Liability Component	**Equity Component**
	$	**$**
Balance - December 31, 2012	1,993,797	242,018
Issued - amount at date of issue	5,900,000	1,100,000
Issuance costs allocated	(292,496)	(54,364)
Deferred income tax liability	-	(350,000)
Amortization of issuance costs	315,112	-
Accretion of discount	801,348	-
Conversion of convertible debenture	(2,500,000)	(242,018)
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**

10. Convertible debenture (continued)

The convertible debenture bears interest at 5% annually and as at December 31, 2014 a total of $577,091 of interest payable was accrued. On August 22, 2014, the repayment date and conversion feature 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 will be amortized and accreted over the extended life of the convertible debenture.

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

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 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 fair value of the warrants was estimated at $65,253 based on the Black-Scholes option pricing model using the following assumptions: risk- free interest rate - 1.00%; expected life – 2 years; expected volatility - 80%; and expected dividends – nil. The Company also incurred other share issuance costs of $17,983 in respect of this placement.

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.

A nominal value has been attributed to the share purchase warrants as per the terms of the subscription agreement for the units. The Company issued 834,268 warrants to Agents 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.

11. Share capital (continued)

c) Financings (continued)

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. A nominal value has been attributed to these warrants as per the terms of the subscription agreement for the units. The Company incurred share issuance costs of $60,554 in respect of this financing.

On April 8, 2013 the Company closed a private placement of 7,950,000 common shares at a price of $0.34 per share for gross proceeds of $2,703,000. A cash finders' fee of $135,150 was paid in connection with the financing. The Company also incurred other cash share issuance costs of $53,573 in respect of this financing.

On December 4, 2013 the Company closed a private placement of 6,222,500 flow-through units at a price of $0.20 per unit for gross proceeds of $1,244,500. Each unit consists of one flow-through common share and one half of a share purchase warrant, each whole warrant entitling the holder to purchase one non flow-through common share at $0.30 until June 4, 2015. The Company also closed a private placement of 3,884,411 non flow-through units at a price of $0.17 per unit for gross proceeds of $660,350. Each unit consists of one common share and one half of one share purchase warrant, each whole warrant entitling the holder to purchase one common share at $0.30 until June 4, 2015. The Company paid cash finder’s fees of $99,560 and other cash share issuance costs of $53,573.

The Company issued 248,900 finder’s fee warrants in connection with the December 4, 2013 private placement. The warrants were attributed a fair value of $13,329 using an option-pricing model. Assumptions used in the pricing model were as follows: average risk-free interest rate – 1.10%; expected life – 1.5 years; expected volatility – 100%; and expected dividends – nil.),. The warrants entitle the holder to purchase one common share at a price of $0.30 until June 4, 2015.

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.

(Expressed in Canadian dollars)

11. Share capital (continued)

d) Stock options (continued)

The balance of options outstanding and related information for the years ended December 31, 2014 and 2013 is as follows:

	Number of options	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2012	25,125,000	$0.21	7.51
Granted	5,025,000	$0.23	
Expired	(100,000)	$0.26	
Cancelled	(750,000)	$0.45	
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
Unvested	(1,050,000)	$0.17	9.46
Exercisable, December 31, 2014	**32,050,000**	**$0.20**	**6.19**

The weighted average fair value of the options granted during the year ended December 31, 2014 was $0.07 (2013 - $0.09). During the year ended December 31, 2014, a total of 2,911,250 (2013 - 4,750,000) options granted vested immediately and the remaining 1,368,750 (2013 - 275,000) vested semi-annually over an 18 month period from the date of grant.

For the year ended December 31, 2014, the Company recorded share-based payments expense of $410,436 (2013 - $570,879). The fair value of these options was determined using an option pricing model using the following weighted average assumptions:

	2014	2013
Risk free interest rate	1.16%	1.11%
Expected life	4.4 years	2 years
Expected volatility	86%	80%
Expected dividends	Nil	Nil

(Expressed in Canadian dollars)

11. Share capital (continued)

d) Stock options (continued)

The balance of options outstanding as at December 31, 2014 was as follows:

Expiry date	Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
June 30, 2015	$0.17	0.50	1,000,000	-	1,000,000
June 30, 2015	$0.15	0.50	500,000	-	500,000
April 28, 2018	$0.17	3.33	200,000	-	200,000
July 13, 2019	$0.17	4.53	7,750,000	-	7,750,000
September 16, 2019	$0.25	4.71	1,000,000	-	1,000,000
July 13, 2020	$0.15	5.54	5,850,000	-	5,850,000
September 1, 2021	$0.17	6.67	525,000	-	525,000
September 1, 2021	$0.26	6.67	3,950,000	-	3,950,000
April 24, 2022	$0.30	7.32	500,000	-	500,000
June 28, 2022	$0.17	7.50	200,000	-	200,000
June 28, 2022	$0.30	7.50	2,400,000	-	2,400,000
January 9, 2023	$0.17	8.03	970,000	-	970,000
January 9, 2023	$0.25	8.03	1,600,000	-	1,600,000
March 25, 2023	$0.28	8.24	275,000	-	275,000
October 18, 2023	$0.20	8.80	100,000	-	100,000
November 20, 2023	$0.20	8.89	2,000,000	-	2,000,000
February 19, 2024	$0.20	9.14	750,000	250,000	500,000
April 28, 2024	$0.17	9.33	2,980,000	387,500	2,592,500
October 9, 2024	$0.15	9.78	550,000	412,500	137,500
			33,100,000	1,050,000	32,050,000

During the year ended December 31, 2014 the Company re-priced 2,670,000 options to $0.17 and extended the expiry date of 1,500,000 options to June 30, 2015.

e) Share purchase warrants

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

	Number of warrants	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2012	7,070,000	$0.34	1.89
Issued	5,302,356	$0.30	
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**

(Expressed in Canadian dollars)

11. Share capital (continued)

e) Share purchase warrants (continued)

The balance of warrants outstanding as at December 31, 2014 was as follows:

Expiry date	Warrants outstanding	Exercise price (per share)	Remaining life (years)
February 19, 2015	1,000,000	$0.20	0.14
April 15, 2015	834,268	$0.30	0.29
June 4, 2015	5,302,356	$0.30	0.42
August 18, 2015	3,150,000	$0.30	0.63
October 15, 2015	10,428,350	$0.30	0.79
October 9, 2016	5,585,000	$0.30	1.78
December 9, 2016	6,470,000	$0.25	1.94
	32,769,974	$0.29	1.08

During the year ended December 31, 2014 the Company extended the expiry date of 6,470,000 warrants to December 9, 2016. Subsequent to December 31, 2014 at total of 1,834,268 warrants expired unexercised.

f) Flow-through shares

The Company is committed to incur on or before December 31, 2015 qualifying Canadian exploration expenses as defined under the *Income Act, Canada* ("Qualifying CEE") in the amount of $999,989 with respect to the flow-through share financings completed during the fiscal year ended December 31, 2014. None of the Qualifying CEE will be available to the Company for future deduction from taxable income.

As at December 31, 2014 the Company has not incurred any of the required qualifying Canadian exploration expenses.

Subsequent to December 31, 2014 the Company renounced $999,989 of flow-through share proceeds to the respective flow-through share subscribers with an effective date of renunciation of December 31, 2014.

g) Contributed surplus

Contributed surplus includes the value of stock option grants, share purchase warrant issuances prior to exercise and the equity portion of the derivative put option. During the year ended December 31, 2014 the Company recorded share-based payments of $410,436 (2013 - $570,879) and a warrant valuation of $130,060 (2013 - $94,184) 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 7). When the put option no longer qualified as a derivative instrument its total fair value ($485,500) was reclassified to equity.

(Expressed in Canadian dollars)

12. Finance expenses

During the year ended December 31, 2014 and 2013 the Company incurred the following finance expenses related to the convertible debentures and loan.

	2014	2013
	$	$
Amortization of issuance costs	**180,038**	315,112
Accretion of discounts	**421,955**	801,348
Interest expense	**366,952**	460,511
	968,945	1,576,971

13. Related party transactions

Key management includes the directors, the Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
	$	$
Management compensation	**396,000**	366,000
Share-based payments	**210,309**	225,184
	606,308	591,184

The Company incurred additional expenditures charged by related parties during the years ended December 31, 2014 and 2013 as follows:

	2014	2013
	$	$
Management compensation	**209,094**	212,623
Share issuance costs	**49,364**	30,549
	258,458	243,172

Included in accounts payable and accrued liabilities as at December 31, 2014 was $757,615 (December 31, 2013 - $219,745) due to directors and officers of the Company and/or companies they control or of which they were significant shareholders.

A director of the Company holds $5,000,000 of the total $7,000,000 convertible debenture.

(Expressed in Canadian dollars)

14. Income taxes

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

	2014	2013
Statutory tax rate	**26.00%**	**25.75%**
	$	**$**
Loss for the year before taxes	(10,297,696)	(7,872,173)
Expected income tax recovery at statutory rate	(2,677,000)	(2,027,000)
Add (deduct) reconciling items:		
Share issue costs	(154,000)	(179,000)
Change in tax rate	-	(68,000)
Items not deductible for tax purposes	118,000	149,000
Non-taxable portion of capital loss	1,000	47,000
Change in estimate	296,000	8,000
Flow through shares	324,000	-
Flow through premium liability	(186,675)	-
Income tax benefit not recognized	2,092,000	(487,000)
Income tax (recovery) expense as booked	(186,675)	(2,557,000)

The increase in the statutory rate from 2013 is a result of legislated increase to the provincial income tax rate.

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:

	2014	2013
	$	**$**
Deferred tax assets:		
Equipment	7,000	16,000
Share issue costs	257,000	248,000
Capital loss carry forward	279,000	15,000
Non-capital losses carried forward	8,444,000	5,939,000
Marketable securities and other	11,000	281,000
	8,998,000	6,499,000
Offset against deferred tax liabilities	(3,934,000)	(3,527,000)
Unrecognized deferred tax assets	(5,064,000)	(2,972,000)
Deferred tax assets	-	-
Deferred tax liabilities:		
Mineral properties	(3,875,000)	(3,324,000)
Convertible debentures	(59,000)	(203,000)
Offset against deferred tax assets	3,934,000	3,527,000
Deferred tax liabilities	-	-
Net deferred tax balance	-	-

(Expressed in Canadian dollars)

14. Income taxes (continued)

As at December 31, 2014, 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	155,000
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	4,558,000
	32,478,000

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 $18,456,000 (2013 - $24,094,000) which can be used to offset future Canadian taxable income.

15. 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. Prior to the reclassification to equity, the derivative put option liability was a separate derivative and was classified as FVTPL, which is measured at fair value with changes recorded through profit and loss. 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.

15. Financial instruments (continued)

The value of the investment and the derivative put option liability have been assessed based on the fair value hierarchy described above. The investment is classified as level 1 and the value of the derivative put option liability, both at inception and as at December 31, 2013 was classified as level 3. The valuation model for the derivative put option liability considers the probability of the various outcomes that could occur under the Put Option Agreement (including the probability of a conversion price adjustment), the Company's share price, the time value of money and the market rate of interest.

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, 2014, 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, 2014, 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 is monitored by Management with decisions on sale taken at Board level. A 10% decrease in the fair value of Sundance shares would result in an immaterial movement in equity.

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, 2014, the Company had a working capital deficiency of $2,590,832 (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 18) including the $7,000,000 convertible debenture that is due for repayment on January 14, 2016 (note 10).

(Expressed in Canadian dollars)

16. 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, 2014, there has been no change in the Company's management of capital policies.

17. 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, 2014 and 2013 the following investing and financing transactions were excluded from the consolidated statements of cash flows:

	2014	2013
	$	$
Fair value of broker warrants	37,809	-
Fair value of bonus warrants	24,913	-
Warrants issued in connection with share issuances	67,338	94,184
Flow through premium liability	105,262	186,675
Mineral property interest expenditures in accounts payable:		
As at December 31, 2014 and 2013	(229,942)	(2,479,754)

18. Commitments

In addition to any commitments pursuant to mineral property interest obligations (Note 7) and qualifying Canadian exploration expenses (Note 11(f)), as at December 31, 2014, the Company is committed to payments, for the next 12 months of $620,000 under consulting services agreements, $63,690 on lease payments for office premises and $350,000 in interest payable on the convertible debenture.

The Company also has $4,107 of office premises expenses due during the remainder of the leases.

19. Subsequent event

On April 28, 2015 the Company was advised by the TSX Venture Exchange that it had accepted the Company's application to close a private placement in excess of 17,000,000 units for gross proceeds up to a minimum of $2,040,000. To date the Company has received $1,461,000 in trust against receipt of securities pursuant to the private placement.

ENCANTO POTASH CORP.

Schedule 1

Consolidated Schedule of Changes in Mineral Property Interests
Year ended December 31, 2014
(Unaudited - Expressed in Canadian dollars)

	MFN Project	Chacachas Ochapawace 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**	**5,593,523**	**-**	**33,359,679**

ENCANTO POTASH CORP. **Schedule 1**

Consolidated Schedule of Changes in Mineral Property Interests
Year ended December 31, 2013
(Unaudited - Expressed in Canadian dollars)

	MFN Project	Chacachas Ochapawace First Nation Prospects	Spar Property	Total
	$	$	$	$
Balance, December 31, 2012	**19,530,255**	**4,000,272**	**6,422,870**	**29,953,397**
Deferred exploration expenditures				
3-D seismic	97,702	122,542	-	220,244
Consulting	91,590	14,549	-	106,139
Drilling	-	1,262,289	-	1,262,289
Environmental	2,022,366	-	-	2,022,366
Feasibility	4,992,992	-	-	4,992,992
Permitting	168,914	29,435	105,268	303,617
Pre-feasibility	448,859	-	-	448,859
	7,822,423	1,428,815	105,268	9,356,506
Write down of mineral property interest	-	-	(1,040,000)	(1,040,000)
Recovery of permitting costs	-	-	(240,000)	(240,000)
Balance, December 31, 2013	**27,352,678**	**5,429,087**	**5,248,138**	**38,029,903**