ENCANTO POTASH CORP.

Consolidated Financial Statements
Years ended December 31, 2013 and 2012

(Expressed in Canadian dollars)

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Independent Auditor's Report

To the shareholders of Encanto Potash Corp.

We have audited the accompanying financial statements of Encanto Potash Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of loss, changes in equity and cash flows 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, 2013 and 2012 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 $24,911,014 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, 2014

ENCANTO POTASH CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Note	December 31 2013	December 31 2012
		$	**$**
Assets			
Current			
Cash		**778,728**	279,529
Taxes recoverable		**162,623**	338,208
Prepaid expenses		**122,894**	92,931
		1,064,245	710,668
Non-current			
Deposits		**135,664**	133,664
Equipment		**30,977**	37,944
Investment		**63,600**	424,000
Mineral property interests	**7**	**38,029,903**	29,953,397
		39,324,389	31,259,673
Liabilities			
Current			
Accounts payable and accrued liabilities		**3,234,183**	1,053,767
Flow-through premium liability	**8**	**186,675**	-
Derivative put option liability	**7**	**425,000**	-
		3,845,858	1,053,767
Non-current			
Convertible debenture – liability component	**9**	**6,217,761**	1,993,797
Deferred tax liability	**13**	**-**	2,207,001
		10,063,619	5,254,565
Shareholders' Equity			
Share capital	**10**	**48,747,561**	41,939,653
Contributed surplus		**4,728,587**	3,419,279
Convertible debenture – equity component		**695,636**	242,018
Deficit		**(24,911,014)**	(19,595,842)
		29,260,770	26,005,108
		39,324,389	31,259,673

Going concern – Note 2
Commitments – Note 7, 10 and 17
Subsequent events – Note 18

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	2013	2012
		$	$
Corporate development consultants		**1,027,814**	1,092,349
Depreciation		**10,575**	12,265
First Nation consulting		**1,001,005**	785,218
First Nation development and designation		**100,000**	97,078
Investor communications		**342,040**	338,527
Legal and audit	**12**	**571,241**	310,463
Management compensation	**12**	**837,474**	556,204
Office		**202,678**	199,255
Regulatory compliance		**73,421**	78,531
Share-based payments		**570,879**	445,691
Travel and accommodation		**195,905**	252,544
Loss before following items		**4,933,032**	4,168,125
Interest earned		**38,230**	44,570
Finance expense	**11**	**(1,576,971)**	(24,950)
Impairment on investment	**6**	**(360,400)**	(1,696,000)
Write off of mineral property interests	**7**	**(1,040,000)**	(575,551)
Loss for the year before income taxes		**(7,872,173)**	(6,420,056)
Deferred income tax recovery		**2,557,001**	230,000
Net loss for the year		**(5,315,172)**	(6,190,056)
Other comprehensive income			
Unrealized loss on investment		**-**	(1,590,000)
Transfer of impairment on investment		**-**	1,696,000
Total comprehensive loss for the year		**(5,315,172)**	(6,084,056)
Loss per share			
- Basic and diluted		**(0.02)**	(0.02)
Weighted average number of shares outstanding			
- Basic and diluted		**285,270,967**	275,871,187

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)

	2013	2012
	$	$
Cash flows (used in) provided by		
Operating activities		
Net loss	**(5,315,172)**	(6,190,056)
Items not affecting cash		
Depreciation	**10,575**	12,265
Share-based payments	**570,879**	445,691
Impairment on investment	**360,400**	1,696,000
Finance expense	**1,116,460**	24,950
Write off of mineral property interests	**1,040,000**	575,551
Deferred income tax recovery	**(2,557,001)**	(230,000)
	(4,773,859)	(3,665,599)
Net change in non-cash working capital items		
Taxes recoverable	**175,585**	(102,409)
Prepaid expenses	**(29,963)**	106,873
Accounts payable and accrued liabilities	**478,540**	28,912
	(4,149,697)	(3,632,223)
Investing activities		
Deferred mineral property interest expenditures	**(7,677,152)**	(6,090,866)
Deposits recovered	**260,522**	50,000
Purchase of equipment	**(3,608)**	(37,233)
	(7,420,238)	(6,078,099)
Financing activities		
Proceeds on shares issued, net of share issuance costs	**4,265,994**	1,705,528
Proceeds on convertible debenture, net of issuance costs	**6,653,140**	2,343,865
Proceeds on mineral property interest put option	**1,150,000**	-
	12,069,134	4,049,393
Increase (Decrease) in cash	**499,199**	(5,660,929)
Cash, beginning of year	**279,529**	5,940,458
Cash, end of year	**778,728**	279,529

Supplemental cash flow information - Note 16

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	AOCI	Deficit	Total
	number	$	$	$	$	$	$
Balance, December 31, 2011	**269,792,298**	**39,811,870**	**3,251,683**	**-**	**(106,000)**	**(13,405,786)**	**29,551,767**
Shares issued in consideration for:							
Cash, pursuant to:							
- Warrants exercised	6,367,500	1,621,723	(173,695)	-	-	-	1,448,028
- Options exercised	1,650,000	402,060	(144,560)	-	-	-	257,500
Mineral property interests	400,000	104,000	40,160	-	-	-	144,160
Convertible debenture	-	-	-	242,018	-	-	242,018
Share-based payments	-	-	445,691	-	-	-	445,691
Comprehensive loss	-	-	-	-	106,000	(6,190,056)	(6,084,056)
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 placements	18,056,911	4,421,074	100	-	-	-	4,421,174
Share issuance costs	-	(355,184)	13,329	-	-	-	(341,855)
Convertible debenture	10,000,000	2,742,018	-	(242,018)	-	-	2,500,000
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**

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 British Columbia, Alberta, Saskatchewan and Ontario 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, 2013, the Company has a working capital deficit of $2,781,613 and has not yet achieved profitable operations, had an accumulated deficit of $24,911,014 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. Subsequent to December 31, 2013 the Company raised gross proceeds of $4,185,901 from equity offerings. Refer to Note 18.

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, 2014.

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.

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, 2013 and December 31, 2012, the Company had no decommissioning or restoration provisions.

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

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

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

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss except for losses in value that are considered a significant or prolonged decline in the fair value of that investment below its cost, which are recognized in income or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to an

amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income or loss.

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

g) Financial liabilities

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

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

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

h) De-recognition of financial assets and liabilities

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

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

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.

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, 2013 and 2012 basic and diluted loss per share are the same. The effect of potential issuances of 69,672,356 (2012 – 42,195,000) shares in respect of stock options, common share purchase warrants and convertible debt 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 from January 1, 2013

The following revised standards and amendments became effective on January 1, 2013. The new and amended standards did not have a significant impact on the financial statements. The following is a brief summary of the principal new standards:

IFRS 10 – Consolidation
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 1, Presentation of Financial Statements
IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

b) Accounting standards issued but not yet effective

The following revised standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company has not completed its assessment of the impact that the new and amended standard will have on its financial statements. The following is a brief summary of the principal new standard:

IFRS 9 – Financial Instruments
IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

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 has entered into an agreement on the Ochapowace First Nation prospect (see 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:

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. 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 Refer to Note 9 for further details.

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 two separate groups of 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. In accordance with the agreements, the Company issued 400,000 common shares (fair value - $104,000 being the value based on the closing price at the date of issuance) and 400,000 common share purchase warrants (fair value - $40,160, was attributed to these warrants using an option-pricing model. Assumptions used in the pricing model were as follows: average risk-free interest rate – 1.10%; expected life – 1 years; expected volatility – 100%; and expected dividends – nil.), which are exercisable at a price of $0.26 per share until February 1, 2014.

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 a put option agreement (the “Put Option Agreement”), with a related party, to sell an 80% interest in the Company’s potash rights under the EPA and a 50% working interest in the oil and gas permits under the Farm-Out Agreement by advancing the Company $1,150,000 (paid) on the closing date . A further $100,000 (paid subsequent to December 31, 2013) is payable under the Put Option Agreement within seven days of the Company providing notice that preparation of a Resource Report is warranted. The Put Option Agreement grants the same related party the right, for two years, to put these interests back to the Company and receive common shares

of the Company equal to the amount of any funds advanced divided by the lesser of $0.34 per common share and the price at which common shares are issued in a future financing as determined by the Company and the related party, acting reasonably, subject to TSX-V approval.

The funds advanced during the year ended December 31, 2013 are a current liability to the Company as the put option can be exercised at any time up to the expiry date of October 9, 2015. As the put option is repayable in a variable amount of common shares, the liability is a derivative liability and was measured at fair value at October 9, 2013. 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).

There was no material change in the fair value as at December 31, 2013. This balance does not represent a cash liability to the Company.

c) SPAR property

During the year ended December 31, 2013 the Company did not renew the KP452 claim and wrote off $1,040,000 in capitalized costs. During the year ended December 31, 2012 the Company did not to renew the KP455, KP466, KP467 and KP468 claims within the Spar property and wrote off $575,551 in capitalized costs.

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. During the year ended December 31, 2013, 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 of $186,675 (2012 - $nil) arose in connection with flow-through share offerings the Company completed during December 2013. 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 income or loss pro-rata with the amount of qualifying flow-through expenditures that are incurred by the Company.

9. 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, 2015 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, 2011	**-**	**-**
Amount at date of issue	2,100,000	400,000
Issuance costs allocated	(131,153)	(24,982)
Deferred income tax liability	-	(133,000)
Amortization of issuance costs	11,949	-
Accretion of discount	13,001	-
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

10. 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 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.

The balance of options outstanding and related information for the years ended December 31, 2013 and 2012 are as follows:

	Number of options	Weighted average exercise price (per share)	Weighted average remaining life (years)
Balance, December 31, 2011	24,345,000	$0.19	7.98
Granted	5,100,000	$0.36	
Exercised	(1,650,000)	$0.16	
Expired	(670,000)	$0.34	
Forfeited	(2,000,000)	$0.38	
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
Unvested	(137,500)	$0.28	9.24
Exercisable, December 31, 2013	29,162,500	$0.22	7.19

During the year ended December 31, 2012, the weighted average trading price per share as traded on the TSXV on the days that options were exercised was $0.28 per share. The weighted average

exercise price of the options exercised was $0.16 per share. No options were exercised during the year ended December 31, 2013.

The weighted average fair value of the options granted during the year ended December 31, 2013 was $0.09 (2012 - $0.06). During the year ended December 31, 2013, a total of 4,750,000 options granted vested immediately and the remaining 275,000 vested semi-annually over an 18 month period from the date of grant. During the year ended December 31, 2012, a total of 4,100,000 of the options granted vested upon completion of certain milestones. The remaining 1,000,000 of the options granted vested quarterly over a one year period from the date of grant.

For the year ended December 31, 2013, the Company recorded share-based payments expense of $570,879 (2012 - $445,691). The fair value of these options was determined using an option pricing model using the following weighted average assumptions:

	2013	2012
Risk free interest rate	1.10%	1.11%
Expected life	2 years	1.2 years
Expected volatility	80%	89%
Expected dividends	Nil	Nil

The balance of options outstanding as at December 31, 2013 was as follows:

Expiry date	Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
December 31, 2014	$0.15	1.00	500,000	-	500,000
December 31, 2014	$0.17	1.00	1,000,000	-	1,000,000
December 31, 2014	$0.25	1.00	75,000	-	75,000
December 31, 2014	$0.26	1.00	400,000	-	400,000
April 28, 2018	$0.30	4.33	200,000	-	200,000
July 13, 2019	$0.17	5.53	7,750,000	-	7,750,000
September 16, 2019	$0.25	5.71	1,000,000	-	1,000,000
July 13, 2020	$0.15	6.54	5,850,000	-	5,850,000
September 1, 2021	$0.26	7.67	4,475,000	-	4,475,000
April 24, 2022	$0.30	8.32	500,000	-	500,000
June 28, 2022	$0.30	8.50	2,600,000	-	2,600,000
January 9, 2023	$0.25	9.03	2,575,000	-	2,575,000
March 25, 2023	$0.28	9.24	275,000	137,500	137,500
October 18, 2023	$0.20	9.80	100,000	-	100,000
November 20, 2023	$0.20	9.89	2,000,000	-	2,000,000
			29,300,000	137,500	29,162,500

Subsequent to December 31, 2013 the Company granted 750,000 and 2,980,000 options at an exercise price of $0.20 and $0.17, respectively, with an expiry date on the tenth anniversary of the grant date. A total of 5,000 options expired unexercised with an exercise price of $0.25 and a total of 2,670,000 options were re-priced to $0.17.

e) Share purchase warrants

The balance of warrants outstanding and related information for the years December 31, 2013 and 2012 is as follows:

	Number of warrants	Weighted average exercise price (per share)	Weighted average Remaining life (years)
Balance, December 31, 2011	28,395,661	$0.43	1.15
Issued	400,000	$0.26	
Exercised	(6,367,500)	$0.23	
Expired	(15,358,161)	$0.55	
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

During the year ended December 31, 2012 the weighted average trading price per share as traded on the TSXV on the days that warrants were exercised was $0.35 per share. The weighted average exercise price of the warrants exercised was $0.23 per share. No warrants were exercised in the year ended December 31, 2013.

The balance of warrants outstanding as at December 31, 2013 was as follows:

Expiry date	Warrants outstanding	Exercise price (per share)	Remaining life (years)
February 1, 2014	400,000	$0.26	0.09
October 28, 2014	200,000	$0.225	0.82
December 9, 2014	6,470,000	$0.35	0.94
June 4, 2015	5,302,356	$0.30	1.42
	12,372,356	$0.32	1.12

Subsequent to December 31, 2013 a total of 400,000 warrants at an exercise price of $0.26 expired unexercised. In addition, a total of 15,412,618 warrants were issued, refer to note 18 for details.

f) Flow-through shares

The Company is committed to incur on or before December 31, 2014 qualifying Canadian exploration expenses as defined under the *Income Act, Canada* ("Qualifying CEE") in the amount of $1,244,500 with respect to the flow-through share financings completed during the fiscal year ended December 31, 2013. None of the Qualifying CEE will be available to the Company for future deduction from taxable income. As at December 31, 2013 the Company completed its commitment to incur the qualifying Canadian exploration expenses.

Subsequent to December 31, 2013 the Company renounced $1,244,500 of flow-through share proceeds to the respective flow-through share subscribers with an effective date of renunciation of December 31, 2013.

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 (note 7). During the year ended December 31, 2013 the Company recorded share-based payments of $570,879 (2012 - $445,691) and a warrant valuation of $94,184 (2012 - $40,160) to contributed surplus and transferred $nil (2012 - $318,255) out of contributed surplus to share capital upon exercise of stock options and share

purchase warrants. The difference between the funds advanced under the Put-Option Agreement and the fair value of the derivative liability at the closing date was classified as contributed surplus ($725,000).

11. Finance expenses

During the year ended December 31, 2013 and 2012, the Company incurred the following finance expense related to the convertible debentures:

	2013	2012
	$	$
Amortization of issuance costs	315,112	11,949
Accretion	801,348	13,001
Interest expense	460,511	-
	1,576,971	24,950

12. Related party transactions

During the year ended December 31, 2013 and 2012, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or in which they were significant shareholders:

	2013	2012
	$	$
Management compensation	467,474	196,204
Legal fees	-	2,413
Share issuance costs	30,549	-
	498,023	198,617

Included in accounts payable and accrued liabilities as at December 31, 2013 was $42,658 (2012 - $30,748) due to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing are unsecured, non-interest bearing and due on demand.

A director of the Company holds $5,000,000 of the total $7,000,000 convertible debentures and is owed $177,086 in accrued interest.

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, 2013 and 2012 was as follows:

	2013	2012
	$	$
Management compensation	438,000	348,000
Share-based payments	225,184	98,220
	663,184	446,220

13. Income taxes

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

	2013	**2012**
Statutory tax rate	**25.75%**	**25.0%**
	$	**$**
Loss for the year before taxes	(7,872,173)	(6,420,056)
Expected income tax recovery at statutory rate	(2,027,000)	(1,605,000)
Add (deduct) reconciling items:		
Share issue costs	(179,000)	(39,000)
Change in tax rate*	(68,000)	-
Items not deductible for tax purposes	149,000	132,000
Non-taxable portion of capital loss	47,000	225,000
Change in estimate	8,000	(322,000)
Flow through shares	-	500,000
Flow through premium liability	-	(650,000)
Income tax benefit not recognized	(487,000)	1,529,000
Income tax (recovery) expense as booked	(2,557,000)	(230,000)

*Effective April 1, 2013, The British Columbia provincial tax rate increased from 10% to 11% while the Canadian Federal corporate tax rate remained at 15%.

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:

	2013	**2012**
	$	**$**
Deferred tax assets:		
Equipment	16,000	12,000
Share issue costs	248,000	189,000
Capital loss carry forward	15,000	14,000
Non-capital losses carried forward	5,939,000	3,146,000
Marketable securities and other	281,000	224,000
	6,499,000	3,585,000
Offset against deferred tax liabilities	(3,527,000)	(126,000)
Unrecognized deferred tax assets	(2,972,000)	(3,459,000)
Deferred tax assets	-	-
Deferred tax liabilities:		
Mineral properties	(3,324,000)	(2,207,000)
Convertible debentures	(203,000)	(126,000)
Offset against deferred tax assets	3,527,000	126,000
Deferred tax liabilities	-	(2,207,000)
Net deferred tax balance	-	(2,207,000)

As at December 31, 2013, 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	7,700,000
	22,840,000

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 $24,094,000 (2012 - $21,128,000) which can be used to offset future Canadian taxable income.

14. Financial instruments

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

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 is 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, 2013, 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, 2013, 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, 2013, the Company had a working capital deficiency of $2,781,613 (including the flow-through premium liability and the derivative put option liability) which is not sufficient to cover funding requirements for operations as currently planned for at least the next twelve months. Subsequent to December 31, 2013 the Company completed a private placement and short form prospectus offering raising gross proceeds of $4,185,901. Refer to note 18.

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.

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, 2013, 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 years ended December 31, 2013 and 2012 the following transactions were excluded from the consolidated statements of cash flows:

	2013	2012
	$	$
Non-cash investing and financing transactions		
Fair value transferred from contributed surplus to share capital upon exercise of options and warrants	-	318,255
Warrants issued in connection with private placement	94,184	-
Common shares issued for mineral property interest acquisitions	-	104,000
Warrants issued for mineral property interest acquisitions	-	40,160
Mineral property interest expenditures in accounts payable	(2,479,754)	(777,878)
Reclassification from deposits to prepaid expenses	-	62,496
Reclassification from prepaid expenses to deposits	-	18,924

17. Commitments

In addition to any commitments pursuant to mineral property interest obligations (Note 7), as at December 31, 2013, the Company is committed to payments, for the next 12 months, of $723,000 under consulting services agreements, $90,707 on lease payments for office premises and $350,000 in interest payable on the convertible debentures.

The convertible debenture is due for repayment as to $7,000,000 on January 14, 2015. The Company also has $67,798 of office premises expenses due during the remainder of the leases.

18. Subsequent events

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 $535,000. 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.

On February 20, 2014 the Company closed a short term loan of $750,000, for a term of 60 days which bears interest at the rate of 15% per annum. The lender also received warrants entitling it to purchase up to 1,000,000 common shares at a price of $0.20 per share on or before February 19, 2015. The loan was repaid in full on April 16, 2014.

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

The Company 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.

ENCANTO POTASH CORP.

Schedule 1

Consolidated Schedule of Changes in Mineral Property Interests
Year ended December 31, 2013
(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**

ENCANTO POTASH CORP.

Schedule 1

Consolidated Schedule of Changes in Mineral Property Interests
Year ended December 31, 2012
(Expressed in Canadian dollars)

	MFN Project	Chacachas Ochapawace First Nation Prospects	Spar and KP 452 Claim	Total
	$	$	$	$
Balance, December 31, 2011	**13,255,684**	**3,967,437**	**6,747,824**	**23,970,945**
Acquisition costs				
Shares and warrants	144,160	-	-	144,160
Deferred exploration expenditures				
3-D seismic	1,709,121	-	-	1,709,121
Assaying	125,162	-	-	125,162
Consulting	147,951	-	-	147,951
Drilling	141,493	8,168	-	149,661
Engineering studies	67,046	-	-	67,046
Environmental	1,674,909	-	-	1,674,909
Other	58,065	-	-	58,065
Permitting	15,853	24,667	250,597	291,117
Pre-feasibility	2,180,811	-	-	2,180,811
Site reclamation	10,000	-	-	10,000
	6,130,411	32,835	250,597	6,413,843
Write off of mineral property interests	-	-	(575,551)	(575,551)
Balance, December 31, 2012	**19,530,255**	**4,000,272**	**6,422,870**	**29,953,397**