

**ENCANTO POTASH CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information, prepared as of August 23, 2010, should be read in conjunction with the unaudited interim consolidated financial statements of Encanto Potash Corp. (the "Company") for the three and six-month periods ended June 30, 2010, together with the Company's audited consolidated financial statements for the year ended December 31, 2009, and the accompanying management's discussion and analysis for the fiscal year then ended ("the Annual MD&A"). All amounts are expressed in Canadian dollars unless otherwise indicated. All of the Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

**Forward-Looking Statements**

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A and in particular the "Outlook" section, contains forward-looking statements including, without limitation, the interpretation of drill results, future equity financing activities, potential off take agreements and potential strategic investors. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning the interpretation of drill results may be considered a forward-looking statement, as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of August 23, 2010.
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Such risks and other factors include, among others, risks related to the integration of acquisitions; risks related to operations; actual results of current exploration activities; conclusions of economic evaluations; future prices of metals; failure of plant, equipment or processes to operate as anticipated accidents, labour disputes and other risks of the mining industry delays in obtaining governmental approvals of financial or in the completion of development or construction activities, as well as those factors discussed in the sections entitled "Risks and Uncertainties". Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.
- The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

## **General**

On July 13, 2009, Angus Ventures Corp (“Angus”) acquired all of the issued and outstanding common shares of a private Alberta Company (“Encanto”) in exchange for 87,531,153 common shares of Angus. As a result of this transaction, the shareholders of Encanto acquired more than 50% of Angus’s issued and outstanding common shares and the transaction was accounted for as a reverse takeover (“RTO”). Upon completion of the RTO, the shareholders of Encanto obtained control of the consolidated entity. Under the purchase method of accounting Encanto has been identified as the acquirer, and accordingly the entity is considered to be a continuation of Encanto with the net assets of Angus at the date of the RTO deemed to have been acquired by Encanto (Note 3 to the December 31, 2009 audited consolidated financial statements). The consolidated financial statements for the year ended December 31, 2009 include the results of operations of Encanto from January 1, 2009 and of Angus from July 13, 2009, the date of the RTO. The comparative figures are those of Encanto.

Effective July 14, 2009, Angus changed its name from Angus Ventures Corp. to Encanto Potash Corp.

The Company is an exploration stage company that is building a mineral property inventory that is focused on potash prospects located in Saskatchewan.

The Company currently is a reporting issuer in the provinces of Alberta and British Columbia and trades on the TSXV under the trading symbol “EPO.”

## **Saskatchewan Potash Properties - Exploration Summary**

### ***Muskowekwan First Nation Prospect***

Through Encanto Resources Limited (“ERL”), on July 31, 2009 the Company entered into Exploration Participation Agreements (“EPA’s”) with Muskowekwan First Nation (“MFN”) and Muskowekwan Resources Ltd. (“MRL”) on two separate groups of MFN reserve lands (the “MFN Prospect”) aggregating approximately 36,300 acres in Saskatchewan and pursuant to which the Company has obtained the exclusive right to explore for, develop and produce potash minerals. In connection with the EPA’s, MFN applied for and received a permit for each of the two groups of reserve lands from the Crown authorizing the Company, MFN and MRL to proceed under the terms of the EPA’s as contemplated. The consideration paid by the Company for being granted the exclusive right to conduct exploration activities on MFN’s reserve lands as authorized by the Permits, is disclosed in Note 3 to the June 30, 2010 unaudited interim consolidated financial statements.

The Company completed an approximately 33 square mile 3D Seismic Survey over the Muskowekwan reserve as a follow up to the earlier 2D Seismic Survey and the excellent assay results from the Lestock 2-9 core hole. This survey has been processed and interpretation is being completed. Preliminary results indicate that the potash bearing beds are continuous and, for the most part, undisturbed. Several further drilling locations have been identified. Surveying has begun on 5 of these locations and at least 4 will be drilled in the third quarter of 2010. This drilling program is expected to culminate in a NI 43-101 resource calculation, as defined by the CIMM, by the fourth quarter of 2010. North Rim Exploration Ltd of Saskatoon has been retained to produce this report.

### ***Other First Nations Prospects***

As at June 30, 2010, through ERL, the Company is a party to two other EPA’s and five Memorandums of Understanding (“MOU’s”) with various other First Nations Bands (the “Bands”). The Company has obtained four permits from the Crown to explore and develop potash minerals on the reserve lands of the Bands, all located in Saskatchewan.

While the MOU's or EPA's, as the case may be, with each of the Bands are not identical, they contain material terms largely identical to the terms for the EPA's executed with MFN and MRL. The significant monetary commitments are disclosed in Note 3 to the June 30, 2010 unaudited interim consolidated financial statements.

The Company conducted an exploration program which consisted of a 2D Seismic Survey as well as completing one exploration drill hole to a depth of approximately 1,250 meters. The active structuring at the Prairie Evaporite level plus the relatively poor potash grade encountered in the test well caused the Company to proceed with the a 3D Seismic Survey on the Muskowekwan property only at this time. The Company still sees value in the Ochapowace property and will reassess its results by the end of the 2010 fiscal year to determine a course of action. No work is contemplated on the various other First Nations Band lands in 2010, as the Company is currently focusing on the Muskowekwan Property.

### ***Spar Property and KP452 Claim***

By an agreement dated July 24, 2009, effective August 11, 2009, between the Company and Lion Energy Corp. (formerly Raytec Metals Corp.) ("Lion"), the Company acquired all of Lion's interests in its potash properties (the "Lion Potash Properties") in Saskatchewan for 19,846,525 common shares at \$0.25 per share for a fair value of \$4,961,631, being Lion's acquisition costs and costs incurred to date on the Lion Potash Properties.

Further, Lion agreed to incur \$6,500,000 of expenditures on the Company's potash property interests by December 31, 2009 to earn a 51% interest in the properties (including the Lion Potash Properties), which interest the Company had the option to repurchase for 26,000,000 common shares. As at December 31, 2009, Lion had incurred \$6,500,000 of expenditures on the Company's potash properties and accordingly earned a 51% interest in the properties. Of these expenditures approximately, \$4.9 million was incurred on the MFN Prospect and \$1.6 million was incurred on reserve lands owned by other First Nations. On February 3, 2010, the Company exercised its option to repurchase this 51% interest in the Company's potash properties by issuing 26,000,000 common shares to Lion for a fair value of \$5,460,000.

The Company issued 500,000 common shares as a finder's fee with a fair value of \$125,000 to an independent third party in respect of the transactions with Lion.

The Lion Potash Properties' vendor retains a 2% net smelter return on the property.

The only work contemplated on the Spar property is an engineering assessment of the past work and future potential of the property.

## Quarterly Results

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being the three months ended June 30, 2010.

<b>Three months ended</b>				
	<b>June 30 2010</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>	<b>September 30, 2009</b>
Total revenue	\$ -	\$ -	\$ -	\$ -
Net loss	\$ (404,560)	\$ (390,000)	\$ (1,231,211)	\$ (1,357,685)
Net loss per share (basic and diluted) <sup>(1)</sup>	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.01)
Deferred exploration expenditures and acquisition costs	\$ 567,644	\$ 5,758,268	\$ 203,408	\$ 5,833,475
Total assets	\$ 17,372,101	\$ 17,436,993	\$ 12,149,184	\$ 11,397,341

<b>Three months ended</b>				
	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>December 31, 2008</b>	<b>September 30, 2008</b>
Total revenue	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ (492,860)	\$ 290,347	\$ (593,811)	\$ (604,465)
Net income (loss) per share (basic and diluted) <sup>(1)</sup>	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.01)
Deferred exploration expenditures and acquisition costs	\$ 873,916	\$ -	\$ 1,815,320	\$ 0,000
Total assets	\$ 6,234,226	\$ 4,206,461	\$ 4,478,023	\$ 2,390,078

<sup>(1)</sup> The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

The net income reported in the quarter ended March 31, 2009, resulted from the Company recording a credit to its statement of operations with respect to income tax benefits not previously recognized and which arose from the renunciation of flow-through expenditures in the quarter. During the quarter ended September 30, 2009, the Company recorded an additional credit with respect to income tax benefits based on a revision of the tax rates used to calculate the credit. During the quarter ended December 31, 2009, the Company reclassified \$525,000 from the statement of operations to the balance sheet as a future income tax liability due to future tax liabilities in excess of future tax assets on a non-consolidated basis.

During the quarters ended June 30, 2010, March 31, 2010, December 31, 2009, September 30, 2009 and September 30, 2008, the Company recorded stock-based compensation expense of \$57,276, \$74,189, \$156,954, \$1,043,302 and \$476,000 respectively that was not recorded in any other quarter.

The increase in total assets during the quarters ended December 31, 2009, June 30, 2009, December 31, 2008 and June 30, 2008 was due to the completion of private placement financings during those quarters. The increase in deferred exploration expenditures during the quarters

reflects exploration activity conducted by the Company on its mineral prospects, funded by the financings completed in the respective quarters.

During the quarter ended September 30, 2009, the total assets and mineral properties increased due to the acquisition of the Lion Potash Properties (\$6,086,631). During the quarter ended March 31, 2010, the total assets increased due to the shares issued to Lion (\$5,460,000) to reacquire the Company's 51% interest in the mineral properties.

## **Results of Operations**

### ***Overall discussion of 2010 operations compared to 2009***

Business activities in the fiscal 2010 have focused primarily on the continued exploration on the Company's mineral prospects whereas in the comparative period for fiscal 2009, business activities focused primarily on working through the regulatory process to formalize certain of the prior agreements with First Nations Bands. In addition, during the fiscal 2009 period considerable time and effort was dedicated to concluding the reverse take-over transaction with Angus.

Accordingly, in the quarters ended since March 31, 2009, operating expense levels in each respective three-month period have been driven by the occurrence of three overriding factors: first, completion of the RTO and related reorganization in the quarters ended June 30, and September 30, 2009 which contributed to increased accounting, legal, filing and transfer agent fees; second, post reorganization administrative activities which resulted in increased management fees, investor relations; and third, stock-based compensation in the period since June 30, 2009 as the Company sought to implement its exploration plans, secure financing and retain the necessary management expertise and services.

### ***Three months ended June 30, 2010 as compared to three months ended June 30, 2009***

During the three months ended June 30, 2010, the Company reported a net loss of \$404,560 or \$0.00 loss per share (2009 - net loss \$492,960 or \$0.01 loss per share). During the quarter ended June 30, 2010, consistent with the preceding overall discussion of operations, management fees, office expenses, and investor relations were all higher compared to expenses incurred in the prior year. Likewise, audit, legal, filing and transfer agent fees declined in the quarter ended June 2010 compared to those incurred in the comparative 2009 period.

The reasons for the \$56,467 decline in consulting fees to \$111,093 for the three months ended June 2010 from \$167,560 in the prior year is disclosed in the discussion of operations for the six month period ended June 30, 2010.

### ***Six months ended June 30, 2010 as compared to six months ended June 30, 2009***

During the six months ended June 30, 2010, the Company reported a net loss of \$794,560 or \$0.00 loss per share (2009 - net loss \$202,513 or \$0.00 loss per share). With the exception of consulting fees and the provision for income taxes, operating expense levels in the six month period ended June 30, 2010 compared to those of 2009 were generally consistent with the preceding overall discussion and that for the three-month periods ended June 30, 2010 and 2009. A synopsis of consulting fees and the provision for income taxes follows.

With respect to consulting fees, the Company incurs basic on-going consulting fees with First Nations in the administration of field operations that can be expected to average in the order of \$12,000 per month and a monthly corporate advisory fee of \$5,000. In the six month period ended June 2010, consulting fees declined \$130,129 from \$276,147 in 2009 to \$146,018. Therefore in 2010 Consulting fees include basic on-going corporate advisory and First Nations fees in the order of \$102,000 plus approximately \$44,000 (net of recoveries of \$14,000) in the cost of assistance provided in the consolidation of mineral title tenures and completing definitive

agreements with respect to future operating plans for total consulting fees in the six-month period ended June 2010 of \$146,018.

For 2009, in addition some minor incidental consulting fees that totalled approximately \$17,000, consistent with 2010, the Company incurred basic on-going monthly corporate advisory and First Nations consulting fees in the order of \$100,000. However; additional consulting fees were incurred to address First Nations considerations specific to the RTO and corporate consultants who were retained to advise in the corporate restructuring that lead to the RTO which together accounted for approximately \$159,000 for total consulting fees in the six-month period ended June 2009 of \$276, 147.

The operations for the six-month period ended June 30, 2009 include a recovery of future income taxes in the amount of \$547,000. This amount arises in connection with the Company's accounting for tax benefits forgone upon issuing flow-through shares and renouncing the related qualifying Canadian Exploration Expenditures to the flow-through share subscribers. During the quarter ended December 31, 2009, \$525,000 of this amount was reclassified to future income tax liability as described above. During the quarter ended March 31, 2010, the Company renounced qualifying Canadian Exploration Expenditures relating to flow-through shares issued in April 2009 and recorded the tax benefits forgone as an increase to future income tax liability of \$211,000.

### **Capital Expenditures**

During the three months ended June 30, 2010, the Company incurred cash expenditures of \$576,345 including accounts payable of \$229,965, net \$376,380 (\$865,912 including accounts payable of \$229,965 for the six month period, net \$635,947) on exploration of its potash mineral prospects. In addition the Company issued 26,000,000 shares at deemed price of \$0.21 each for a gross consideration of \$5,460,000 to exercise its option to reacquire Lion Potash Properties/

With the closing of a \$6,000,000 brokered private placement on July 6, 2010, the Company expects that its capital expenditures will increase in future reporting periods with the ongoing exploration and development of its potash mineral prospects.

### **Financing Activities**

During the six months ended June 30, 2010, no financings were completed. The Company received proceeds of \$219,000 pursuant to the exercise of 2,153,333 warrants

On July 6, 2010, the Company closed a brokered private placement ("BPP") consisting of 33,333,332 flow-through shares at a price of \$0.15 each and 6,666,667 non flow-through units at a price of \$0.15 each for aggregate gross proceeds of \$6,000,000. Each non flow-through unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.20 at any time until July 6, 2012. In addition to related out-of-pocket expenses, issue costs included agent compensation that consisted of a 6% commission on the gross proceeds and 2,400,000 broker warrants exercisable at a price of \$0.20 per common share at any time on or before July 6, 2012. In addition, in the period since June 30, 2010, the Company generated an additional \$543,334 with the exercising of 5,433,334 warrants at a price of \$0.10 each that were to have expired on August 11, 2010.

### **Liquidity and Capital Resources**

During the six months ended June 30, 2010, the Company's net cash position declined \$1,102,197 from \$1,109,594 at December 31, 2009 to \$7,397 at June 30, 2010. Operating activities consumed \$668,750 (2009 - \$725,029) including working capital increases of \$8,968 (2009 - \$19,257). Cash requirements for investing activities in the six months ended June 2010

totaled \$652,447, (2009 - \$335,371) including \$635,947 (2009 - \$335,145) for deferred exploration expenditures on the Company's potash mineral prospects. Cash requirements to fund operating and investing activities in the current period was funded from cash on hand at the beginning of the year, increases in accounts payable and accrued liabilities plus the proceeds of warrants exercised.

Between December 31, 2009 and June 30, 2010, the Company's working capital declined by \$1,323,194 from \$1,123,018 at December 31, 2009 to result in a working capital deficiency of \$200,176 as at June 30, 2010.

As of July 6, 2010, the Company had resolved its working capital deficiency on completion of the \$6,000,000 BPP as discussed under the heading, Financing Activities.

#### **Transactions with Related Parties**

During the three and six-month periods ended June 30, 2010 and 2009, the Company incurred the following expenditures charged by directors and officers of the Company, or former directors and officers of the Company, and/or by companies they owned or in which they were significant shareholders:

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Accounting fees	\$18,000	32,186	\$ 36,000	\$ 47,319
Legal fees	2,496	-	8,586	-
Management fees	33,750	36,500	67,500	49,500
Office	19,654	3,876	25,088	3,876
	<u>\$ 73,900</u>	<u>\$ 72,562</u>	<u>\$ 137,174</u>	<u>\$ 100,695</u>

These expenditures were measured at the exchange amount which is the amount agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities as at June 30, 2010 is \$25,708 (December 31, 2009 - \$12,472) due to directors and officers of the Company and/or companies controlled by them or in which they are significant shareholders. The amounts owing are unsecured, non-interest bearing and due on demand.

## Dependence on Management

The Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

## Changes in Accounting Policies Including Initial Adoption

### **Recently adopted accounting policies**

**Comment [ck1]:** Ensure this is consistent with the FS and nothing missing.

#### ***Business combinations, consolidated financial statements and non-controlling interest***

Effective January 1, 2010, the Company elected to early adopt CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for the accounting for a business combination and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008).

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

To date there has been no impact on the Company's financial statements as a result of the adoption of these sections.

### **International Financial Reporting Standards ("IFRS")**

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period ending March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan comprised of three phases:

<b>PHASE</b>	<b>DESCRIPTION AND STATUS</b>
<b><i>PRELIMINARY PLANNING AND SCOPING</i></b>	<p>This phase involved development of the IFRS conversion plan and has been completed. The IFRS conversion plan includes consideration of the impacts of IFRS on the Company's consolidated financial statements, internal control over financial reporting, information systems and business activities such as compensation metrics, and personnel and training requirements.</p> <p>Based on Management's review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics.</p> <p>The IFRS conversion plan includes a high level impact assessment of IFRS effective in 2009, as relevant to the Company. This initial assessment identified several standards of high or medium priority to the Company, based on a number of factors. The International Accounting Standards Board has activities currently underway which may, or will, change the standards effective upon the Company's adoption of IFRS, and therefore may impact this initial high level assessment. The Company will assess any such change as a component of its Detailed Impact Assessment phase and update its IFRS conversion plan as appropriate. No significant changes were made to the IFRS conversion plan during the first half of 2010.</p>
<b><i>DETAILED IMPACT ASSESSMENT</i></b>	<p>This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's consolidated financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants. The Company has completed its detailed review of IFRS relevant to the Company and identified the key differences but has not as yet quantified the impact on key line items and disclosures.</p>
<b><i>IMPLEMENTATION</i></b>	<p>This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective January 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.</p>

### **Financial Instruments**

#### Fair Value of Financial Instruments

The Company's financial instruments consist of cash, amounts receivable, and accounts payable

and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to the immediate or short term maturity of these items.

The Company classifies fair values of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement and reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. As at June 30, 2010, the Company had no financial instruments which are measured at fair value on a recurring bases as the fair value of financial instruments approximates their carrying value due to the immediate or short term maturity of these items.

#### Foreign Exchange Risk

As at June 30, 2010 and December 31, 2009, 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.

#### Credit Risk

Credit risk arises from cash held with banks and financial institutions as well as from receivables and amounts due from shareholders and related parties. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with a large Canadian bank.

#### 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.

#### Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. During the quarter ended June 30, 2010, Management determined that the Company required additional financial resources to settle obligations. This matter was addressed upon the closing of the \$6,000,000 BPP on July 6, 2010.

#### Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of potash.

**Comment [ck2]:** This is not an universal symbol. Suggest to change.

## Outstanding Share Data

### 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) Issued and outstanding:

213,442,935 common shares as at August 23, 2010

### c) Outstanding warrants and options:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number</u>
<b>Warrants:</b>		
November 14, 2010	\$0.25	536,006
November 14, 2010	\$0.50	652,503
April 24, 2011	\$0.20	6,266,189
May 12, 2011	\$0.20	1,453,124
October 13, 2011	\$0.20	200,000
October 28, 2011	\$0.23	200,000
November 9, 2011	\$0.24	400,000
November 30, 2011	\$0.35	2,380,954
July 6, 2012	\$0.20	<u>5,733,333</u>
		<u>17,822,109</u>
<b>Options</b>		
July 13, 2019	\$0.17	10,250,000
September 16, 2019	\$0.25	1,000,000
July 13, 2020	\$0.15	<u>7,950,000</u>
		<u>19,200,000</u>

### Disclosure Controls and Procedures

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the interim consolidated financial statements for the three and six-month periods ended June 30, 2010 and this accompanying MD&A.

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with its filings on SEDAR at [www.sedar.com](http://www.sedar.com).

**Comment [ck3]:** Not required as a separate certification will be signed and filed; suggest to remove

## **Risks and Uncertainties**

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

- Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.
- Financial risks include commodity prices, interest rates and the Canadian/United States exchange rate, all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital and to repay indebtedness it incurs. In addition, the events in the global financial markets that occurred in late 2008 and early 2009 had a profound impact on the global economy. Virtually all industries, including mining for potash, were impacted by these market conditions that included among other things, a slowdown in economic activity that affected major and emerging economies globally. These events could have a significant impact on the Company.
- Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

## **Outlook**

The Company's primary focus for the foreseeable future is to advance the Muskowekwan project into a resource suitable for a Prefeasibility / Feasibility study. This will require completion of four more drill holes and completion of an NI 43-101 resource calculation.