

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

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six month period ended June 30, 2011 ("MD&A") has been prepared as of August 29, 2011. It should be read in conjunction with the unaudited condensed interim consolidated financial statements of Encanto Potash Corp. (the "Company") for the three and six months ended June 30, 2011 (the "June 2011 Interim Financial Statements") together with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2011 (the "March 2011 Interim Financial Statements"), and the Company's audited consolidated financial statements for the year ended December 31, 2010 and the accompanying management's discussion and analysis for the fiscal year then ended ("the Annual MD&A"). The audited consolidated financial statements for the year ended December 31, 2010 were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has adopted IFRS effective January 1, 2011, with a transition date of January 1, 2010. Accordingly, the June 2011 Interim Financial Statements and the March 2011 Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

All amounts are expressed in Canadian dollars unless otherwise indicated.

Subject to certain transition elections disclosed in note 5 to the March 2011 Interim Financial Statements, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Discussion provided elsewhere herein and in note 4 of the June 2011 Interim Financial Statements discloses the impact of the transition to IFRS on the Company's reported assets, liabilities and shareholders' equity, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010. Comparative information presented for 2010 in the June 2011 Interim Financial Statements has been restated to give effect to these changes.

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 and future equity financing activities. 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 29, 2011.

- 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 price of potash; 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

The Company is an exploration stage company that is building a mineral property inventory that is focused on potash prospects located in Saskatchewan (the "Potash Property Interests"). Currently the Potash Property Interests include the Muskowekwan, Ochapawace and Chacachas First Nation Reserve lands, as well as the Spar Property and KP452 claim.

Both the Muskowekwan First Nation ("MFN") Reserve lands (the "MFN Project") and Spar Property have had NI 43-101 compliant resource calculations completed on them.

The Company currently is a reporting issuer in the provinces of Alberta and British Columbia and trades on the TSX Venture Exchange ("TSXV") under the trading symbol "EPO" and as of June 7, 2011, the Company's shares also began trading in the United States on the OTCQX under the trading symbol "ENCTF".

In August 2010, the Company and the MFN together with Muskowekwan Resources Ltd. ("MRL") announced a formal joint venture agreement ("JVA") for the purpose of developing the MFN Project.

2011 Operating Highlights

During 2011 to date the following significant transactions/initiatives were completed or undertaken:

- On March 18, 2011, the Company released the results of a NI 43-101 Technical Report prepared by North Rim Exploration Ltd. ("North Rim") of Saskatoon, Saskatchewan on the MFN Project (the "2011 NI 43-101 Report"). At the Company's request, North Rim prepared resource calculations based on both the solution mining extraction method and on the conventional mining extraction method. The resources are restricted to the Home Reserve only and do not take into account the Treaty Land Entitlement ("TLE") Reserve lands (15,500 acres contiguous to the Home Reserve) whose mineral resources and lands are owned by MFN and are included in the JVA.

The resource for the potential solution mining intervals (Patience Lake and Belle Plaine members) are calculated as follows:

- Indicated Resource: 1,144.2 MMt in place sylvinitic grading 29.4% KCl or 18.6% K₂O (79.1 MMt of recoverable KCl, or 49.9 MMt recoverable K₂O), and
- Inferred Resource: 868.4 MMt in place sylvinitic grading 29.2% KCl or 18.5% K₂O (60.5 MMt of recoverable KCl, or 38.2 MMt of recoverable K₂O).

The resource for the potential conventional mining intervals (Patience Lake and Belle Plaine members) are calculated as follows:

- Indicated Resource: 461.5 MMt in place sylvinitic grading 36.2% KCl or 22.9% K₂O (45.9 MMt in recoverable KCl, or 30.0 MMt recoverable K₂O), and
- Inferred Resource: 327.4 MMt in place sylvinitic grading 36.4% KCl or 23.0% K₂O (32.7MMt recoverable KCl, or 20.7 MMt recoverable K₂O).

The resources calculated pursuant to the 2011 NI 43-101 Report were prepared in accordance to the NI 43-101 guidelines of the Canadian securities regulators. As required by NI 43-101, a copy of the technical report to support the resource estimate has been filed on SEDAR.

- On August 18, 2011, the Company released the results of a preliminary economic assessment ("PEA") prepared by Wardrop Engineering Inc., a Tetra Tech company ("Wardrop") with respect to the MFN Project's economic potential. The PEA established that the most economic method to be utilized was solution mining. This method resulted in an estimated capital expenditure of \$2.4 billion and an IRR of 24.0% (at \$450/tonne KCl) and an NPV of \$2.86 billion at a discount rate of 10%.

The conventional mining method had an estimated capital expenditure of \$2.9 billion and an IRR of 20.9% (at \$450/tonne KCl) and an NPV of \$2.3 billion at a discount rate of 10%.

- In order to permit the MFN to designate the TLE Reserve Lands for mineral development by the Company under the JVA, a TLE designation vote has been scheduled for October 2011 to be held among both on and off-Reserve band members (the "TLE Designation Vote"). The Company believes that a vote in favor of the TLE designation and its addition to the JVA would nearly double the MFN Project's resource potential.
- Currently, in anticipation of a successful outcome of the vote, the Company has planned to drill two additional resource test wells on the TLE Reserve lands (the "TLE Drilling Program") during September/October of 2011.
- During the first six months of the year the Company has received an additional \$1,956,364 in consideration for 9,494,825 common shares that were issued on the exercising of warrants and options.
- The Company confirmed that it has in hand all funding requirements for the next 12 months including the cost of the upcoming TLE Designation Vote, the TLE Drilling Program and general corporate requirements.

Potash Property Interests - Exploration Summary

Muskowekwan First Nation Project

The Company expects to drill two additional resource test wells on the TLE Reserve lands during September/October of 2011 and issue an updated NI 43-101 resource calculation before December 31, 2011.

In addition, the Company intends to commence the environmental baseline work in September/October of 2011.

Other First Nation Prospects

Through its wholly-owned subsidiary, Encanto Resources Ltd. ("ERL"), the Company is a party to an Exploration Participation Agreement ("EPA") with Ochapawace First Nation and a Memorandum of Understanding ("MOU") with Chacachas First Nation (collectively "the Bands"). The Company has obtained two permits from the Crown to explore and develop potash minerals on the reserve lands of the Bands, all located in Saskatchewan.

The Company continues to see value in the Ochapawace and Chacachas properties, and is in the process of reviewing all technical data in order to formulate an exploration plan for the properties.

Spar Property and KP452 Claim

Although the Company continues to see value in the Spar Property, no significant work is presently contemplated as the Company is currently focusing its resources on the MFN Project. In view of this, the Company is contemplating seeking a joint venture partner for the Spar Property.

Investment

On September 16, 2010, the Company, together with certain First Nations partners completed a series of transactions ("the Sundance transactions") with Sundance Energy Corporation, a private Alberta oil and gas exploration company ("Sundance"), that resulted in Encanto receiving a total of 10,600,000 common shares of Sundance and \$200,000 cash in consideration for assigning its interests in certain oil and gas rights and licensing its interest in certain seismic data to Sundance (see the 2010 Annual MD&A for details). On April 25, 2011, Sundance's shares commenced trading on the TSXV under the symbol SNY. As of June 30, 2011 the value of the shares of Sundance increased and the carrying amount of the investment was increased by \$901,000 to \$3,021,000 with the corresponding amount being recorded to other comprehensive income.

In the event that the Company can come to terms with respect to oil and gas rights held by any of the three remaining First Nations that are party to the Sundance transactions, and can assign such oil and gas rights to Sundance on terms comparable to those secured from the two First Nations who have come to terms, Sundance has committed to issue to the Company an additional 2,800,000 Sundance shares and pay \$100,000 cash for each First Nation agreement so delivered. Accordingly, the Company could potentially receive up to an additional 8,400,000 Sundance shares and \$300,000 cash in the event that it is able to secure oil and gas rights from all three of the remaining First Nations.

Quarterly Results

The following is selected financial data from the Company's unaudited condensed interim consolidated financial statements for the last eight quarters ending with the most recently completed quarter, being the three months ended June 30, 2011.

Three months ended⁽¹⁾				
	June 30 2011 (\$)	March 31 2011 (\$)	December 31 2010 (\$)	September 30 2010 (\$)
Total revenue	-	-	-	-
Net loss	(872,782)	(1,695,710)	(1,923,097)	(958,325)
Net loss per share (basic and diluted) ⁽²⁾	(0.00)	(0.01)	(0.01)	(0.00)
Deferred exploration expenditures and acquisition costs	526,746	253,453	4,861,527	1,515,716
Total assets	30,160,500	29,535,600	30,454,141	22,826,572

	June 30 2010 (\$)	March 31 2010 (\$)	December 31 2009 (\$)	September 30 2009 (\$)
Total revenue	-	-	-	-
Net income (loss)	(325,832)	(511,108)	(1,231,211)	(1,357,685)
Net income (loss) per share (basic and diluted) ⁽²⁾	(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

(1) Comparative information for each of the three-month periods ended in 2011 and 2010 has been revised from the information that was previously disclosed to reflect the application of IFRS accounting standards. Information presented for the three-month periods ended in 2009 has been determined in accordance with Canadian GAAP as originally disclosed.

(2) The basic and diluted loss per share calculation results in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

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 quarter ended December 31, 2010 the Company recorded \$480,000 as a reduction of future tax liabilities with an offsetting credit to recovery of future income taxes.

During the quarters ended December 31, 2010 and December 31, 2009 respectively the Company recorded a write-off of mineral property interests in the amounts of \$1,567,828 and \$100,000 with

respect to potash prospects, other than the Ochapawace, Chacachas, Spar and KP452 properties, that the Company was not going to explore further.

The Company's reported losses included share-based payments of \$58,246, \$54,342, \$218,578, \$493,317, \$57,276, \$74,189, \$156,954 and \$1,043,302 in each of the respective quarters reported on in the table from June 30, 2011 to September 30, 2009.

The increase in total assets during the quarters ended December 31 and September 30, 2010, and December 31, 2009 was due to the completion of private placement financings during those quarters. The increase in deferred exploration expenditures and total assets during the quarters ended March 31, 2010 and September 30, 2009 reflects share considerations paid to exercise a 51% earn-in buy back option on the Company's potash properties, and to acquire the Spar Property and KP452 Claim respectively. During the quarter ended December 31, 2010, the increase in deferred exploration expenditures reflects the drilling program completed during that period.

Results of Operations

Six Months Ended June 30, 2011

The section titled 2011 Operating Highlights includes a summary of the key initiatives undertaken by the Company to date in 2011.

During the six months ended June 30, 2011, the Company reported a net loss of \$2,568,492 or \$0.01 loss per share (2010 - net loss \$836,940 or \$0.00 loss per share).

The table below details certain non-cash or non-recurring operational transactions that for the purposes of this discussion have been excluded from the reported net loss to produce an adjusted net loss that forms a better basis for comparing and assessing the Company's period-over-period operating results and requirements.

	2011	2010
Net loss for the period as reported	\$ (2,568,492)	\$ (836,940)
Depreciation	2,704	3,313
Share-based payments	112,588	131,465
Interest earned	(33,006)	(1,100)
Deferred income tax expense	1,165,000	42,380
Adjusted net loss for the period ⁽¹⁾	\$ (1,321,206)	\$ (660,882)

⁽¹⁾ Adjusted net loss for the period is not a term recognized under IFRS.

Of the expense items detailed above, during the six months ended June 30, 2011, the Company recognized deferred income tax expenses of \$1,165,000 (2010 - \$42,380) which arose in connection with the Company's accounting procedures for flow-through shares it has issued. The Company's accounting policy for this matter is disclosed in note 3 to the March 2011 Interim Financial Statements.

With respect to the adjusted net loss recorded for each period, the 2011 operating expenses were generally higher than those of 2010 primarily because of the Company's increasingly advanced state of operational development compared to that of the prior year. The most significant period to period variances were with respect to First Nation relations expense and management compensation expense:

First Nation relations - \$582,607 (2010 - \$109,723)

Since the commencement of the Company's business plan it has retained the services of consultants and advisors who are conversant with First Nation issues and have stature in the First Nation communities. This expense has increased commensurately as the MFN Project has progressed over the course of the last 18 months. In addition, during the current fiscal period the Company has advanced a total of \$290,000 to MRL under the terms of the development fee agreement that was executed among the Company, MFN and MRL concurrent with the signing of the JVA, October 22, 2010 (see note 6 to the June 2011 Interim Financial Statements).

Management compensation - \$215,642 (2010 - \$133,500)

Management compensation includes the cost of the Company's senior executives, as well as the cost to cover administrative matters associated with the corporate secretarial function. Aggregate monthly fees for these services have increased from \$22,000 in 2010 to \$33,000 in 2011.

Three Months Ended June 30, 2011

During the three months ended June 30, 2011, the Company reported a net loss of \$872,782 or \$0.00 loss per share (2010 - net loss \$325,832 or \$0.00 loss per share).

The table below details certain non-cash or non-recurring operational transactions that for the purposes of this discussion have been excluded from the reported net loss to produce an adjusted net loss that forms a better basis for comparing and assessing the Company's period-over-period operating results and requirements.

	2011	2010
Net loss for the period as reported	\$ (872,782)	\$ (325,832)
Depreciation	1,148	1,556
Share-based payments	58,246	57,276
Interest earned	(16,049)	(354)
Deferred income tax expense (recovery)	21,000	(78,728)
Adjusted net loss for the period ⁽¹⁾	\$ (808,437)	\$ (345,733)

⁽¹⁾ Adjusted net loss for the period is not a term recognized under IFRS.

The income tax expense items arose in connection with the Company's accounting procedures for flow-through shares it has issued. With respect to the adjusted net loss recorded for each period, First Nation relations expense and management compensation expense varied for the same reasons as with the results of operations for the six months ended June 30, 2011. Legal fees were greater than in the second quarter of 2010 in connection with various matters related to First Nation matters.

Capital Expenditures

During the six months ended June 30, 2011, the Company incurred deferred exploration expenditures totaling \$780,199. The Company intends to proceed with a two-well drilling program on the TLE Reserve lands during the September/October of 2011. At the present time, the Company has sufficient funds on hand to meet its currently expected cost requirements. Continued development of the MFN Project will require further capital expenditures. In order to meet these requirements over the longer term, the Company will require additional financing.

Financing Activities

During the six months ended June 30, 2011 and in the period through to August 29, 2011, the Company did not engage in any financing activities. The exercise of outstanding warrants and options resulted in the issuance of 9,494,825 common shares in consideration for cash proceeds totalling \$1,956,364 in the period through to August 29, 2011 .

Liquidity and Capital Resources

As at June 30, 2011, the Company had working capital of \$7,066,319, excluding the non-cash flow-through premium liability, (December 31, 2010 - \$7,180,022). The change in working capital since December 31, 2010 is largely attributable to the proceeds received on the exercise of outstanding options and warrants, offset by operating costs and capital expenditures. The Company believes that it has sufficient working capital to meet its currently planned exploration activities including any commitments to spend Qualifying CEE expenditures, fund 12 months of operating requirements including any possible costs relating to the TLE Designation Vote. As at August 29, 2011, the Company had a commitment to spend approximately \$500,000 in Qualifying CEE expenditures by not later than December 31, 2011. The Company expects to fulfill this commitment in connection with completing the two-well drilling program which the Company intends to complete during the September/October of fiscal 2011.

Transactions with Related Parties and Key Management Compensation

During the three and six months ended June 30, 2011 and 2010, the Company incurred the following expenditures charged by directors and officers of the Company, or former directors and officers of the Company, and/or companies they owned or in which they were significant shareholders:

	Three months ended June		Six months ended June	
	2011	2010	2011	2010
	\$	\$	\$	\$
Management compensation	103,858	66,750	187,972	133,500
Legal fees	12,583	2,495	21,445	8,585
First Nation relations	56,841	-	119,228	-
	173,282	69,245	328,645	142,085

These expenditures have occurred in the normal course of the business and are measured at the amount of considerations, approximate to fair value, as established and agreed to by the related parties.

Pursuant to the terms of renewable one-year service agreements that are subject to monthly payments totalling \$23,000 to two of its officers, as at June 30, 2011, the Company was committed to pay a minimum total of \$276,000 in management fees over the next twelve months.

Included in accounts payable and accrued liabilities as at June 30, 2011 was \$58,284 (December 31, 2010 - \$28,554) 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.

Key management includes the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the three and six months ended June 30, 2011 and 2010 was as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$		\$	
Management fees paid pursuant to agreements	69,000	40,500	123,000	81,000
Share-based payments	21,219	34,365	44,337	72,949
	90,219	74,865	167,337	153,949

First-time Adoption of International Financial Reporting Standards ("IFRS")

IFRS

Effective for the first fiscal year ending after January 1, 2011 publicly listed Canadian entities are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date for Encanto was January 1, 2010 (the "Transition Date"). The three-month period ended March 31, 2011 was the Company's first reporting period under IFRS.

The Company's IFRS conversion team identified four phases to the Company's conversion: scoping and planning, detailed assessment, implementation and post-implementation. The Company has now completed its IFRS conversion project through the implementation phase. The post-implementation phase will continue in future periods, as outlined below.

Notes 2 and 4 of the accompanying June 2011 Interim Financial Statements provide details of the key pre-changeover Canadian GAAP to IFRS differences. The Company's previously released March 2011 Interim Financial Statements provide details of accounting policy decisions and first-time adoption exemptions applied.

The conversion to IFRS has had a low impact on the financial record keeping, internal controls and financial disclosures of the Company due to the nature of the Company's exploration business. Accounting systems have been assessed and re-configured as necessary to ensure accurate financial reporting under IFRS, for both internal and external purposes.

Transitional Financial Impact

The reconciliation of the Company's assets, liabilities, and shareholders' equity at June 30, 2010 as previously reported under Canadian GAAP to IFRS is as follows:

	June 30 2010
	\$
Total assets under Canadian GAAP and IFRS	17,372,101
Total liabilities under Canadian GAAP and IFRS	1,066,549
Total shareholders' equity under Canadian GAAP	16,305,552
Share Capital Adjustment – flow-through shares ⁽ⁱ⁾	(160,078)
Deficit Adjustment – flow-through shares ⁽ⁱ⁾	160,078
Total shareholders' equity under IFRS	16,305,552

The following is a summary of the adjustments to net loss and other comprehensive loss for the three and six months ended June 30, 2010 under IFRS (all of which are outlined in the notes to the accompanying June 2011 Interim Financial Statements):

	Three months ended June 30 2010	Six months ended June 30 2010
	\$	\$
Net loss as previously reported under Canadian GAAP	(404,560)	(794,560)
Adjustment – flow-through shares ⁽ⁱ⁾	78,728	(42,380)
Net loss under IFRS	(325,832)	(836,940)

- (1) The sole historical reconciling item in converting from the pre-changeover Canadian GAAP to IFRS relates to a differing accounting treatment for the issuance of flow-through shares. Under the pre-changeover Canadian GAAP, the entire net proceeds from the issuance of flow-through shares were recognized in shareholders' equity. Upon renunciation of the tax benefits associated with the related expenditures, a deferred tax liability was recognized and shareholders' equity reduced commensurately.

Under IFRS, proceeds from the issuance of flow-through shares are segregated as follows: the estimated premium investors pay for the flow-through feature, if any, is recorded as a flow-through premium liability; and, the remaining net proceeds are recorded as share capital. After 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. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

All of the above adjustments are non-cash item accounting adjustments.

Post-implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. It should be noted that the various bodies having responsibility to set accounting standards that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRS's or IFRIC interpretations with respect to consolidation, financial instruments, and leases. It should also be noted that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements particularly with respect to the area of capitalization of exploration costs and related disclosure that could especially impact exploration stage companies. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS's and IFRIC interpretations will be evaluated as they are drafted and published.

Financial Instruments

Classification of financial instruments

The Company's financial instruments consist of cash, investments, and accounts payable and accrued liabilities. The Company designated its cash as fair value to profit and loss ("FVTPL"), which is measured at fair value. Investments are measured as available-for-sale, which are measured at fair value. The accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost.

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 values of cash and investments have been assessed based on the fair value hierarchy described above. Cash and investments are classified as level 1.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the three months ended June 30, 2011, the investments were transferred from level 2 to level 1 as a result of the investment becoming actively traded in the period.

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

Foreign exchange risk

As at June 30, 2011, 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. 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. As at June 30, 2011, with other variables unchanged, a 1% change in the interest rate could affect annual interest income by up to approximately \$73,000. There would be no effect on other comprehensive income.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. As at June 30, 2011, the Company had working capital of \$7,066,319, excluding the non-cash flow-through premium liability, which is sufficient to cover funding requirements for operations as currently planned for at least the next twelve months.

Commodity price risk

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

Outstanding Share Data

The following table discloses Encanto's share capital structure as at August 29, 2011 the date of this MD&A.

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 common shares at August 29, 2011: 251,718,968

c) Fully diluted common shares at August 29, 2011:

Type of Security	Number	Exercise Price	Expiry Date
Summary of outstanding warrants and stock options:			
Stock options	20,000	\$0.17	September 2, 2012
Stock options	400,000	\$0.42	December 20, 2012
Stock options	200,000	\$0.27	April 28, 2013
Stock options	250,000	\$0.44	November 29, 2015
Stock options	9,750,000	\$0.17	July 13, 2019
Stock options	1,000,000	\$0.25	September 16, 2019
Stock options	7,500,000	\$0.15	July 13, 2020
Stock options	250,000	\$0.22	November 12, 2020
Share purchase warrants	200,000	\$0.20	October 13, 2011
Share purchase warrants	200,000	\$0.23	October 28, 2011
Share purchase warrants	400,000	\$0.24	November 9, 2011
Share purchase warrants	1,828,574	\$0.35	November 30, 2011

Share purchase warrants	13,249,999	\$0.60	June 17, 2012
Share purchase warrants	2,850,660	\$0.20	July 6, 2012
Share purchase warrants	5,158,332	\$0.25	October 20, 2012
Share purchase warrants	200,000	\$0.22	October 22, 2012
Fully Diluted Shares Outstanding	295,176,533		

In addition, pursuant to regulatory requirements, as at August 29, 2011, a total of 16,076,001 common shares remained in escrow. The shares will be released from escrow in as to 8,038,000 and 8,038,001 shares on January 14, 2012 and July 14, 2012, respectively.

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 months ended June 30, 2011 and this accompanying MD&A (together, the "Interim Filings").

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.

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 and interest rates 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.
- 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 next 12 months will be as follows:

- (a) support the Designation Vote on the Muskowekwan TLE Reserve lands which is scheduled for October 2011;
- (b) initiate and complete a proposed two-well drilling program on the TLE Reserve land with the objective of increasing the resource established in the 2011 NI 43-101 Report.
- (c) begin the environmental baseline studies on the MFN Project; and
- (d) initiated a formal technical review and re-evaluation of the Ochapawace and Chacachas properties.

Other Information

Additional information related to the Company including its recently filed National Instrument 43-101 technical report (NR 2011 Resource Calculation) is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.encantopotash.com.