

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

The following information, prepared as of April 28, 2011, should be read in conjunction with the audited consolidated financial statements of Encanto Potash Corp. (the "Company") for the year ended December 31, 2010. 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 ("GAAP").

**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 April 28, 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 reserve lands (the "MFN Project") and Spar Property have had NI43-101 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."

### **2010 Operating Highlights**

During 2010 the following significant transactions/initiatives were completed or undertaken:

- The Company and the Muskowekwan First Nation ("MFN") together with Muskowekwan Resources Ltd. ("MRL") announced a formal joint venture agreement ("JVA") for the purpose of developing potash mineral deposits on the MFN's reserve lands (the "MFN Project").
- The Company completed a 3D Seismic Survey and a four-well drill program on the MFN Project that resulted in the Company releasing on March 18, 2011 the results of a NI 43-101 Technical Report prepared by North Rim Exploration Ltd. ("North Rim") of Saskatoon, Saskatchewan on the MFN Project. 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 excluding interbeds) are calculated as follows:

- Indicated Resource: 1,144.2 MMt in place sylvinitic grading 29.4% KCl or 18.6% K<sub>2</sub>O (79.1 MMt of recoverable KCl, or 49.9 MMt recoverable K<sub>2</sub>O), and
- Inferred Resource: 868.4 MMt in place sylvinitic grading 29.2% KCl or 18.5% K<sub>2</sub>O (60.5 MMt of recoverable KCl, or 38.2 MMt of recoverable K<sub>2</sub>O).

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% K<sub>2</sub>O (45.9 MMt in recoverable KCl, or 30.0 MMt recoverable K<sub>2</sub>O), and
  - Inferred Resource: 327.4 MMt in place sylvinitic grading 36.4% KCl or 23.0% K<sub>2</sub>O (32.7MMt recoverable KCl, or 20.7 MMt recoverable K<sub>2</sub>O).
- The resource estimate was prepared in accordance to the NI 43-101 guidelines of the Canadian securities regulators. As required by NI 43-101, a technical report to support the resource estimate will be filed on SEDAR.
  - On February 3, 2010, the Company exercised its option to repurchase the 51% interest in the Potash Property Interests held by Lion by issuing to Lion 26,000,000 common shares at a fair value of \$5,460,000.

- On July 6, 2010, the Company completed a \$6,000,000 brokered private placement including \$5,000,000 of flow-through shares.
- On September 16, 2010, the Company, together with five of its 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.
- On October 20, 2010, the Company closed a brokered \$2,097,000 private placement.
- On December 17, 2010, the Company closed a \$5,500,000 brokered private placement including \$500,000 of flow-through shares. The Company is committed to spend the \$500,000 flow-through portion of the proceeds on qualifying CEE on or before December 31, 2011.

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

### ***Muskowekwan First Nation Project***

On October 22, 2010, the Company and MFN together with MRL announced a formal JVA for the purpose of developing potash mineral deposits on the MFN Project. Prior to this the Company had conducted exploration on the MFN Project pursuant to Exploration Participation Agreements ("EPA's") with MFN and MRL.

During the first half of 2010 the Company completed an approximate 63 square mile 3D Seismic Survey on the MFN Project as a follow up to an earlier 2D Seismic Survey. Seismic interpretation completed by Boyd PetroSearch (Calgary) ("Boyd") indicated the Prairie Evaporite Formation appears for the most part to be continuous and structurally undisturbed over the majority of the Muskowekwan Home Reserve.

During the third and fourth quarter of 2010 the Company designed and executed a four-well delineation drilling program based on the positive results from the 3D Seismic Survey. Boyd and North Rim collaborated in the detailed interpretation of the Company's 63 square mile Muskowekwan 3D survey to select the optimum drilling locations from both a geotechnical and resource determination view

Assay results from the first two wells were released on November 5 and November 22, 2010 respectively, and for wells three and four on December 8, 2010. In March 2011 this information together with the previous 2D and 3D seismic information culminated in a NI 43-101 Technical Report prepared by North Rim on the Company's MFN Project situated on the MFN Home Reserve (16,831 acres) in Saskatchewan. 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. Encanto decided to evaluate and report the two resource calculations in order to determine, at a later date in future engineering studies, the most economically viable method for extraction. These 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 our Joint Venture agreements with MFN and Exploration Permits from Indian and Northern Affairs Canada ("INAC").

A summary of the NI 43-101 resources under each of the solution mining extraction method and the conventional mining extraction method are reported earlier in this MD&A under the section titled 2010 Operating Highlights.

### ***Other First Nation Prospects***

As at December 31, 2010, through its wholly-owned subsidiary, Encanto Resources Ltd. (“ERL”), the Company is a party to an 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.

While the specific terms of the referenced EPA and MOU are not identical, they contain material terms similar to the terms for the EPA’s executed with MFN and MRL. The significant monetary commitments are disclosed in note 7 to the audited consolidated financial statements for the year ended December 31, 2010.

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 1,300 meters on the Ochapawace First Nation reserve lands. Based on the active structuring at the Prairie Evaporite level plus the lower potash grade encountered in the test well the Company decided to proceed with a 3D Seismic Survey on the MFN Project only. The Company continues to value the Ochapawace and Chacachas properties, however no work is contemplated on them currently as the Company is focusing on the MFN Project.

During 2010 the Company wrote-off \$1,567,828 of mineral exploration expenditures associated with certain other First Nation prospects as the Company does not have any exploration plans for these prospects for the foreseeable future.

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

By an agreement dated July 24, 2009, effective August 11, 2009, between the Company and Lion, the Company acquired the Lion Potash Properties for a fair value of \$4,961,631 (19,846,525 common shares at \$0.25 per share), being the total acquisition and exploration costs incurred by Lion up until July 24, 2009 in the acquisition and exploration of the Lion Potash Properties.

Further, Lion incurred \$6,500,000 of expenditures on the Company’s Potash Property Interests by December 31, 2009 thereby earning a 51% interest in the properties (including the Lion Potash Properties). Of these expenditures, approximately \$4,900,000 were incurred on the MFN Project and \$1,600,000 were 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.

There is a 2% net smelter return royalty attached to the Lion Potash Properties.

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

### **Investment**

During the third quarter of 2010 the Company completed a series of transactions with Sundance whereby Sundance licensed seismic data from five First Nations Bands (the “Bands”) and the Company (the “Seismic Agreement”). The seismic data was produced by the Company in the conduct of its potash exploration programs. In addition, Sundance secured oil and gas rights

jointly held by the Company and two of the Bands pursuant to farm-in agreements among those Bands and the Company (the "O&G Farm-in Agreements") (see note 6 to the accompanying audited consolidated financial statements for the year ended December 31, 2010 for additional information).

In connection with the Sundance transactions, in consideration for its interests in certain seismic data and oil and gas rights that had been acquired from two of the First Nations, the Company received a total of 10,600,000 Sundance shares having a fair value of \$0.20 each for gross consideration of \$2,120,000 and cash payments totalling \$200,000 for total proceeds of \$2,320,000.

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 Seismic Agreement, 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. 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.

On April 25, 2011, Sundance shares commenced trading on the TSXV.

### **Selected Annual Information**

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended December 31, 2010, 2009 and 2008:

	<b>Year Ended December 31,</b>		
	<b>2010 (\$)</b>	<b>2009 (\$)</b>	<b>2008 (\$)</b>
Total Revenues	-	-	-
Net Loss	(3,675,982)	(2,791,409)	(2,268,744)
Net Loss Per Share (basic and diluted) <sup>(1)</sup>	(0.02)	(0.03)	(0.04)
Total Assets	30,454,141	12,149,184	4,478,023
Acquisition Cost Of Mineral Properties – For The Year	5,577,144	6,434,988	390,000
Deferred Resource Property Expenditures – For The Year	6,236,211	475,811	3,850,329
Long Term Debt	-	-	-
Dividends Declared	-	-	-

<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.

### **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 December 31, 2010.

<b>Three months ended</b>				
	<b>December 31, 2010 (\$)</b>	<b>September 30, 2010 (\$)</b>	<b>June 30, 2010 (\$)</b>	<b>March 31, 2010 (\$)</b>
Total revenue	-	-	-	-
Net loss	(1,923,097)	(958,325)	(404,560)	(390,000)
Net loss per share (basic and diluted) <sup>(1)</sup>	(0.01)	(0.00)	(0.00)	(0.00)
Deferred exploration expenditures and acquisition costs	4,861,527	1,515,716	567,644	5,758,268
Total assets	30,454,141	22,826,572	17,372,101	17,436,993

<b>Three months ended</b>				
	<b>December 31, 2009 (\$)</b>	<b>September 30, 2009 (\$)</b>	<b>June 30, 2009 (\$)</b>	<b>March 31, 2009 (\$)</b>
Total revenue	-	-	-	-
Net income (loss)	(1,231,211)	(1,357,685)	(492,860)	290,347
Net income (loss) per share (basic and diluted) <sup>(1)</sup>	(0.01)	(0.01)	(0.01)	0.00
Deferred exploration expenditures and acquisition costs	203,408	5,833,475	873,916	-
Total assets	12,149,184	11,397,341	6,234,226	4,206,461

<sup>(1)</sup> 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.

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 quarters 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 that the Company was not going to explore further at the present time.

During the quarters ended December 31, 2010, September 30, 2010, June 30, 2010, March 31, 2010, December 31, 2009, and September 30, 2009, the Company's reported losses included stock-based compensation of \$218,578, \$493,317, \$57,276, \$74,189, \$156,954 and \$1,043,302 respectively.

The increase in total assets during the quarters ended December 31 and September 30, 2010, and December 31 and June 30, 2009, was due to the completion of private placement financings

during those quarters. The increase in deferred exploration expenditures during the quarters ended March 31, 2010 and September 30, 2009 reflects the share consideration paid to exercise the option on the Lion 51% earn-in on the Potash Property Interests and for the Lion Potash Properties purchase 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

Business activities in fiscal 2010 have focused primarily on the continued exploration of the Company's Potash Property Interests 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 and to complete the RTO.

During the year ended December 31, 2010, the Company reported a net loss of \$3,675,982 or \$0.02 loss per share (2009 - net loss \$2,791,409 or \$0.03 loss per share).

The table below details certain non-cash or unusual transactions that for the purposes of this discussion have been adjusted out of the reported net loss to produce an adjusted net loss that forms a better basis for comparing the year-over-year operating results of the Company.

	2010	2009
Net loss for the year as reported	\$ (3,675,982)	\$ (2,791,409)
Depreciation	4,849	4,169
Write-off of other receivables	-	25,000
Stock-based compensation	843,360	1,200,256
Write-off of mineral property interests	1,567,828	100,000
Interest and other income	(19,319)	(1,950)
Future income tax recovery	(480,000)	(82,000)
Adjusted net loss for the year <sup>(1)</sup>	\$ (1,759,264)	\$ (1,545,934)

<sup>(1)</sup> Adjusted net loss for the year is not a term recognized under Canadian GAAP.

Comments regarding certain of these items are as follows:

- the respective future income tax recoveries arose as a result of the Company's accounting treatment of certain flow-through shares issued and the corresponding renunciations of qualifying exploration expenditures to the subscribers of these shares. The renunciations occurred in February 2010 and 2009 respectively.
- the write-off of mineral property interests in each year relates to potash prospects that the Company has determined not to explore further at this time.
- Stock-based compensation expense of \$1,200,256 in 2009 was recorded based on options granted subject to completion of the RTO with Angus, which occurred on July 13, 2009. In 2010 the stock-based compensation expense of \$843,360 was related to the grant of 9,050,000 stock options during the year.

The adjusted net loss for fiscal 2010 is modestly increased as compared to fiscal 2009. In a general context it must be noted that the business enterprise that operated throughout 2010 was

only created in July of 2009 with the completion of the reverse take-over transaction between Angus Ventures Corp. and a private Alberta company. Accordingly, not all expenses reported for fiscal 2009 were for a complete year and/or at the same level of expenditure as in fiscal 2010. Of note are the following items:

- Consulting fees (\$661,744 vs. \$512,737), include fees incurred by various consultants in administering day-to-day business matters between the Company and MFN as well as the Bands. Significant expenditures were incurred in 2010 in assisting MFN with its Designation Process in connection with its TLE Reserve. Further, the 2010 figure includes the first \$200,000 of the agreed payment to be made to MFN pursuant to the JVA. It is expected that these consulting fees will continue at this expenditure rate for the foreseeable future.
- Investor relations and miscellaneous expenses (\$341,750 vs. \$147,839) increased in 2010 in connection with a major effort by the Company to raise investor awareness that was initiated in the last quarter of 2009. Current expenditure levels are expected to continue for the foreseeable future. Management fees and benefits (\$157,001 vs. \$93,602) increased primarily due to the longer reporting period in 2010 as compared to 2009 and because of increases in the amount of fees paid on a monthly basis paid to senior management.

#### **Fourth Quarter**

During the fourth quarter of 2010 the Company reported a net loss of \$1,923,097 – as compared to a net loss of \$1,231,211 during the same period in 2009. The 2010 net loss includes a write-off of mineral properties in the amount of \$1,567,828 as compared to \$100,000 in 2009. The 2010 net loss also is net of a future income tax recovery of \$480,000 whereas the 2009 net loss includes a charge of \$525,000 reclassified as a future income tax liability due to future tax liabilities in excess of future tax assets on a non-consolidated basis. Excluding these two accounting adjustments, the loss for the further quarter of 2010 was \$835,269 as compared to a net loss of \$606,211 in 2009. The reason for the increase in the adjusted loss is due to the initial payment of \$200,000 to MFN made pursuant to the JVA.

Capital expenditures were significantly greater in the fourth quarter of 2010 (\$4,861,527) as compared to 2009 (\$203,408). The increase is entirely due to the drilling program the Company carried out on the MFN Project in 2010.

#### **Capital Expenditures**

During the year ended December 31, 2010, the Company incurred expenditures of approximately \$11,800,000 on exploration and acquisition of its Potash Property Interests of which approximately \$5,500,000 relates to 26,000,000 shares issued by the Company during the first quarter of 2010 pursuant to reacquiring Lion's 51% working interest in the Potash Property Interests. During the year ended December 31, 2009, the Company incurred expenditures of approximately \$6,900,000 on exploration and acquisition of its Potash Property Interests including \$1,000,000 cash plus approximately \$5,100,000 deemed value of 20,346,525 shares (including 500,000 shares issued as a finders' fee) issued by the Company for Lion's Potash Properties.

Offsetting these expenditures in 2010 is an amount of approximately \$2,300,000 which is the recorded proceeds received during the third quarter with respect to the Sundance transactions.

Excluding the mineral property acquisition transactions and the Sundance transactions, the Company incurred approximately \$6,200,000 of exploration expenditures during the year ended December 31, 2010, substantially all of which was expended on the MFN Project.

Under the terms of the flow-through offerings of July 6, 2010, and December 17, 2010, the Company is committed to spend \$5,500,000 million in Qualifying CEE expenditures by not later than December 31, 2011. As of April 28, 2011 the Company has approximately \$650,000 remaining to incur in qualifying expenditures with respect to this commitment.

In addition, with the signing of the definitive JVA on October 22, 2010, capital expenditure requirements can be expected to grow as the development of the MFN Lands advances. In order to meet these requirements over the longer term, the Company will require additional financing.

### **Financing Activities**

In July 2010 the Company completed a brokered private placement consisting of 33,333,333 flow-through shares at a price of \$0.15 each and 6,666,666 non-flow-through units at a price of \$0.15 each for aggregate gross proceeds of \$6,000,000, net \$5,448,606. 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 October 2010 the Company completed a non-brokered private placement for 11,650,000 units at a price of \$0.18 each for gross proceeds of \$2,097,000. Each unit consisted of one common share and one-half of one whole warrant. Each whole warrant entitles the holder to acquire one additional share at a price of \$0.25 each at any time on or before October 20, 2012. A 5% cash finder's fee (\$104,850) was paid.

In December 2010, the Company completed a brokered private placement consisting of 12,500,000 non flow-through units at a price of \$0.40 each and 1,000,000 common shares issued on a flow-through basis at a price of \$0.50 each to result in aggregate gross proceeds of \$5,500,000. Each non-flow-through unit consisted of one common share and one share purchase unit warrant entitling the holder to purchase one additional common share at a price of \$0.60 each at any time up until and including June 17, 2012. In consideration for completing the offering the agents received a 6% cash commission (\$330,000) and 749,999 broker warrants.

In addition, during 2010 the Company received of \$1,464,468 pursuant to the exercise of 11,017,875 warrants and stock options. Further, subsequent to December 31, 2010, the Company has received \$1,922,825 pursuant to the exercise of an additional 9,327,138 warrants and options.

### **Liquidity and Capital Resources**

During the year ended December 31, 2010, the Company's cash position increased by \$8,150,614 to \$9,260,208 as at December 31, 2010. Operating activities consumed \$1,739,925 before working capital adjustments. Cash requirements for investing activities totaled \$3,909,603 (net), virtually all for deferred exploration expenditures on the Company's potash mineral prospects. These cash requirements were primarily funded from cash on hand at the beginning of the year and from the proceeds of the three private placement offerings completed during the year.

The Company's working capital increased during the year by \$6,057,004, to \$7,180,022 as at December 31, 2010.

As of April 28, 2011, the Company had working capital of approximately \$8,159,000 against which there is a commitment to spend approximately \$650,000 in Qualifying CEE expenditures by not later than December 31, 2011.

### **Transactions with Related Parties**

During the years ended December 31, 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 companies they owned or in which they were significant shareholders:

	<b>2010</b>	<b>2009</b>
	\$	\$
Accounting fees	<b>89,736</b>	91,247
Consulting	<b>10,500</b>	14,000
Deferred exploration costs	<b>9,000</b>	-
Legal fees	<b>22,910</b>	-
Share issue costs	<b>37,062</b>	-
Management fees	<b>156,000</b>	82,852
Office	<b>43,814</b>	35,658
	<b>369,023</b>	223,757

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

Pursuant to the terms of renewable one-year service agreements that are subject to a monthly payments totalling \$21,500 to two of its officers, as at December 31, 2010, the Company was committed to pay a minimum total of \$258,000 in management fees.

Included in accounts payable and accrued liabilities as at December 31, 2010, is \$28,554 (2009 - \$12,472) 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.

### **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**

#### ***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 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 to date in 2010.</p>
<b><i>DETAILED IMPACT ASSESSMENT</i></b>	<p>This phase involved detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that 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 included identification, evaluation and selection of accounting policies necessary for the Company’s conversion to IFRS and evaluation of the impact on outstanding operational elements.</p>

<b>IMPLEMENTATION</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.</p> <p>The Company has prepared a preliminary balance sheet as at January 1, 2010 using IFRS accounting policies which has been submitted to the auditors for preliminary comment. The Company has identified adjustments to the balance sheet on conversion to IFRS from Canadian GAAP related to the computation of stock-based compensation, flow-through share issuances and business combinations including reverse take-over transactions. The adjustments that arise from the IFRS conversion will only impact the shareholders' equity section of the balance sheet involving the share capital, deficit and contributed surplus balances.</p> <p>The Company is on track to have unaudited interim financial statements for the first quarter of 2011 that are compliant with IFRS ready for filing by the regulatory deadline for such.</p> <p>The Company's management and audit committee have sufficient training and experience to assess the IFRS conversion impacts discussed above and have reviewed the IFRS accounting policy selection documentation.</p>
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## **Financial Instruments**

### Fair Value of Financial Instruments

The Company's financial instruments consist of cash, investments, and accounts payable and accrued liabilities. The Company designated its cash as held-for-trading with any changes in fair value charged to operations. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost. The fair value of cash and accounts payable and accrued liabilities approximates their carrying value due to their short term nature. Investments are designated as available-for-sale, with any changes in fair value charged to other comprehensive income.

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.

Financial instruments classified as level 1 – quoted prices in active markets include cash. Financial instruments classified as level 2 – valuation is based on observable quoted prices include investments.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the year ended December 31, 2010, there were no significant transfers between level 1 and 2.

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

#### Foreign Exchange Risk

As at December 31, 2010, 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 December 31, 2010, with other variables unchanged, a 1% change in the interest rate would affect annual earnings by \$93,000. 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 December 31, 2010, the Company had working capital of \$7,180,022 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 to risks associated with fluctuations in the market price of potash.

#### **Investment Price Risk**

In addition to the risks associated with financial assets and liabilities, the Company is exposed to investment price with respect to the shares it holds in Sundance common shares (see note 6 to the accompanying audited consolidated financial statements for the year ended December 31, 2010). The Company is subject to price risk due to changes in the fair value of the Sundance common shares. On April 25, 2011, Sundance's common shares began trading on the TSXV. A 5% change in the fair value of the Sundance shares would result in a \$106,000 change in the value of the investment on the balance sheet with a corresponding charge to other comprehensive income.

## 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 common shares at April 28, 2011: 251,551,281

### c) Fully diluted common shares at April 28, 2011:

Type of Security	Number	Exercise Price	Expiry Date
<b>Summary of outstanding warrants and stock options:</b>			
Stock options	20,000	\$0.17	September 2, 2012
Stock options	400,000	\$0.42	December 20, 2012
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	167,687	\$0.20	May 12, 2011
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
<b>Fully Diluted Shares Outstanding</b>	<u>294,976,533</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 audited consolidated financial statements for the year ended December 31, 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).

## 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 next 12 months will be as follows:

- (a) complete a Preliminary Economic Assessment in the summer of 2011;
- (b) support the Designation of the Mineral Rights on the Muskowekwan TLE lands which is targeted for completion by August. If the initial vote is not successful outright then it is expected to be successful in the second vote to be held 35 days later after completion of the initial vote;
- (c) complete further work on the TLE lands so we are able to add to the resource and provide an expanded resource in Q4; and
- (d) begin the Environmental Assessment on the Muskowekwan Home Reserve and Muskowekwan TLE lands.