

**ENCANTO POTASH CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**March 31, 2018**

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

**INTRODUCTION**

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for the three months ended March 31, 2018 has been prepared as of May 30, 2018. It should be read in conjunction with the unaudited condensed consolidated financial statements of Encanto Potash Corp. ("Encanto" or the "Company") for the three months ended March 31, 2018 as well as the audited annual consolidated financial statements for the year ended December 31, 2017 and the accompanying MD&A for the year then ended.

All amounts are expressed in Canadian dollars unless otherwise indicated.

**COMPANY OVERVIEW AND STRATEGY**

The Company is a reporting issuer in the provinces of British Columbia, Alberta, Saskatchewan and Ontario and trades on the TSX Venture Exchange ("TSXV") under the trading symbol "EPO".

The Company is an exploration and mine development company focused on potash properties in the Province of Saskatchewan, the largest producing potash region in the world. The Company is primarily focused on the continued development of its flagship property, the Muskowekwan First Nation Project ("MFN Project") which is the most significant asset of the Company.

**HIGHLIGHTS SINCE DECEMBER 31, 2017**

- A 30-year veteran from Potash Corp, Mr. Richard Lively joined the Company on April 25, 2018.
- The Company successfully reduces projected engineering costs significantly to proper mining plan.
- The Company assessed its liquidity position and has drawn \$250,000 from the GEM agreement.
- On May 18, 2018, the Company announced that it has received final approval from the TSX Venture Exchange for its ten (10) to one (1) share consolidation. Effective at the opening of trading on May 18, 2018, Encanto's shares commenced trading on the TSX Venture Exchange on a consolidated basis.

## MUSKOWEKWAN FIRST NATION POTASH MINE PROJECT

### Preliminary Economic Assessment (PEA)

The MFN Project is located in southeastern Saskatchewan, approximately 100 km north of Regina, and comprises a total of approximately 61,114 acres.

The Company's 100% interest in the MFN Project was acquired through an agreement with MFN and MRL in October 2010 under which the Company obtained the exclusive right to work with MFN and MRL in proceeding to explore, develop and produce the potash minerals on the property. The MFN, whose reserve lands contain the potash resources, are continuing to assist the Company in MFN member consultations and in developing the skills training programs to ensure maximum MFN employment and benefit.

The Company announced the results of a PEA dated May 24, 2017 titled "NI Technical Report on a Preliminary Economic Assessment and Preliminary Feasibility Study of the Muskowekwan Potash Project, South Eastern Saskatchewan, Canada", in which it reported a pre-tax net present value of \$1.13 billion and an internal rate of return of 18.9%.

### PEA highlights

Assumed Muriate of Potash ("MOP") Price ( <i>FOB Vancouver</i> )	\$319/t standard grade, \$344/t granular grade
Discount rate	10%
Inflation rate	2%
Operating costs ("OPEX") full capacity ( <i>includes utilities, labour, maintenance, reagents, fuel, insurances and municipal taxes</i> )	\$42.86/t of MOP produced
Sustaining Capital Cost ( <i>includes bring field and tailing management area extensions</i> )	\$35.98/t of MOP produced
Logistics costs (rail and port)	\$50.05/t of MOP produced
Taxes and royalties ( <i>includes potash production tax, crown royalty and Saskatchewan resource surcharge, average over the life of the project</i> )	\$41.95/t MOP sold
Initial capital costs ("CAPEX") ( <i>includes contingency</i> )	\$3.73 billion
Deferred CAPEX	\$300 million
Annual production rate	3.4 Mt of MOP
Lifespan of project	48 years +

Additional information is contained within a press release dated June 12, 2017 and the technical report filed on July 27, 2017 on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.encantopotash.com](http://www.encantopotash.com).

### Update on this project

Subsequent to the addition of the expertise of certain Board Members and management, a critical review of the CAPEX and operational costs of the above Project based on the above preliminary report has been performed. This review led the Company to determine that there are significant opportunities to further reduce CAPEX and certain operational costs. Consequently, the Company expects an increase in the pre-tax net present value of the MFN Project initially calculated at \$1.13 billion.

## **OFFTAKE AGREEMENT**

On December 30, 2016, the Company entered into an Off-Take Agreement with the National Federation of Farmers' Procurement Processing & Retailing Co-operatives of India Ltd. ("NACOF"). The Off-Take Agreement provides for the supply of a minimum of 5,000,000 tonnes of potash per year for a guaranteed period of twenty years for MOP.

The Company also has the possibility of selling potash immediately (an extreme rarity for a potash junior mining company) to the Government of India's largest international trading company, Metals and Minerals Trading Corporation of India ("MMTC").

## **FUNDING AGREEMENT**

The Company has secured a commitment for a CAD \$100 million funding facility. Under the funding agreement (the "Agreement") signed September 13, 2017, GEM Investments America, LLC and GEM Global Yield LLC SCS ("GEM") undertake to invest up to CAD \$100,000,000 over the next three years.

The above Agreement further designates certain shareholders of the Company as "Share Lenders"; who can lend their shares to GEM. The Agreement allows GEM an option to buy shares directly from the Share Lenders at an exercise price of \$0.10 (\$1.00 on a post-consolidated basis). On approval by the relevant exchanges and other regulatory requirements, the Company will then issue shares to GEM. The loaned shares are returned back to the Share Lenders.

During the three-month period ended March 31, 2018, the Company has assessed its liquidity position and has drawn \$250,000 in accordance with the above Agreement.

## **ADDITIONAL FUNDING POSSIBILITIES**

The Company is evaluating certain strategic financing opportunities. Several funding proposals both in Canada and abroad for interested investors are completed or in progress. As the company determines its final CAPEX, it will work to finalize discussions with interested parties.

## **PROVEN GOVERNMENT SUPPORT:**

### **Government of India**

The Off-Take Agreement with MMTC, a Government of India enterprise, demonstrates great potential for the Company's Project in one of the largest potash markets in the world.

### **Government of Canada**

The Federal government publicly declared support for the Project. The Project has deep political support and is heralded as a new model to develop Canadian resources with First Nations/aboriginals.

Regulatory moves have been made to provide certainty or access to the resource and ensure its development. The First Nations Commercial and Industrial Development Act has passed all approvals and is currently awaiting Royal Assent. Signed Tripartite Agreement announced February 2017.

## **Government of Saskatchewan**

Premier and Ministers have declared their support for the Project and offer high-level meetings to ensure the Project is built.

## **OTHER STRATEGIC ALTERNATIVES**

### **Conversion of Accounts Payable and Convertible Debenture to Equity**

The Company at March 31, 2018 has total liabilities of \$23,395,674 and shareholder's equity of \$8,776,702

As disclosed in the financial statements at March 31, 2018, \$11,977,544 of accounts payable and accrued liabilities are due to directors and officers of the Company and/or companies they control or of which they were significant shareholders.

The Company is currently in negotiation with the related parties for a substantial conversion of the above liabilities into equity, subject to regulatory approvals. In addition, negotiations are also in progress for the conversion of the convertible debenture into equity.

### **Review of management contracts and costs reduction**

The new management team has either completed or is currently reviewing all management contracts signed by previous management. This process had led to either the cancellation or renegotiation of contracts on more favorable terms.

The Company is also continuing its cost reduction measures and reviewing all expenditure items. The focus of the Company is to advance the MFN Project while keeping the expenses of operating a public company at a minimum.

## **OUTLOOK**

The general public market volatility has continued to affect the overall state of the exploration and development stage companies in the mining industry.

Management and the Board of Directors have taken several initiatives to position the Company for its development phase:

- Strong management team both from a technical perspective and with significant experience in raising funds
- Securing an offtake agreement guaranteeing future sales
- Actively looking for opportunities to enhance the preliminary feasibility study and increase the net present value of the project to attract experienced investors looking for such large-scale projects
- Cost cutting and renegotiation of existing contracts and simplifying the capital structure of the Company to create an environment that will facilitate large scale investments to develop the MFN Project.

We believe in 2018 and going forward that we are uniquely positioned to develop the MFN Project and become an important player in the Potash Industry.

### Selected Annual Information

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended December 31, 2017, 2016 and 2015:

	2017 (\$)	2016 (\$)	2015 (\$)
Total revenues	-	-	-
Net comprehensive loss	(5,002,595)	(13,732,715)	(8,088,956)
Net loss per share (basic and diluted) <sup>(1) (2)</sup>	(0.01)	(0.03)	(0.02)
Total assets	32,010,051	29,797,512	29,403,049
Mineral property interests capitalized during the year	2,353,525	422,479	297,072
Long-term debt	1,124,329	-	-
Dividends declared	-	-	-

<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, warrants and convertible debt.

<sup>(2)</sup> The net loss per share is on a pre-consolidation basis.

The loss for the year ended December 31, 2017 includes share-based payments of \$2,150,953, corporate development consultants' expenses of \$1,639,578 and financing expenses of \$1,133,143 related to the convertible debenture.

The loss for the year ended December 31, 2016 includes corporate development consultants' expenses of \$1,640,000 under a finder's fee agreement and \$8,434,850 under a success fee agreement that became due upon signing of the Off-Take Agreement.

The loss for the years ended December 31, 2015 include an impairment charge of \$4,534,116 related to mineral property interests on the Ochapowace property.

### Quarterly Results

The following is selected financial data for the last eight quarters ending with the most recently completed quarter, being the three months ended March 31, 2018:

	Three months ended			
	March 31 2018 (\$)	December 31 2017 (\$)	September 30 2017 (\$)	June 30 2017 (\$)
Total revenue	-	-	-	-
Net loss	(699,618)	(1,215,119)	(782,607)	(842,797)
Net loss per share (basic and diluted) <sup>(1) (2)</sup>	(0.00)	(0.00)	(0.00)	(0.00)
Deferred exploration expenditures and acquisition costs	-	2,350,000	-	1,985
Total assets	32,117,242	32,010,051	28,624,748	28,925,298

<b>Three months ended</b>				
	<b>March 31 2017 (\$)</b>	<b>December 31 2016 (\$)</b>	<b>September 30 2016 (\$)</b>	<b>June 30 2016 (\$)</b>
Total revenue	-	-	-	-
Net loss	(2,162,072)	(10,337,488)	(784,955)	(1,966,579)
Net loss per share (basic and diluted) <sup>(1) (2)</sup>	(0.005)	(0.02)	(0.00)	(0.01)
Deferred exploration expenditures and acquisition costs	1,540	-	-	-
Total assets	29,033,328	29,797,512	28,919,906	30,664,987

<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.

<sup>(2)</sup> The net loss per share is on a pre-consolidation basis.

During the quarter ended March 31, 2018, the decrease in net loss is due to a lower share-based payments \$42,304 (\$1,279,811 in 2017) and lower management compensation \$nil (\$198,000 in 2017).

During the quarter ended December 31, 2017, the Company incurred \$2,350,000 (2016 – \$422,479) of capital expenditures on deferred exploration on the MFN Project.

During the quarter ended December 31, 2017, in addition to the increase in share-based payments described above, the increase in net loss is due to corporate development consultants' expenses of \$348,363 and finance expenses of \$198,299 related to the convertible debt.

During the quarter ended March 31, 2017, the increase in net loss is due to the Company recording a share-based payment of \$1,279,811 and during the quarter ended December 31, 2017 an additional amount of \$871,142 was recorded.

During the quarter ended December 31, 2016, the increase in net loss is due to corporate development consultants' expenses of \$840,000 under a finder's fee agreement and \$8,434,850 under a success fee agreement that became due upon signing of the Off-Take Agreement.

During the quarter ended June 30, 2016 the increase in net loss is due to corporate development consultants' expenses of \$800,000 under a finder's fee agreement.

## **Results of Operations**

During the three months ended March 31, 2018, the Company reported a net loss of \$699,618 or \$0.002 loss per share (2017 – \$2,162,072 or \$0.005 loss per share). Operating activities consumed \$514,770 before working capital adjustments.

	<b>2018</b> (\$)	<b>2017</b> (\$)
General and administrative expenses	(322,697)	(583,888)
Part XII.6 tax and indemnification of shareholders	-	(3,420)
Finance expense	(142,397)	(294,953)
Foreign exchange	(191,950)	-
Share-based payments	(42,304)	(1,279,811)
Net loss for the period	(699,618)	(2,162,072)

For the three months ended March 31, 2018, with respect to general and administrative expenses, the most significant expenditure was the corporate development consultants, which amounted to \$270,638.

For the three months ended March 31, 2017, with respect to general and administrative expenses, the most significant general and administrative expenses were with respect to First Nation development and designation as the final instalment of \$115,000 became due under a development fee agreement and was expenses.

Share-based payments expense of \$42,304 (2017 – \$1,279,811) was due to the 1,000,000 stock options granted to consultants during the three months ended March 31, 2018.

Finance expenses of \$142,397 (2017 – \$294,953) were recognized in the three months period in relation to the convertible debenture.

During the three months ended March 31, 2018, the Company recorded a foreign exchange loss of \$191,950 on outstanding accounts payable denominated in U.S. dollars.

### **Capital Expenditures**

During the three months ended March 31, 2018 the Company incurred \$nil (2017 – \$449,162) in deferred exploration expenditures.

### **Financing Activities**

The Company is assessing its liquidity position and has drawn \$250,000 in the first quarter of 2018 in accordance with the GEM Agreement. The Company is actively looking for other sources of financing to keep the cost of operating at a minimum and to develop the MFN Project.

### **Liquidity and Capital Resources**

As at March 31, 2018, the Company had a working capital deficit of \$22,041,258 (\$21,384,091 as at December 31, 2017).

The Company is assessing its liquidity position and has drawn \$250,000 in the first quarter of 2018 in accordance with the GEM Agreement. The Company is actively looking for other sources of financing to keep the cost of operating a public company at a minimum and to develop the MFN Project.



### **Related Party Transactions**

The Company's related parties consist of the Company's directors, officers and companies associated with them including the following:

- Horgen Holdings Inc., a company which Stavros Daskos, the Chief Executive Officer and director, Aref Kanafani, a director and Hamad Al-Wazzan, a director, are principals.

Compensation paid or payable to the directors, the Chief Executive Officer and the Chief Financial Officer for services provided or earned during the three months ended March 31, 2018 and 2017 was as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Corporate development consultants	150,000	150,000
Management compensation	-	156,000
Share-based payments	-	954,041

The Company incurred additional expenditures charged by related parties during the three months ended March 31, 2018 and 2017 as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Management compensation	-	42,000

Included in accounts payable and accrued liabilities as at March 31, 2018 was \$11,977,544 (2017 – \$11,793,754) due to directors and officers of the Company and/or companies they control or of which they were significant shareholders. This amount is composed primarily of balances owing related to the success fee (Note 7), consulting fees, management compensation, accrued interest on the convertible debentures (Note 11), and mineral property interests (Note 9). Included in mineral property interest additions for the period ended March 31, 2018 was \$nil (2017 – \$2,350,000) due to a company that is controlled by one of the directors, which represents the amount of consideration established and agreed to by the related parties and approved by the Board of Directors.

### **Financial instruments**

The classification and risks pertaining to the financial instruments are disclosed in Note 14 of the interim condensed consolidated financial statements for the three months ended March 31, 2018.

### **Critical accounting estimates**

The critical accounting estimates are disclosed in Note 6 of the interim consolidated financial statements for the three months ended March 31, 2018.

### **Changes in accounting policy including initial adoption**

There were changes in accounting policy for the three months ended March 31, 2018. (Please refer to note 5 a) b) of the Interim condensed consolidated financial statements for the three-months ended March 31, 2018).

## Outstanding Share Data

The following table discloses the Company's share capital structure as at May 30, 2018, 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 and fully diluted common shares: <sup>(1)</sup>

Type of Security	Number
Issued and outstanding	44,081,683
Stock options	3,989,500
Share purchase warrants	4,885,750
Convertible debentures	7,700,000
<b>TOTAL DILUTION</b>	<b>60,656,933</b>

<sup>(1)</sup> The information provided is on a post-consolidation basis.

## 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 of the Company has filed a Venture Issuer Basic Certificate with respect to the financial information contained in the interim consolidated financial statements for the period ended March 31, 2018 and this accompanying MD&A (together, the "Annual 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](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 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.

### **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 the date of the MD&A.
- 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.

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”.

### **Other Information**

Additional information related to the Company including its filed National Instrument 43-101 Technical Report is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company’s website at [www.encantopotash.com](http://www.encantopotash.com).