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 months ended March 31, 2012 ("MD&A") has been prepared as of May 23, 2012. It should be read in conjunction with the condensed interim consolidated financial statements of Encanto Potash Corp. ("Encanto" or the "Company") for the three months ended March 31, 2012 and the audited annual consolidated financial statements of the Company for the year ended December 31, 2011.

All amounts are expressed in Canadian dollars unless otherwise indicated.

Description of Business

Encanto is an exploration and 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 development of its flagship property, the Muskowekwan potash property, and has commenced feasibility studies following a favorable preliminary economic assessment and updated NI 43-101 compliant Mineral Resource Estimate. In addition to its flagship property, the Company holds a 100% interest in several other potash properties in Saskatchewan including the Ochapowace and Chacachas First Nation lands, and the Spar property and KP452 claim.

The Company 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 in the United States on the OTCQX under the trading symbol "ENCTF".

Recent Highlights

- On May 10, 2012, the Company filed on SEDAR the NI 43-101 May 9, 2012 Technical Report titled 2012 Potash Resource Assessment for The Muskowekwan First Nations Home Reserve Project prepared by North Rim Exploration Ltd. ("North Rim") of Saskatoon, Saskatchewan on the Company's Muskowekwan project situated on the Muskowekwan First Nation ("MFN") lands in Saskatchewan. The report detailed a significantly increased potash resource on the Muskowekwan property, prepared based on the solution mining extraction method. The upgraded resource estimated contains measured and indicated resources of 130.7MMt grading 29.6% KCI or 18.7% K_2O and Inferred resources of 234.7MMt grading 28.3% KCI or 17.9% K_2O.

- On April 18, 2012, the Company announced the appointment of Novopro Projects Inc. to provide engineering services for its pre-feasibility study ("PFS") on the Muskowekwan property.

- On February 25, 2012, the Company received overwhelming support from a MFN vote, which increased the Muskowekwan land position to approximately 58,300 total acres.

Muskowekwan Potash Property

The Muskowekwan property is located in southeastern Saskatchewan, approximately 100 km north of Regina, and comprises a total of approximately 58,300 acres.

The Company's 100% interest in the property was acquired through a joint venture agreement with MFN and Muskowekwan Resources Ltd. ("MRL") in October 2010 and the Company has obtained the exclusive right to work with MFN and MRL in proceeding to explore for, develop and produce potash minerals on the property. Encanto has established a strong relationship with its joint venture partners with major support for jobs and training. The Company received overwhelming support during a MFN vote on February 25, 2012, which increased the Muskowekwan land position to approximately 58,300 total acres, with the opportunity to increase the land package further.

Since increasing the Muskowekwan land package size by a factor of 3.5 times (from 15,500 to 58,300 acres), the Company has been able to increase the Measured (26.9 MMt) and Indicated (103.8 MMt) resources totaling 130.7 MMt and the Inferred resources to 234.7 MMt.

The Company filed an updated NI 43-101 compliant Mineral Resource Estimate, prepared based on the solution mining extraction method on May 10, 2012. The resource for the proposed solution mining intervals has been calculated as follows:

- <u>Measured Resource</u>: 272.6 MMt in place sylvinite grading 29.6% KCl or 18.7% K_2O (26.9 MMt of recoverable KCl, or 17.0 MMt of recoverable K_2O) and
- <u>Indicated Resource</u>: 1,049.3 MMt in place sylvinite grading 29.7% KCl or 18.8% K_2O (103.8 MMt of recoverable KCl, or 65.6 MMt recoverable K_2O) and
- <u>Inferred Resource</u>: 2,496.4 MMt in place sylvinite grading 28.3% KCl or 17.9% K_2O (234.7 MMt of recoverable KCl, or 148.3 MMt of recoverable K_2O).

The current resource supports a 52 year mine life based only on the Measured and Indicated resources at a 2.5 MMt/yr production rate. The Company plans on significantly increasing this resource life and potentially the production rate to 5 MMt/yr by converting the Inferred resource to Measured and Indicated and adding new tonnage through:

- Additional land acquisitions with MRL.
- Completion of further 3D seismic work on the remaining uncovered portions of the Muskowekwan property.
- Receipt of assay results from the 2 drill-hole program conducted in November 2011 which are currently being utilized for engineering test work in Germany and the U.S.
- Additional drilling to increase the overall resource as existing drill holes only cover 80% of the current total property acreage.

On August 18, 2011 the Company released the results of a Preliminary Economic Assessment ("PEA") prepared by Wardrop Engineering Inc., which established that the most economic mining method was solution mining. The following table provides the initial independent PEA results of the solution mining method analysed only on 15,500 acres of the Muskowekwan property for a 2.5 Mtpy operation:

Indicated Resource (% KCL)	79.1 MMt @ 29.4%
Inferred Resource (% KCL)	60.5 MMt @ 29.7%
Initial Mine Life (Indicated)	32 years
Possible Additional Mine Life (Inferred)	24 years
Annual Production (Primary & Secondary)	2.5 Mtpy
Total Estimated Capital Cost	$2.4 Billion
Project Unit Operating Cost/Tonne	$68.14/t KCL
Estimated Net Present Value (NPV_{10})	$2.9 Billion
Estimated IRR (after taxes & royalties @ $450/t KCL	24.0%

A PFS is currently underway, which is the next level of evaluation following the favourable PEA. The PFS will comprise an initial 2.5 million metric tonne per year solution mine utilizing the significantly increased potash resource that was filed on May 10, 2012 and is currently expected to be completed in Q4 2012.

Ochapowace and Chacachas Properties

The Ochapowace and Chacachas First Nation properties are located in Saskatchewan, approximately 130 kilometres east of Regina, and comprise a total of approximately 55,000 acres.

Through its wholly-owned subsidiary, Encanto Resources Ltd. ("ERL"), the Company is a party to an Exploration Participation Agreement ("EPA") with Ochapowace 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.

The Company intends to test the grade by completing a drill hole on the property during 2012. If the grade assays are positive, the Company will consider additional steps to establish a resource on the property.

Spar Property and KP452 Claim

The Spar property is located just north of Saskatoon on provincial lands and is approximately 140,000 acres in size. The property has an existing NI 43-101 resource and the Company continues to see value in the property; however no significant work is presently contemplated as the Company is focusing its resources on the development of the Muskowekwan 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, ("Sundance") that resulted in the Company receiving a total of 10,600,000 common shares of Sundance. As of March 31, 2012 the value of the shares of Sundance was $0.19 per share and the carrying amount of the investment was $2,014,000.

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 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 up to an additional 7,000,000 Sundance shares and pay $300,000 cash for three remaining First Nation agreements.

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, 2012.

Three months ended				
	March 31 2012 ($)	**December 31 2011 ($)**	**September 30 2011 ($)**	**June 30 2011 ($)**
Total revenue	-	-	-	-
Net loss	(996,451)	(1,031,576)	(1,236,236)	(872,782)
Net loss per share (basic and diluted) [1]	(0.00)	(0.01)	(0.00)	(0.00)
Deferred exploration expenditures and acquisition costs	751,131	2,808,611	1,752,158	526,746
Total assets	32,692,694	32,557,646	28,421,576	30,160,500

Three months ended				
	March 31 2011 ($)	**December 31 2010 ($)**	**September 30 2010 ($)**	**June 30 2010 ($)**
Total revenue	-	-	-	-
Net loss	(1,695,710)	(1,923,097)	(958,325)	(325,832)
Net loss per share (basic and diluted) [1]	(0.01)	(0.01)	(0.00)	(0.00)
Deferred exploration expenditures and acquisition costs	253,453	4,861,527	1,515,716	567,644
Total assets	29,535,600	30,454,141	22,826,572	17,372,101

(1) 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 December 31, 2010 the Company recorded $437,620 as a reduction of deferred tax liabilities with an offsetting credit to recovery of deferred income taxes and recorded a write-off of mineral property interests in the amounts of $1,567,828 with respect to potash prospects, other than the Muskowekwan, Ochapowace, Chacachas, Spar and KP452 properties.

The Company's reported losses included share-based payments of $103,634, $149,493, $431,796, $58,246, $54,342, $218,578, $493,317 and $57,276 in each of the respective quarters reported on in the table from the quarter ended March 31, 2012 to the quarter ended June 30, 2010.

The increase in total assets during the quarters ended December 31 and September 30, 2010, and December 31, 2011, was due to the completion of private placement financings during those quarters.

During the quarters ended December 31, 2010, September 30, 2011 and December 31, 2011, the increase in deferred exploration expenditures reflects drilling programs completed during those periods.

Results of Operations

During the three months ended March 31, 2012, the Company reported a net loss of $996,451 or $0.00 loss per share (2011 - net loss $1,695,710 or $0.01 loss per share). Operating activities consumed $899,453 before working capital adjustments. Cash requirements for investing activities totaled $923,548, virtually all for deferred exploration expenditures on the Company's potash mineral prospects.

	Three months ended March 31,	
	2012	**2011**
	$	**$**
General and administrative expenses	(917,747)	(511,503)
Share-based payments	(103,634)	(54,342)
Interest earned	15,930	16,957
Interest expense	-	(2,822)
Deferred income tax recovery (expense)	9,000	(1,144,000)
Net loss for the period	(996,451)	(1,695,710)

The Company recognized deferred income tax recovery of $9,000 (2011 – expense of $1,144,000) which arose in connection with the Company’s accounting procedures for flow-through shares it has issued. The renunciations occurred in February 2012 and February 2011 with effect as of December 31, 2011 and 2010 respectively.

Share-based payments expense of $103,634 (2011 - $54,342) was recorded based on 2,000,000 (2011 - nil) stock options granted during the period and with respect to the vesting terms of those stock options as well as vesting of previously granted stock options.

With respect to general and administrative expenses, the 2012 expenditures were generally higher than those of 2011 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 corporate development consultants, First Nation relations expense, management compensation expense and share-based payments:

Corporate development consultants - $296,950 (2011 - $40,200)
The expense has increased due to the increased scope of the consulting agreements and the increased number of consulting agreements entered into. The Company has required more corporate development consultants as there have been a wider range of initiatives on-going.

Aggregate First Nation relations - $219,642 (2011 - $146,039)

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 development of the Muskowekwan property has progressed over the course of the last two years.

Management compensation - $140,844 (2011 - $99,424)

Management compensation includes fees paid to the Company's senior executives, as well as the cost to cover administrative matters associated with the corporate secretarial function. The increase represents respective increases in the compensation paid to senior management and for related administrative matters.

Capital Expenditures

During the period ended March 31, 2012, the Company incurred deferred exploration of $606,971 and acquisition expenditures of $144,160.

Under the terms of the flow-through share offering of December 23, 2011, the Company is committed to spend $2,000,000 million in qualifying Canadian exploration expenses as defined under the *Income Act, Canada* by not later than December 31, 2012. As of March 31, 2012 the Company has $1,881,475 remaining to incur in qualifying expenditures with respect to this commitment.

At the present time, the Company has sufficient funds on hand to meet its currently expected operational and capital expenditure requirements over the next 12 months. 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 three months ended March 31, 2012, the Company received $1,226,972 (2011 - $1,599,227) pursuant to the exercise of 4,512,220 (2011 – 7,104,141) warrants and 1,000,000 (2011 – 605,000) stock options.

The Company received gross proceeds of $33,333 on the exercise of 166,665 warrants subsequent to March 31, 2012.

Liquidity and Capital Resources

As at March 31, 2012, the Company had working capital of $5,297,711 (excluding the non-cash flow-through premium liability), compared to working capital of $5,630,611 (excluding the non-cash flow-through premium liability) as at December 31, 2011. The Company has no debt or other long term obligations other than the commitment to spend $1,881,475 in Qualifying Exploration Expenditures by December 31, 2012 as a result of the renunciation of flow-through funds raised during fiscal 2011.

The Company is currently in the development stage and depends on the equity markets to raise funds to carry out its exploration and development programs. Management has concluded that as at the date of this report, the Company is adequately funded to carry out its planned feasibility and exploration program for fiscal 2012.

Related Party Transactions

During the periods ended March 31, 2012 and 2011, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or in which they were significant shareholders:

	2012	2011
	$	$
Management compensation	50,844	84,114
Legal fees	2,413	8,862
First Nation relations	31,500	62,387
	84,757	155,363

Included in accounts payable and accrued liabilities as at March 31, 2012 was $41,937 (December 31, 2011 - $40,408) 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 Directors, the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the periods ended March 31, 2012 and 2011 was as follows:

	2012	2011
	$	$
Management fees paid pursuant to agreements	84,000	54,000
Share-based payments	44,606	23,118
	128,606	77,118

Accounting Standards Issued But Not Yet effective

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not completed its assessment of the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the principal new standards:

IFRS 9 – Financial Instruments

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

Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This new standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.

IFRS 10 – Consolidation

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

IFRS 11 - Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

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

IFRS 13 - Fair Value Measurement

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

IAS 1, Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

Outstanding Share Data

The following table discloses the Company's share capital structure as at May 23, 2012, 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 May 23, 2012: 275,871,183

c) Fully diluted common shares at May 23 , 2012:

Type of Security	Number	Exercise Price	Expiry Date
Summary of outstanding warrants and stock options:			
Stock options	250,000	$0.22	July 1, 2012
Stock options	200,000	$0.42	August 1, 2012
Stock options	20,000	$0.17	September 2, 2012
Stock options	200,000	$0.42	December 20, 2012
Stock options	200,000	$0.27	April 28, 2013
Stock options	100,000	$0.26	September 1, 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	6,500,000	$0.15	July 13, 2020
Stock options	4,875,000	$0.26	September 1, 2021
Stock options	2,000,000	$0.45	February 17, 2022
Stock options	500,000	$0.30	April 24, 2022
	25,845,000		
Share purchase warrants	13,249,999	$0.60	June 17, 2012
Share purchase warrants	1,769,000	$0.20	July 6, 2012
Share purchase warrants	2,027,777	$0.25	October 20, 2012
Share purchase warrants	200,000	$0.225	October 28, 2014
Share purchase warrants	6,470,000	$0.35	December 9, 2014
Share purchase warrants	400,000	$0.26	February 1, 2014
	24,116,776		

In addition, pursuant to regulatory requirements, as at May 23, 2012, a total of 8,038,001 common shares remained in escrow. The shares will be released on July 14, 2012.

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 condensed interim consolidated financial statements for the three months ended March 31, 2012 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 fiscal 2012 will be as follows:

- Advance the pre-feasibility study on the Muskowekwan property with a completion target of the fourth quarter of 2012. The pre-feasibility study will include a new NI 43-101 compliant resource/reserve.

- Continue exploring domestic and international strategic partnerships for the financing, development and sale of the potash production from its MFN JV property.

- Complete the test work on the drill core which is being conducted by NG Consulting (Germany) for dissolution parameters, and RESPEC (U.S.) for strength parameters which will be used to determine cavern and pillar size.

- Complete a 3D seismic program on the remaining uncovered portions of the Muskowekwan property.

- Continue the environmental baseline studies on the Muskowekwan property, which are a key element in the Environmental Impact Social Assessment.

- Deepen a Sundance Energy exploration hole to test the grade of the Ochapowace/Chacachas property in the fall of 2012.

Other Information

Additional information related to the Company including its recently filed National Instrument 43-101 Technical Report is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.encantopotash.com.

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 May 23, 2012.

- 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".