POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
November 05, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2010**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 1-10351**

**POTASH CORPORATION OF SASKATCHEWAN INC.**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Canada**<br>*(State or other jurisdiction of incorporation or organization)* | **N/A**<br>*(I.R.S. Employer Identification No.)* |
| **122 1st Avenue South**<br>**Saskatoon, Saskatchewan, Canada**<br>*(Address of principal executive offices)* | **S7K 7G3**<br>*(Zip Code)* |

**306-933-8500**
*(Registrant s telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES **þ** NO **o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES **o** NO **o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

YES **o** NO **þ**

As at October 31, 2010, Potash Corporation of Saskatchewan Inc. had 297,686,739 Common Shares outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. *FINANCIAL STATEMENTS*

**Potash Corporation of Saskatchewan Inc.**

**Condensed Consolidated Statements of Financial Position**
**(in millions of US dollars except share amounts)**
**(unaudited)**

| | September 30, 2010 | December 31, 2009[1] |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 359.8** | $ 385.4 |
| Receivables (Note 2) | **975.1** | 1,137.9 |
| Inventories (Note 3) | **507.8** | 623.5 |
| Prepaid expenses and other current assets | **132.3** | 124.9 |
| | **1,975.0** | 2,271.7 |
| Property, plant and equipment | **7,579.7** | 6,413.3 |
| Investments | **4,459.5** | 3,760.3 |
| Other assets | **402.3** | 359.9 |
| Intangible assets | **18.5** | 20.0 |
| Goodwill | **97.0** | 97.0 |
| | **$ 14,532.0** | $ 12,922.2 |
| **Liabilities** | | |
| Current liabilities | | |
| Short-term debt and current portion of long-term debt | **$ 993.4** | $ 728.8 |
| Payables and accrued charges | **1,114.7** | 796.8 |
| Current portion of derivative instrument liabilities | **92.1** | 51.8 |
| | **2,200.2** | 1,577.4 |
| Long-term debt (Note 4) | **2,721.6** | 3,319.3 |
| Derivative instrument liabilities | **223.6** | 123.2 |
| Future income tax liability | **967.7** | 962.4 |
| Accrued pension and other post-retirement benefits | **295.0** | 280.8 |
| Accrued environmental costs and asset retirement obligations | **267.8** | 215.1 |

| | | | | |
|---|---|---|---|---|
| Other non-current liabilities and deferred credits | | **5.6** | | 4.2 |
| | | **6,681.5** | | 6,482.4 |
| **Contingencies and Guarantees** (Notes 15 and 16, respectively) | | | | |
| **Shareholders Equity** (Note 7) | | | | |
| Share capital | | **1,481.6** | | 1,430.3 |
| Unlimited authorization of common shares without par value; issued and outstanding 297,559,913 and 295,975,550 at September 30, 2010 and December 31, 2009, respectively | | | | |
| Unlimited authorization of first preferred shares; none outstanding | | | | |
| Contributed surplus | | **160.1** | | 149.5 |
| Accumulated other comprehensive income | | **1,762.9** | | 1,648.8 |
| Retained earnings | | **4,445.9** | | 3,211.2 |
| | | **7,850.5** | | 6,439.8 |
| | **$** | **14,532.0** | $ | 12,922.2 |

(1) Corrected as described in Note 18.

(See Notes to the Condensed Consolidated Financial Statements)

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**Potash Corporation of Saskatchewan Inc.**

**Condensed Consolidated Statements of Operations and Retained Earnings**
**(in millions of US dollars except per-share amounts)**
**(unaudited)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009[(1)]** | **2010** | **2009[(1)]** |
| **Sales** (Note 6) | **$ 1,575.0** | $ 1,099.1 | **$ 4,726.4** | $ 2,877.6 |
| Less: Freight | **81.1** | 53.7 | **250.4** | 130.2 |
| Transportation and distribution | **37.9** | 36.3 | **122.8** | 101.0 |
| Cost of goods sold | **892.7** | 664.4 | **2,491.2** | 1,904.5 |
| **Gross Margin** | **563.3** | 344.7 | **1,862.0** | 741.9 |
| Selling and administrative | **75.2** | 35.9 | **169.7** | 132.7 |
| Provincial mining and other taxes | **16.2** | 2.1 | **55.9** | 17.0 |
| Foreign exchange (gain) loss | **(1.7)** | (9.0) | **7.2** | (1.3) |
| Other income (Note 9) | **(65.6)** | (41.2) | **(241.1)** | (264.6) |
| | **24.1** | (12.2) | **(8.3)** | (116.2) |
| **Operating Income** | **539.2** | 356.9 | **1,870.3** | 858.1 |
| **Interest Expense** (Note 10) | **16.5** | 31.1 | **69.7** | 80.8 |
| **Income Before Income Taxes** | **522.7** | 325.8 | **1,800.6** | 777.3 |
| **Income Taxes** (Note 11) | **120.0** | 77.9 | **476.7** | 35.8 |
| **Net Income** | **$ 402.7** | $ 247.9 | **1,323.9** | 741.5 |
| **Retained Earnings, Beginning of Period** | | | **3,211.2** | 2,348.5 |
| **Dividends** | | | **(89.2)** | (88.7) |
| **Retained Earnings, End of Period** | | | **$ 4,445.9** | $ 3,001.3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Net Income Per Share** (Note 12) | | | | | | | | |
| **Basic** | **$** | **1.36** | $ | 0.84 | **$** | **4.47** | $ | 2.51 |
| **Diluted** | **$** | **1.32** | $ | 0.82 | **$** | **4.34** | $ | 2.44 |
| **Dividends Per Share** | **$** | **0.10** | $ | 0.10 | **$** | **0.30** | $ | 0.30 |

(1) Corrected as described in Note 18.

(See Notes to the Condensed Consolidated Financial Statements)

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**Potash Corporation of Saskatchewan Inc.**

**Condensed Consolidated Statements of Cash Flow**
**(in millions of US dollars)**
**(unaudited)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009[(1)]** | **2010** | **2009[(1)]** |
| **Operating Activities** | | | | |
| Net income | **$ 402.7** | $ 247.9 | **$ 1,323.9** | $ 741.5 |
| Adjustments to reconcile net income to cash provided by operating activities | | | | |
| Depreciation and amortization | **96.4** | 83.4 | **297.4** | 227.5 |
| Stock-based compensation | **3.0** | 3.6 | **21.6** | 26.2 |
| Loss (gain) on disposal of property, plant and equipment and long-term investments | **0.2** | 7.0 | **3.5** | (106.9) |
| Foreign exchange on future income tax and miscellaneous items | **(0.4)** | 1.1 | **1.7** | (1.0) |
| (Recovery of) provision for future income tax | **(10.8)** | 140.3 | **50.0** | 64.0 |
| Undistributed earnings of equity investees | **(51.0)** | (32.5) | **(78.5)** | (1.3) |
| Derivative instruments | **(9.3)** | (28.2) | **4.2** | (70.0) |
| Other long-term liabilities | **(31.2)** | (62.8) | **6.0** | (32.6) |
| Subtotal of adjustments | **(3.1)** | 111.9 | **305.9** | 105.9 |
| **Changes in non-cash operating working capital** | | | | |
| Receivables | **(174.8)** | (139.0) | **174.6** | 52.9 |
| Inventories | **146.8** | 9.4 | **117.1** | 70.5 |
| Prepaid expenses and other current assets | **(12.8)** | 44.4 | **(44.7)** | (9.2) |
| Payables and accrued charges | **145.0** | 46.2 | **322.3** | (605.8) |
| Subtotal of changes in non-cash operating working capital | **104.2** | (39.0) | **569.3** | (491.6) |
| **Cash provided by operating activities** | **503.8** | 320.8 | **2,199.1** | 355.8 |
| **Investing Activities** | | | | |
| Additions to property, plant and equipment | **(504.6)** | (424.5) | **(1,394.1)** | (1,190.2) |

| | | | | |
|---|---|---|---|---|
| Purchase of long-term investments | **-** | - | **(422.3)** | - |
| Proceeds from disposal of property, plant and equipment and long-term investments | **0.2** | 0.1 | **0.5** | 148.4 |
| Other assets and intangible assets | **(2.2)** | (25.6) | **(27.7)** | (36.1) |
| **Cash used in investing activities** | **(506.6)** | (450.0) | **(1,843.6)** | (1,077.9) |
| **Cash before financing activities** | **(2.8)** | (129.2) | **355.5** | (722.1) |
| **Financing Activities** | | | | |
| Proceeds from long-term debt obligations | **-** | 1,478.7 | **400.0** | 4,033.7 |
| Repayment of and finance costs on long-term debt obligations | **-** | (1,062.2) | **(400.4)** | (3,291.4) |
| Proceeds from (repayment of) short-term debt obligations | **0.4** | (246.2) | **(332.0)** | 165.3 |
| Dividends | **(29.8)** | (29.2) | **(89.0)** | (87.9) |
| Issuance of common shares | **25.3** | 8.0 | **40.3** | 16.8 |
| **Cash (used in) provided by financing activities** | **(4.1)** | 149.1 | **(381.1)** | 836.5 |
| **(Decrease) Increase in Cash and Cash Equivalents** | **(6.9)** | 19.9 | **(25.6)** | 114.4 |
| **Cash and Cash Equivalents, Beginning of Period** | **366.7** | 371.3 | **385.4** | 276.8 |
| **Cash and Cash Equivalents, End of Period** | **$ 359.8** | $ 391.2 | **$ 359.8** | $ 391.2 |
| Cash and cash equivalents comprised of: | | | | |
| Cash | **$ 91.1** | $ 98.5 | **$ 91.1** | $ 98.5 |
| Short-term investments | **268.7** | 292.7 | **268.7** | 292.7 |
| | **$ 359.8** | $ 391.2 | **$ 359.8** | $ 391.2 |
| Supplemental cash flow disclosure | | | | |
| Interest paid | **$ 1.2** | $ 10.1 | **$ 54.9** | $ 56.1 |
| Income taxes paid (recovered) | **$ 64.3** | $ 3.0 | **$ (76.0)** | $ 739.2 |

(1) Corrected as described in Note 18.

(See Notes to the Condensed Consolidated Financial Statements)

**Potash Corporation of Saskatchewan Inc.**

**Condensed Consolidated Statements of Comprehensive Income**
**(in millions of US dollars)**
**(unaudited)**

| (Net of related income taxes) | Three Months Ended September 30 2010 | Three Months Ended September 30 2009[1] | Nine Months Ended September 30 2010 | Nine Months Ended September 30 2009[1] |
|---|---|---|---|---|
| **Net Income** | **$ 402.7** | $ 247.9 | **$ 1,323.9** | $ 741.5 |
| Other comprehensive income | | | | |
| Net increase in unrealized gains on available-for-sale securities[2] | **924.1** | 115.8 | **202.1** | 553.4 |
| Net losses on derivatives designated as cash flow hedges[3] | **(60.9)** | (11.1) | **(124.8)** | (39.9) |
| Reclassification to income of net losses on cash flow hedges[4] | **12.5** | 14.5 | **36.1** | 39.9 |
| Unrealized foreign exchange gains on translation of self-sustaining foreign operations | **1.5** | 4.7 | **0.1** | 12.0 |
| Share of other comprehensive income of equity investees | **3.0** | - | **0.6** | - |
| **Other Comprehensive Income** | **880.2** | 123.9 | **114.1** | 565.4 |
| **Comprehensive Income** | **$ 1,282.9** | $ 371.8 | **$ 1,438.0** | $ 1,306.9 |

(1) Corrected as described in Note 18.

(2) Available-for-sale securities are comprised of shares in Israel Chemicals Ltd. and Sinofert Holdings Limited and investments in auction rate securities. The amounts are net of income taxes of $NIL (2009 $NIL) for the three months ended September 30, 2010 and $NIL (2009 $26.5) for the nine months ended September 30, 2010.

(3) Cash flow hedges are comprised of natural gas derivative instruments, and are net of income taxes of $(36.8) (2009 $(6.8)) for the three months ended September 30, 2010 and $(75.5) (2009 $(24.3)) for the nine months ended September 30, 2010.

(4) Net of income taxes of $7.5 (2009 $8.9) for the three months ended September 30, 2010 and $21.8 (2009 $24.3) for the nine months ended September 30, 2010.

**Condensed Consolidated Statements of Accumulated Other Comprehensive Income**
**(in millions of US dollars)**

**(unaudited)**

| **(Net of related income taxes)** | **September 30, 2010** | **December 31, 2009[1]** |
|---|---|---|
| Unrealized gains on available-for-sale securities[2] | **$ 1,952.5** | $ 1,750.4 |
| Net unrealized losses on derivatives designated as cash flow hedges[3] | **(200.1)** | (111.4) |
| Unrealized foreign exchange gains on self-sustaining foreign operations[4] | **9.9** | 9.8 |
| Share of other comprehensive income of equity investees[5] | **0.6** | - |
| Accumulated other comprehensive income | **1,762.9** | 1,648.8 |
| Retained earnings | **4,445.9** | 3,211.2 |
| **Accumulated Other Comprehensive Income and Retained Earnings** | **$ 6,208.8** | $ 4,860.0 |

(1) Corrected as described in Note 18.

(2) $2,102.9 before income taxes (2009 $1,900.8).

(3) $(320.0) before income taxes (2009 $(177.6)).

(4) $9.9 before income taxes (2009 $9.8).

(5) $0.6 before income taxes (2009 $NIL).

(See Notes to the Condensed Consolidated Financial Statements)

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**Potash Corporation of Saskatchewan Inc.**

**Notes to the Condensed Consolidated Financial Statements**
**For the Three and Nine Months Ended September 30, 2010**
**(in millions of US dollars except share, per-share, percentage and ratio amounts)**
**(unaudited)**

## 1. Significant Accounting Policies

***Basis of Presentation***

With its subsidiaries, Potash Corporation of Saskatchewan Inc. ( PCS ) together known as PotashCorp or the company except to the extent the context otherwise requires forms an integrated fertilizer and related industrial and feed products company. The company s accounting policies are in accordance with accounting principles generally accepted in Canada ( Canadian GAAP ). These policies are consistent with accounting principles generally accepted in the United States ( US GAAP ) in all material respects except as outlined in Note 17. The accounting policies used in preparing these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the 2009 annual consolidated financial statements.

These unaudited interim condensed consolidated financial statements include the accounts of PCS and its subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the 2009 annual consolidated financial statements. In management s opinion, the unaudited interim condensed consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

***Recent Accounting Pronouncements***

*IFRSs*

International Financial Reporting Standards ( IFRSs ) have been incorporated into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises in Canada will be required to prepare financial statements in accordance with IFRSs. Incorporation of IFRSs into the CICA Accounting Handbook makes possible the early adoption of IFRSs by Canadian entities. The company is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

## 2. Receivables

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Trade accounts Canpotex Limited ( Canpotex ) | **$ 183.1** | $ 164.3 |
| Other | **502.0** | 264.4 |
| Less allowance for doubtful accounts | **(8.4)** | (8.4) |

| | | | | |
|---|---|---|---|---|
| | | **676.7** | | 420.3 |
| Margin deposits on derivative instruments | | **224.1** | | 108.9 |
| Income taxes receivable | | **27.2** | | 287.4 |
| Provincial mining and other taxes receivable | | **-** | | 234.6 |
| Other non-trade accounts | | **47.1** | | 86.7 |
| | **$** | **975.1** | $ | 1,137.9 |

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## 3. Inventories

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Finished products | **$ 184.6** | $ 303.1 |
| Intermediate products | **141.9** | 158.9 |
| Raw materials | **58.4** | 50.6 |
| Materials and supplies | **122.9** | 110.9 |
| | **$ 507.8** | $ 623.5 |

| Items affecting cost of goods sold | Three Months Ended September 30 2010 | Three Months Ended September 30 2009 | Nine Months Ended September 30 2010 | Nine Months Ended September 30 2009 |
|---|---|---|---|---|
| Expensed inventories | **$ 826.9** | $ 579.5 | **$ 2,313.3** | $ 1,581.3 |
| Writedowns of finished products | **-** | 5.0 | **4.5** | 45.2 |
| Writedowns of intermediate products | **-** | 4.7 | **0.3** | 4.7 |
| Writedowns of raw materials | **-** | 1.4 | **-** | 1.4 |
| Reserves for obsolete materials and supplies | **0.5** | 0.5 | **1.5** | 1.8 |
| Reversals of writedowns | **(0.4)** | (1.7) | **(2.1)** | (7.3) |
| | **$ 827.0** | $ 589.4 | **$ 2,317.5** | $ 1,627.1 |

The carrying amount of inventory recorded at net realizable value was $0.6 at September 30, 2010 and $33.5 at December 31, 2009 with the remaining inventory recorded at cost.

## 4. Long-Term Debt

During the three months ended September 30, 2010, the company did not receive any proceeds nor make any repayments under its long-term credit facilities. During the nine months ended September 30, 2010, the company received proceeds from its long-term credit facilities of $400.0, and made repayments of $400.0 under these facilities.

During the second quarter of 2010, the company classified the $600.0 aggregate principal amount of 7.750 percent senior notes due May 31, 2011 as current.

## 5. Capital Management

The company s objectives when managing its capital are to maintain financial flexibility while managing its cost of, and optimizing access to, capital. In order to achieve these objectives, its strategy, which was unchanged from 2009, was to maintain its investment grade credit rating.

The company includes net debt and adjusted shareholders equity as components of its capital structure. The calculation of net debt, adjusted shareholders equity and adjusted capital are set out in the following table:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Short-term debt and current portion of long-term debt | **$ 993.4** | $ 728.8 |
| Long-term debt | **2,721.6** | 3,319.3 |
| **Total debt** | **3,715.0** | 4,048.1 |
| Less: cash and cash equivalents | **359.8** | 385.4 |
| **Net debt** | **3,355.2** | 3,662.7 |
| **Shareholders equity** | **7,850.5** | 6,439.8 |
| Less: accumulated other comprehensive income | **1,762.9** | 1,648.8 |
| **Adjusted shareholders equity** | **6,087.6** | 4,791.0 |
| **Adjusted capital**[1] | **$ 9,442.8** | $ 8,453.7 |

[1] Adjusted capital = (total debt cash and cash equivalents) + (shareholders equity accumulated other comprehensive income).

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The company monitors capital on the basis of a number of factors, including the ratios of: earnings before interest expense, income taxes, depreciation and amortization, and gain on disposal of auction rate securities ( adjusted EBITDA ) to adjusted interest expense; net debt to adjusted EBITDA and net debt to adjusted capital. Adjusted EBITDA to adjusted interest expense and net debt to adjusted EBITDA are calculated utilizing 12-month trailing adjusted EBITDA and adjusted interest expense.

| | As At or For the 12 Months Ended September 30, 2010 | December 31, 2009 |
|---|---|---|
| Components of ratios | | |
| Adjusted EBITDA (12 months ended) | **$ 2,575.0** | $ 1,377.6 |
| Net debt | **$ 3,355.2** | $ 3,662.7 |
| Adjusted interest expense (12 months ended) | **$ 219.2** | $ 189.1 |
| Adjusted capital | **$ 9,442.8** | $ 8,453.7 |
| Ratios | | |
| Adjusted EBITDA to adjusted interest expense(1) | **11.7** | 7.3 |
| Net debt to adjusted EBITDA(2) | **1.3** | 2.7 |
| Net debt to adjusted capital(3) | **35.5%** | 43.3% |

(1) Adjusted EBITDA to adjusted interest expense = adjusted EBITDA (12 months ended) / adjusted interest expense (12 months ended).

(2) Net debt to adjusted EBITDA = (total debt cash and cash equivalents) / adjusted EBITDA (12 months ended).

(3) Net debt to adjusted capital = (total debt cash and cash equivalents) / (total debt cash and cash equivalents + shareholders equity accumulated other comprehensive income).

The company monitors its capital structure and, based on changes in economic conditions, may adjust the structure through adjustments to the amount of dividends paid to shareholders, repurchase of shares, issuance of new shares or issuance of new debt.

The increase in adjusted EBITDA to adjusted interest expense is a result of adjusted EBITDA increasing more than the increase in adjusted interest expense. The net-debt-to-adjusted-EBITDA ratio decreased as net debt decreased and adjusted EBITDA increased. Net-debt-to-adjusted-capital ratio decreased as net debt decreased and adjusted capital increased.

The calculations of the twelve-month trailing net income, adjusted EBITDA, interest expense and adjusted interest expense are set out in the following tables:

| | Twelve Months Ended | Three Months Ended | Twelve Months Ended |
|---|---|---|---|

| | **September 30, 2010** | **September 30, 2010** | **June 30, 2010** | **March 31, 2010** | **December 31, 2009** | **December 31, 2009** |
|---|---|---|---|---|---|---|
| **Net income** | **$ 1,563.1** | $ 402.7 | $ 472.0 | $ 449.2 | $ 239.2 | $ 980.7 |
| Income taxes | **520.1** | 120.0 | 174.3 | 182.4 | 43.4 | 79.2 |
| Interest expense | **109.8** | 16.5 | 22.7 | 30.5 | 40.1 | 120.9 |
| Depreciation and amortization | **382.0** | 96.4 | 99.9 | 101.1 | 84.6 | 312.1 |
| Gain on disposal of auction rate securities | **-** | - | - | - | - | (115.3) |
| **Adjusted EBITDA** | **$ 2,575.0** | $ 635.6 | $ 768.9 | $ 763.2 | $ 407.3 | $ 1,377.6 |

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| | Twelve Months Ended September 30, 2010 | Three Months Ended September 30, 2010 | June 30, 2010 | March 31, 2010 | December 31, 2009 | Twelve Months Ended December 31, 2009 |
|---|---|---|---|---|---|---|
| **Interest expense** | **$ 109.8** | $ 16.5 | $ 22.7 | $ 30.5 | $ 40.1 | $ 120.9 |
| Interest capitalized to property, plant and equipment | **109.4** | 37.0 | 30.3 | 20.7 | 21.4 | 68.2 |
| **Adjusted interest expense** | **$ 219.2** | $ 53.5 | $ 53.0 | $ 51.2 | $ 61.5 | $ 189.1 |

**6. Segment Information**

The company has three reportable business segments: potash, phosphate and nitrogen. These business segments are differentiated by the chemical nutrient contained in the product that each produces. Inter-segment sales are made under terms that approximate market value. The accounting policies of the segments are the same as those described in Note 1.

| | Three Months Ended September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | **Potash** | **Phosphate** | **Nitrogen** | **All Others** | **Consolidated** |
| Sales | **$ 637.2** | **$ 536.0** | **$ 401.8** | **$ -** | **$ 1,575.0** |
| Freight | **40.1** | **30.6** | **10.4** | **-** | **81.1** |
| Transportation and distribution | **15.0** | **13.5** | **9.4** | **-** | **37.9** |
| Net sales third party | **582.1** | **491.9** | **382.0** | **-** | |
| Cost of goods sold | **218.6** | **392.4** | **281.7** | **-** | **892.7** |
| Gross margin | **363.5** | **99.5** | **100.3** | **-** | **563.3** |
| Depreciation and amortization | **26.8** | **46.1** | **21.1** | **2.4** | **96.4** |
| Inter-segment sales | **-** | **-** | **27.6** | **-** | **-** |

| | Three Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | **Potash** | **Phosphate** | **Nitrogen** | **All Others** | **Consolidated** |
| Sales | $ 423.4 | $ 357.4 | $ 318.3 | $ - | $ 1,099.1 |
| Freight | 16.8 | 24.3 | 12.6 | - | 53.7 |

| | | | | | |
|---|---|---|---|---|---|
| Transportation and distribution | 9.2 | 13.9 | 13.2 | - | 36.3 |
| Net sales third party | 397.4 | 319.2 | 292.5 | - | |
| Cost of goods sold | 146.0 | 276.5 | 241.9 | - | 664.4 |
| Gross margin | 251.4 | 42.7 | 50.6 | - | 344.7 |
| Depreciation and amortization | 13.2 | 43.1 | 25.1 | 2.0 | 83.4 |
| Inter-segment sales | - | - | 23.3 | - | - |

| | Nine Months Ended September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | **Potash** | **Phosphate** | **Nitrogen** | **All Others** | **Consolidated** |
| Sales | **$ 2,170.4** | **$ 1,300.8** | **$ 1,255.2** | **$ -** | **$ 4,726.4** |
| Freight | **142.9** | **75.2** | **32.3** | **-** | **250.4** |
| Transportation and distribution | **59.5** | **31.3** | **32.0** | **-** | **122.8** |
| Net sales third party | **1,968.0** | **1,194.3** | **1,190.9** | **-** | |
| Cost of goods sold | **691.5** | **966.7** | **833.0** | **-** | **2,491.2** |
| Gross margin | **1,276.5** | **227.6** | **357.9** | **-** | **1,862.0** |
| Depreciation and amortization | **84.4** | **136.5** | **70.1** | **6.4** | **297.4** |
| Inter-segment sales | **-** | **-** | **81.1** | **-** | **-** |

| | Nine Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Potash | Phosphate | Nitrogen | All Others | Consolidated |
| Sales | $ 903.3 | $ 1,012.0 | $ 962.3 | $ - | $ 2,877.6 |
| Freight | 34.1 | 58.3 | 37.8 | - | 130.2 |
| Transportation and distribution | 24.4 | 34.8 | 41.8 | - | 101.0 |
| Net sales third party | 844.8 | 918.9 | 882.7 | - | |
| Cost of goods sold | 320.6 | 849.9 | 734.0 | - | 1,904.5 |
| Gross margin | 524.2 | 69.0 | 148.7 | - | 741.9 |
| Depreciation and amortization | 26.6 | 120.0 | 74.3 | 6.6 | 227.5 |
| Inter-segment sales | - | - | 44.1 | - | - |

| **Assets** | **Potash** | **Phosphate** | **Nitrogen** | **All Others** | **Consolidated** |
|---|---|---|---|---|---|
| Assets at September 30, 2010 | $ 5,346.9 | $ 2,479.0 | $ 1,834.6 | $ 4,871.5 | $ 14,532.0 |
| Assets at December 31, 2009 | 4,708.3 | 2,356.8 | 1,688.6 | 4,168.5 | 12,922.2 |
| Change in assets | 638.6 | 122.2 | 146.0 | 703.0 | 1,609.8 |
| Additions to property, plant and equipment | 1,167.8 | 138.2 | 65.7 | 22.4 | 1,394.1 |

In January and February 2010, the company purchased additional shares in Israel Chemicals Ltd. ( ICL ) for cash consideration of $420.1, increasing its ownership percentage to 14 percent. In conjunction with this purchase, the company incurred a loss of $2.2 on a foreign exchange contract.

**7. Shareholders Equity**

***Shareholder Rights Plan***

During the third quarter of 2010, the Board of Directors adopted a Shareholder Rights Plan (the Rights Plan ). In connection with the adoption of the Rights Plan, the Board of Directors authorized the issuance of one share purchase right in respect of each common share of PotashCorp outstanding as of the close of business on August 16, 2010 (and each share issued thereafter, subject to the limitations set out in the Rights Plan). Under the terms of the Rights Plan, the rights will become exercisable if a person, together with its affiliates, associates and joint actors, acquires or announces an intention to acquire beneficial ownership of shares which, when aggregated with its current holdings, total 20 percent or more of PotashCorp s outstanding common shares, subject to the ability of the Board of Directors to defer the time at which the rights become exercisable and to waive the application of the Rights Plan.

Following the acquisition of more than 20 percent of the outstanding common shares by any person (and its affiliates, associates and joint actors), each right held by a person other than the acquiring person (and its affiliates, associates and joint actors) would, upon exercise, entitle the holder to purchase common shares at a substantial discount to the then prevailing market price. The Rights Plan permits the acquisition of control of PotashCorp through a permitted bid , a competing permitted bid or a negotiated transaction. A permitted bid is one that, among other things, is made to all holders of shares, is open for a minimum of 90 days and is conditioned on more than 50% of the outstanding common shares of the company held by Independent Shareholders (as defined in the Rights Plan) being deposited to the bid and a further 10 business day extension of the bid should this condition be met.

***Stock-Based Compensation***

On May 6, 2010, the company s shareholders approved the 2010 Performance Option Plan under which the company may, after February 19, 2010 and before January 1, 2011, issue options to acquire up to 1,000,000 common shares. Under the plan, the exercise price shall not be less than the quoted market closing price of the company s common shares on the last trading day immediately preceding the date of the grant, and an option s maximum term is 10 years. In general, options will vest, if at all, according to a schedule based on the three-year average excess of the company s consolidated cash flow return on investment over weighted average cost of capital.

As of September 30, 2010, options to purchase a total of 444,700 common shares had been granted under the plan. The weighted average fair value of options granted was $47.88 per share, estimated as of the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

| | |
|---|---|
| Expected dividend | $ 0.40 |
| Expected volatility | 50% |
| Risk-free interest rate | 2.61% |
| Expected life of options | 5.9 years |

**8. Pension and Other Post-Retirement Expenses**

| Defined Benefit Pension Plans | Three Months Ended September 30 2010 | Three Months Ended September 30 2009 | Nine Months Ended September 30 2010 | Nine Months Ended September 30 2009 |
|---|---|---|---|---|
| Service cost | **$ 5.0** | $ 4.3 | **$ 15.0** | $ 12.9 |
| Interest cost | **11.7** | 11.1 | **35.1** | 33.3 |
| Expected return on plan assets | **(11.6)** | (9.6) | **(34.8)** | (28.8) |
| Net amortization and change in valuation allowance | **6.3** | 7.2 | **18.7** | 21.6 |
| Net expense | **$ 11.4** | $ 13.0 | **$ 34.0** | $ 39.0 |

| Other Post-Retirement Plans | Three Months Ended September 30 2010 | Three Months Ended September 30 2009 | Nine Months Ended September 30 2010 | Nine Months Ended September 30 2009 |
|---|---|---|---|---|
| Service cost | **$ 1.7** | $ 1.5 | **$ 5.2** | $ 4.6 |
| Interest cost | **4.1** | 4.1 | **12.1** | 12.4 |
| Net amortization | **(0.6)** | 0.2 | **(1.6)** | 0.5 |
| Net expense | **$ 5.2** | $ 5.8 | **$ 15.7** | $ 17.5 |

For the three months ended September 30, 2010, the company contributed $46.6 to its defined benefit pension plans, $6.2 to its defined contribution pension plans and $2.9 to its other post-retirement plans. Contributions for the nine months ended September 30, 2010 were $50.8 to its defined benefit pension plans, $18.3 to its defined contribution pension plans and $6.5 to its other post-retirement plans. Total 2010 contributions to these plans are not expected to differ significantly from the amounts previously disclosed in Note 15 to the consolidated financial statements in the company s 2009 financial review annual report.

**9. Other Income**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Share of earnings of equity investees | **$ 51.0** | $ 32.5 | **$ 121.6** | $ 100.2 |
| Dividend income | **24.6** | 11.4 | **139.0** | 51.8 |
| Gain on disposal of auction rate securities | **-** | - | **-** | 115.3 |
| Other | **(10.0)** | (2.7) | **(19.5)** | (2.7) |
| | **$ 65.6** | $ 41.2 | **$ 241.1** | $ 264.6 |

Included in other are financial advisory, legal and other fees incurred during the quarter ended September 30, 2010 relating to PotashCorp s response actions to the commencement by BHP Billiton Development 2 (Canada) Limited, a wholly owned indirect subsidiary of BHP Billiton Plc ( BHP ), of an unsolicited offer to purchase all of PotashCorp s outstanding common shares (the BHP Offer ). The company will be required to pay additional fees to its financial advisors in connection with the BHP Offer. A significant portion of the fees payable to each of the company s financial advisors in connection with their respective engagements is payable on consummation of certain transactions with one or more third parties, including upon consummation of the BHP Offer, in the event the

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company does not consummate the BHP Offer and/or if certain other transactions with any party occur before a certain date.

## 10. Interest Expense

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Interest expense on | | | | |
| Short-term debt | **$ 1.9** | $ 3.6 | **$ 5.8** | $ 17.3 |
| Long-term debt | **52.8** | 46.0 | **158.4** | 119.8 |
| Interest capitalized to property, plant and equipment | **(37.0)** | (16.8) | **(88.0)** | (46.8) |
| Interest income | **(1.2)** | (1.7) | **(6.5)** | (9.5) |
| | **$ 16.5** | $ 31.1 | **$ 69.7** | $ 80.8 |

## 11. Income Taxes

For the three months ended September 30, 2010, the company s income tax expense was $120.0. This compared to an expense of $77.9 for the same period last year. For the nine months ended September 30, 2010, the company s income tax expense was $476.7 (2009 $35.8). The actual effective tax rate, including discrete items, for the three and nine months ended September 30, 2010 was 23 percent and 26 percent, respectively, compared to 24 percent and 5 percent for the three and nine months ended September 30, 2009.

The income tax expense for the nine months ended September 30, 2010 included the following discrete items:

To adjust the 2009 income tax provision to the income tax returns filed, an income tax expense of $18.2, $8.5 and $7.3 was recorded in the first, second, and third quarters, respectively.

A future income tax expense of $6.3 as a result of US legislative changes to Medicare Part D adopted during the first quarter.

A current income tax expense of $8.2 for international tax issues pertaining to transfer pricing during the second quarter.

A future income tax recovery of $4.1 related to a second-quarter functional currency tax election by a subsidiary company for Canadian income tax purposes.

The income tax expense for the nine months ended September 30, 2009 included the following discrete items:

A future income tax recovery of $119.2 for a tax rate reduction resulting from an internal restructuring during the first quarter.

A current income tax recovery of $47.6 recorded in the first quarter that related to an increase in permanent deductions in the US from prior years, which had a positive impact on cash.

A future income tax expense of $24.4 related to a second-quarter functional currency tax election by the parent company for Canadian income tax purposes.

The benefit of a lower proportion of consolidated income earned in the higher-tax jurisdictions.

**12. Net Income Per Share**

Basic net income per share for the quarter is calculated based on the weighted average shares issued and outstanding for the three months ended September 30, 2010 of 296,971,000 (2009 295,721,000). Basic net income per share for the nine months ended September 30, 2010 is calculated based on the weighted average shares issued and outstanding for the period of 296,492,000 (2009 295,467,000).

Diluted net income per share is calculated based on the weighted average number of shares issued and outstanding during the period. The denominator is: (1) increased by the total of the additional common shares that would have been issued assuming the exercise of all stock options with exercise prices at or below the average market price for the period; and (2) decreased by the number of shares that the company could have repurchased if it had used the assumed proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the period. For performance-based stock option plans, the number of contingently issuable common shares included in the calculation is based on the number of shares that would be issuable based on period-to-date (rather than anticipated) performance, if the effect is dilutive. The weighted average number of shares outstanding for the diluted net income per share calculation for the three months ended September 30, 2010 was 305,231,000 (2009 303,927,000) and for the nine months ended September 30, 2010 was 304,816,000 (2009 303,802,000).

## 13. Financial Instruments and Related Risk Management

### *Financial Risks*

The company is exposed in varying degrees to a variety of financial risks from its use of financial instruments: credit risk, liquidity risk and market risk. The source of risk exposure and how each is managed is described in Note 26 to the consolidated financial statements in the company s 2009 financial review annual report.

### *Credit Risk*

The company is exposed to credit risk on its cash and cash equivalents, receivables, and derivative instrument assets. The maximum exposure to credit risk, as represented by the carrying amount of the financial assets, was:

| | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| Cash and cash equivalents | **$ 359.8** | $ 385.4 |
| Receivables | **947.9** | 615.9 |
| Derivative instrument assets | **2.8** | 9.0 |

The aging of trade receivables that were past due but not impaired was as follows:

| | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| 1 30 days | **$ 20.4** | $ 20.1 |
| 31 60 days | **-** | 0.7 |
| Greater than 60 days | **1.0** | 0.7 |
| | **$ 21.4** | $ 21.5 |

A reconciliation of the receivables allowance for doubtful accounts is as follows:

| | As At and For the Nine Months Ended September 30, 2010 | As At and For the Year Ended December 31, 2009 |
|---|---|---|
| Balance, beginning of period | **$ 8.4** | $ 7.7 |
| Provision for receivables impairment | **0.1** | 1.3 |
| Receivables written off during the period as uncollectible | **(0.1)** | (0.6) |
| Balance, end of period | **$ 8.4** | $ 8.4 |

The company sells potash from its Saskatchewan mines for use outside Canada and the US exclusively to Canpotex. Sales to Canpotex are at prevailing market prices and are settled on normal trade terms. There were no amounts past due or impaired relating to amounts owing to the company from Canpotex or the non-trade receivables.

*Liquidity Risk*

Liquidity risk arises from the company s general funding needs and in the management of its assets, liabilities and capital structure. It manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations in a cost-effective manner. In managing its liquidity risk, the company has access to a range of funding options. The table below outlines the company s available debt facilities:

| | September 30, 2010 | | |
|---|---|---|---|
| | Total Amount | Amount Outstanding and Committed | Amount Available |
| Credit facilities[1] | $ 3,250.0 | $ 394.8 | $ 2,855.2 |
| Line of credit | 75.0 | 35.3[2] | 39.7 |

[1] The company increased the amount available under its commercial paper program from $750.0 to $1,500.0 in the second quarter of 2010. The amount available under the commercial paper program is limited to the availability of backup funds under the credit facilities. Included in the amount outstanding and committed is $394.8 of commercial paper. Per the terms of the agreements, the commercial paper outstanding and committed, as applicable, is based on the US dollar balance or equivalent thereof in lawful money of other currencies at the time of issue; therefore, subsequent changes in the exchange rate applicable to Canadian dollar denominated commercial paper have no impact on this balance.

[2] Letters of credit committed.

During the second quarter of 2010, the company entered into an uncommitted $30.0 letter of credit facility. No letters of credit were outstanding under this facility as at September 30, 2010.

Certain of the company s derivative instruments contain provisions that require its debt to maintain specified credit ratings from two of the major credit rating agencies. If the company s debt were to fall below the specified ratings, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position on September 30, 2010 was $315.7, for which the company has posted collateral of $224.1 in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered on September 30, 2010, the company would have been required to post an additional $89.7 of collateral to its counterparties.

The table below presents a maturity analysis of the company s financial liabilities and gross settled derivative contracts based on the expected cash flows from the date of the balance sheet to the contractual maturity date. The amounts are the contractual undiscounted cash flows.

| | Carrying Amount at September 30, | Contractual | Within | Over |
|---|---|---|---|---|

| | 2010 | Cash Flows | 1 year | 1 to 3 years | 3 to 5 years | 5 years |
|---|---|---|---|---|---|---|
| Short-term debt obligations[1] | **$ 395.0** | $ 395.2 | $ 395.2 | $ - | $ - | $ - |
| Payables and accrued charges[2] | **720.0** | 720.0 | 720.0 | - | - | - |
| Long-term debt obligations[1] | **3,357.7** | 4,948.2 | 795.6 | 542.9 | 1,237.5 | 2,372.2 |
| Foreign currency derivatives | **(2.8)** | | | | | |
| Outflow | | 100.0 | 100.0 | - | - | - |
| Inflow | | (102.8) | (102.8) | - | - | - |
| Natural gas derivative liabilities[3] | **315.7** | 327.2 | 91.5 | 90.0 | 65.3 | 80.4 |
| | **$ 4,785.6** | $ 6,387.8 | $ 1,999.5 | $ 632.9 | $ 1,302.8 | $ 2,452.6 |

(1) Contractual cash flows include contractual interest payments related to debt obligations. Interest rates on variable rate debt are based on prevailing rates at September 30, 2010.

(2) Excludes taxes, accrued interest, deferred revenues and current portions of accrued environmental costs and asset retirement obligations and accrued pension and other post-retirement benefits. This also excludes derivative financial instrument liabilities which have been presented separately.

(3) Natural gas derivatives are subject to master netting agreements. Each counterparty has margin requirements that may require the company to post collateral against liability balances.

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***Market Risk***

Market risk is the risk that financial instrument fair values will fluctuate due to changes in market prices. The market risks to which the company is exposed are foreign exchange risk, interest rate risk and price risk (related to commodity and equity securities).

*Foreign Exchange Risk*

The following table shows the company s significant exposure to exchange risk and the pre-tax effects on income and OCI of reasonably possible changes in the relevant foreign currency. The company has no significant foreign currency exposure related to cash and cash equivalents and receivables. This analysis assumes all other variables remain constant.

| | Carrying Amount of Asset (Liability) | Foreign Exchange Risk 5% increase in US$ Income | OCI | 5% decrease in US$ Income | OCI |
|---|---|---|---|---|---|
| **September 30, 2010** | | | | | |
| Available-for-sale investments | | | | | |
| Israel Chemicals Ltd. (New Israeli shekels) | $ **2,490.7** | $ **-** | $ **(124.5)** | $ **-** | $ **124.5** |
| Sinofert Holdings Limited (Hong Kong dollars) | **891.4** | **-** | **(44.6)** | **-** | **44.6** |
| Short-term debt (CDN) | **(20.0)** | **1.0** | **-** | **(1.0)** | **-** |
| Payables (CDN) | **(144.9)** | **7.2** | **-** | **(7.2)** | **-** |
| Foreign currency derivatives | **2.8** | **(5.1)** | **-** | **5.1** | **-** |
| **December 31, 2009** | | | | | |
| Available-for-sale investments | | | | | |
| Israel Chemicals Ltd. (New Israeli shekels) | 1,895.7 | - | (94.8) | - | 94.8 |
| Sinofert Holdings Limited (Hong Kong dollars) | 864.2 | - | (43.2) | - | 43.2 |
| Short-term debt (CDN) | (262.5) | 13.1 | - | (13.1) | - |
| Payables (CDN) | (167.2) | 8.4 | - | (8.4) | - |
| Foreign currency derivatives | 5.0 | (20.4) | - | 20.4 | - |

At September 30, 2010, the company had entered into foreign currency forward contracts to sell US dollars and receive Canadian dollars in the notional amount of $80.0 (December 31, 2009 $140.0) at an average exchange rate of 1.0625 (December 31, 2009 1.0681) per US dollar. Maturity dates for all forward contracts were within 2010.

At September 30, 2010, the company had foreign currency swaps to sell US dollars and receive Canadian dollars in the notional amount of $20.0 (December 31, 2009 $262.5) at an average exchange rate of 1.0401 (December 31, 2009 1.0551) per US dollar. Maturity dates for all swaps were within 2010.

*Interest Rate Risk*

The company does not have significant exposure to interest rate risk at September 30, 2010 and December 31, 2009. The only financial assets bearing any variable interest rate exposure are cash and cash equivalents. As for financial liabilities, the company only has an insignificant exposure related to a long-term loan that is subject to variable rates. Short-term debt, related to commercial paper, is excluded from interest rate risk as the interest rates are fixed for the stated period of the debt. The company would only be exposed to variable interest rate risk on the issuance of new commercial paper. The company does not measure any fixed-rate debt at fair value. Therefore, changes in interest rates will not affect income or OCI as there is no change in the carrying value of fixed-rate debt and interest payments are fixed. This analysis assumes all other variables remain constant.

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*Price Risk*

The following table shows the company s exposure to price risk and the pre-tax effects on net income and OCI of reasonably possible changes in the relevant commodity or securities prices. This analysis assumes all other variables remain constant.

| | Price Risk | | | | | |
|---|---|---|---|---|---|---|
| | Carrying Amount of Asset (Liability) | | Effect of 10% decrease in prices on OCI | | Effect of 10% increase in prices on OCI | |
| | September 30, 2010 | December 31, 2009 | September 30, 2010 | December 31, 2009 | September 30, 2010 | December 31, 2009 |
| Natural gas derivatives | **$ (315.7)** | $ (171.0) | **$ (49.9)** | $ (72.6) | **$ 49.9** | $ 72.8 |
| Available-for-sale investments | **3,382.1** | 2,759.9 | **(338.2)** | (276.0) | **338.2** | 276.0 |

At September 30, 2010, the company had natural gas derivatives qualifying for hedge accounting in the form of swaps for which it has price risk exposure; which derivatives represented a notional amount of 104.5 million MMBtu with maturities in 2010 through 2019. At December 31, 2009, the notional amount of swaps was 123.0 million MMBtu with maturities in 2010 through 2019.

***Fair Value***

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

Presented below is a comparison of the fair value of each financial instrument to its carrying value.

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount of Asset (Liability) | Fair Value of Asset (Liability) | Carrying Amount of Asset (Liability) | Fair Value of Asset (Liability) |
| Derivative instrument assets | | | | |
| Natural gas derivatives | **$ -** | **$ -** | $ 3.7 | $ 3.7 |
| Foreign currency derivatives | **2.8** | **2.8** | 5.3 | 5.3 |
| Available-for-sale investments | **3,382.1** | **3,382.1** | 2,759.9 | 2,759.9 |
| Derivative instrument liabilities | | | | |
| Natural gas derivatives | **(315.7)** | **(315.7)** | (174.7) | (174.7) |
| Foreign currency derivatives | **-** | **-** | (0.3) | (0.3) |
| Long-term debt | | | | |
| Senior notes | **(3,350.0)** | **(3,583.4)** | (3,350.0) | (3,505.6) |
| Other | **(7.7)** | **(7.7)** | (8.0) | (8.0) |

Due to their short-term nature, the fair value of cash and cash equivalents, receivables, short-term debt, and payables and accrued charges is assumed to approximate carrying value. The fair value of the company s senior notes at September 30, 2010 reflected the yield valuation based on observed market prices. Yields on senior notes ranged from 1.34 percent to 5.71 percent (December 31, 2009 1.73 percent to 5.83 percent).

Interest rates used to discount estimated cash flows related to derivative instruments that were not traded in an active market at September 30, 2010 were between 0.65 percent and 3.89 percent (December 31, 2009 between 0.23 percent and 4.67 percent) depending on the settlement date.

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The following table presents the company s fair value hierarchy for those financial assets and financial liabilities carried at fair value at September 30, 2010. During the quarter ended September 30, 2010, there were no transfers between Level 1 and Level 2 and no transfers into or out of Level 3.

| Description | Carrying Amount of Asset (Liability) at September 30, 2010 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivative instrument assets | | | | |
| Foreign currency derivatives | $ 2.8 | $ - | $ 2.8 | $ - |
| Available-for-sale investments | 3,382.1 | 3,382.1 | - | - |
| Derivative instrument liabilities | | | | |
| Natural gas derivatives | (315.7) | - | (59.4) | (256.3) |

| Description | Carrying Amount of Asset (Liability) at December 31, 2009 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivative instrument assets | | | | |
| Natural gas derivatives | $ 3.7 | $ - | $ 1.2 | $ 2.5 |
| Foreign currency derivatives | 5.3 | - | 5.3 | - |
| Available-for-sale investments | 2,759.9 | 2,759.9 | - | - |
| Derivative instrument liabilities | | | | |
| Natural gas derivatives | (174.7) | - | (53.2) | (121.5) |
| Foreign currency derivatives | (0.3) | - | (0.3) | - |

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| | Natural Gas Derivatives September 30, 2010 | Natural Gas Derivatives December 31, 2009 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **(119.0)** | $ | (110.8) |
| Total losses (realized and unrealized) before income taxes | | | | |
| Included in earnings | | **(25.1)** | | (48.6) |
| Included in other comprehensive income | | **(144.4)** | | (49.4) |
| Other | | **-** | | - |
| Purchases | | **-** | | - |
| Sales | | **-** | | - |
| Issues | | **-** | | - |
| Settlements | | **32.2** | | 66.0 |
| Transfer out of Level 3 | | **-** | | 23.8 |
| Balance, end of period | **$** | **(256.3)** | $ | (119.0) |

| | | **Nine Months Ended September 30, 2010** | | **Twelve Months Ended December 31, 2009** |
|---|---|---|---|---|
| Amount of total losses for the period included in earnings attributable to the change in unrealized gains or losses relating to instruments still held at the reporting date | **$** | **-** | $ | (0.4) |
| Losses, realized and unrealized, included in earnings for the period, reported in cost of goods sold | **$** | **(25.1)** | $ | (48.6) |

For the year ended December 31, 2009, auction rate securities considered to be a Level 3 measurement had a beginning balance of $17.2; a gain of $115.3 was included in earnings for the period reported in other income related to the disposal of such securities for the full face amount of $132.5, resulting in an end of year balance of $NIL.

**14. Seasonality**

The company s sales of fertilizer can be seasonal. Typically, the second quarter of the year is when fertilizer sales will be highest, due to the North American spring planting season. However, planting conditions and the timing of customer purchases will vary each year and sales can be expected to shift from one quarter to another.

**15. Contingencies**

***Canpotex***

PCS is a shareholder in Canpotex, which markets potash offshore. Should any operating losses or other liabilities be incurred by Canpotex, the shareholders have contractually agreed to reimburse Canpotex for such losses or liabilities in proportion to their productive capacity. Through September 30, 2010, there were no such operating losses or other liabilities.

***Mining Risk***

In common with other companies in the industry, the company is unable to acquire insurance for underground assets.

***Legal and Other Matters***

Significant environmental site assessment and/or remediation matters of note include the following:

> The company, along with other parties, has been notified by the US Environmental Protection Agency ( USEPA ) of potential liability under the US Comprehensive Environmental Response, Compensation and Liability Act of 1980 ( CERCLA ) with respect to certain soil and groundwater conditions at a PCS Joint Venture blending facility in Lakeland, Florida and a certain adjoining former property. A Record of Decision ( ROD ) was issued on September 27, 2007 and provides for a remedy that requires excavation of impacted soils and interim treatment of groundwater. The total remedy cost is estimated in the ROD to be $8.5. In September 2010, the USEPA approved the Remedial Design Report to address the soil contamination.
>
> The USEPA has identified PCS Nitrogen, Inc. ( PCS Nitrogen ) as a potentially responsible party with respect to a former fertilizer blending operation in Charleston, South Carolina, known as the Planters Property or Columbia Nitrogen site, formerly owned by a company from which PCS Nitrogen acquired certain other assets. The USEPA has requested reimbursement of approximately $3.0 of previously incurred response costs and the performance or financing of future site investigation and response activities from PCS Nitrogen and other named potentially responsible parties. In September 2005, Ashley II of Charleston, L.L.C., the current owner of the Planters Property, filed a complaint in the United States District Court for the District of South Carolina seeking a declaratory judgment that PCS Nitrogen is liable to pay environmental response costs that Ashley II of Charleston, L.L.C. alleges it has incurred and will incur in connection with response activities at the site. After the Phase II trial, the district court allocated 30 percent of the liability for response costs at the site to PCS Nitrogen, as well as a proportional share of any costs that cannot be recovered from another responsible party. PCS has filed a motion for amendment of this decision. If that request is denied, the decision may be appealed, along with a previous decision imposing successor liability on PCS. The ultimate amount of liability for PCS depends upon the amount needed for remedial activities, the ability of other

parties to pay, and on the availability of insurance.

PCS Phosphate has agreed to participate, on a non-joint and several basis, with parties to an Administrative Settlement Agreement with the USEPA ( Settling Parties ) in the performance of a removal action and the payment of certain other costs associated with PCB soil contamination at the Ward Superfund Site in Raleigh, North Carolina ( Site ), including reimbursement of the USEPA s past costs. The removal activities commenced at the Site in August 2007. The cost of performing the removal action at the Site is estimated at $70.0. The Settling Parties have initiated CERCLA cost recovery litigation against PCS Phosphate and more than 100 other entities. PCS Phosphate filed crossclaims and counterclaims seeking cost recovery. In addition to the removal action at the Site, investigation of sediments downstream of the Site in what is called Operable Unit 1 has occurred. In September 2008, the USEPA issued a final remedy for Operable Unit 1, with an estimated cost of $6.1. In response to a special notice letter from the USEPA, PCS Phosphate and the Settling Parties made a good-faith offer to perform and/or pay for certain actions described in the special notice letter. At this time, the company is unable to evaluate the extent of any exposure that it may have for the matters addressed in the special notice letter.

Pursuant to the 1996 Corrective Action Consent Order (the Order ) executed between PCS Nitrogen Fertilizer, L.P., formerly known as Arcadian Fertilizer, L.P. ( PCS Nitrogen Fertilizer ) and Georgia Department of Natural Resources, Environmental Protection Division ( GEPD ) in conjunction with PCS Nitrogen Fertilizer s purchase of real property located in Augusta, Georgia, PCS Nitrogen Fertilizer agreed to perform certain activities including a facility investigation and, if necessary, a corrective action. PCS Nitrogen Fertilizer has performed an investigation of environmental site conditions, has documented its findings in several successive facility investigation reports submitted to GEPD and has conducted a pilot study to evaluate the viability of in-situ bioremediation of groundwater at the site. In May 2009, PCS Nitrogen Fertilizer submitted a Corrective Action Plan ( CAP ) to GEPD proposing to utilize in-situ bioremediation of groundwater at the site. In the event GEPD approves the CAP, a full-scale bioremediation remedy will be implemented.

In December 2009, during a routine inspection of a gypsum stack at the White Springs, Florida facility a sinkhole was discovered that resulted in the loss of approximately 84 million gallons of water from the stack. The company is sampling production and monitoring wells on its property and drinking water wells on neighboring property to assess impacts. The company incurred costs of $3.3 to address the sinkhole between the time of discovery and the end of the second quarter of 2010. The Florida Department of Environmental Protection ( FDEP ) issued a notice to the company stating that the release may constitute an unauthorized discharge. The company is negotiating an order with the FDEP in an effort to address the situation. The company entered into an order on consent with the USEPA that requires the company to complete a study of available feasible measures to reduce the possibility and impacts of any future sinkholes. Depending on the outcome of this study, the order will require the implementation of certain mitigation measures, although the scope and timing for the implementation of any such measures cannot be ascertained at the current time. The company is unable at this time to estimate with certainty the total costs that may be incurred to address this matter.

The company is also engaged in ongoing site assessment and/or remediation activities at a number of other facilities and sites. Based on current information, it does not believe that its future obligations with respect to these facilities and sites are reasonably likely to have a material adverse effect on its consolidated financial position or results of operations.

Other significant matters of note include the following:

The USEPA has notified the company of various alleged violations of the US Resource Conservation and Recovery Act ( RCRA ) at its Aurora, North Carolina, White Springs, Florida and Geismar, Louisiana plants. The company has entered into RCRA 3013 Administrative Orders on Consent and has performed certain site assessment activities at its White Springs, Aurora and Geismar plants. The company is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be. At this time, the company is unable to evaluate the extent of any exposure that it may have in these matters.

The USEPA has notified the company of various alleged violations of the Clean Air Act at its Geismar, Louisiana plant. The government has demanded process changes and penalties that would cost a total of approximately $27.0, but the company denies that it has any liability for the Geismar matter. Although the company is proceeding with planning and permitting for the process changes demanded by the government, the company is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be. In July 2010, without alleging any specific violation of the Clean Air Act, the

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USEPA requested that the company meet and demonstrate compliance with the Clean Air Act for specified projects undertaken at the White Springs sulfuric acid plants. The company participated in such meeting but, at this time, is unable to evaluate if it has any exposure.

Significant portions of the company s phosphate reserves in Aurora, North Carolina are located in wetlands. Under the Clean Water Act, the company must obtain a permit from the US Army Corps of Engineers (the Corps ) before mining in the wetlands. On January 15, 2009, the Division of Water Quality of the North Carolina Department of Natural Resources issued a certification under Section 401 of the Clean Water Act, that mining of phosphate in excess of thirty years from lands owned or controlled by the company, including some wetlands, would not degrade water quality. Thereafter, on June 10, 2009, the Corps issued the company a permit that will allow the company to mine the phosphate deposits identified in the 401 certification. USEPA decided not to seek additional review of the permit. On March 12, 2009, four environmental organizations (Pamlico-Tar River Foundation, North Carolina Coastal Federation, Environmental Defense Fund and Sierra Club) filed a Petition for a Contested Case Hearing before the North Carolina Office of Administrative Hearings ( OAH ) challenging the 401 certification. The company has intervened in this proceeding. Petitioners filed a motion for partial summary judgment on February 5, 2010 and the company filed a response and cross-motion for summary judgment on March 18, 2010. The Division of Water Quality also filed a response to Petitioner s motion for partial summary judgment on March 18, 2010. In August 2010, the parties argued these motions before the OAH. At this time, the company is unable to evaluate the extent of any exposure that it may have in this matter.

In May 2009, the Canadian government announced that its new industrial greenhouse gas emissions policies will be coordinated with policies that may be implemented in the US. In July 2009, the Canadian government adopted rules requiring the reporting of specified greenhouse gas emissions from sources that emit more than 50,000 tons of carbon dioxide equivalents. In September 2009, the USEPA promulgated rules requiring the reporting of greenhouse gas emissions for all fuel combustion sources emitting more than 25,000 tons of carbon dioxide equivalents and certain other listed sources. The company does not believe that compliance with these emission reporting regulations will have a material adverse effect on its consolidated financial position. In December 2009, the USEPA issued a finding that greenhouse gas emissions from mobile sources endanger public health and welfare. In 2010, the USEPA issued rules regulating greenhouse gas emissions from model year 2012 vehicles sold after January 2, 2011. On that date, the USEPA also will begin phasing in requirements for all new stationary sources, such as power plants, that emit 100,000 tons of greenhouse gases per year or modified sources that increase emissions by 75,000 tons per year to obtain permits incorporating the best available control technology for such emissions. The company is not currently aware of any projects at its facilities that would be subject to these requirements when they become effective. The company is monitoring these developments and, except as indicated above, their effect on its operations cannot be determined with certainty at this time.

On January 26, 2010, the USEPA proposed nutrient criteria for Florida lakes and flowing waters. These criteria are currently scheduled to be promulgated in November 2010. The criteria will become part of Florida s water quality standards sixty days after the final criteria are issued. The company, along with other phosphate companies, is participating in the USEPA rulemaking process. If the USEPA rule is adopted as proposed, projected capital costs resulting from the rule could be in excess of $100.0 for the company s White Springs plant, and there is no guarantee that controls can be implemented that are capable of achieving compliance with the proposed rule under all flow conditions. This assumes that the rule is adopted as proposed and that none of the site specific criteria mechanisms are available to the White Springs plant. There has been significant comment on the proposed rule by government and industry groups. The prospects for a rule to be adopted and become enforceable without significant change from the proposal are uncertain. The company is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be.

The company, having been unable to agree with Mosaic Potash Esterhazy Limited Partnership ( Mosaic ) on the remaining amount of potash that the company is entitled to receive from Mosaic pursuant to the mining and processing agreement in respect of the company s rights at the Esterhazy mine, issued a Statement of Claim in the Saskatchewan Court of Queen s Bench against Mosaic on May 27, 2009. In the

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Statement of Claim, the company has asserted that it has the right under the mining and processing agreement to receive potash from Mosaic until at least 2012, and seeks an order from the Court declaring the amount of potash which the company has the right to receive. Mosaic in its Statement of Defence dated June 16, 2009 asserts that at a delivery rate of 1.24 million tons of product per year, the company s entitlement to receive potash under the mining and processing agreement will terminate by August 30, 2010. Also, on June 16, 2009, Mosaic commenced a counterclaim against the company asserting that the company has breached the mining and processing agreement due to its refusal to take delivery of potash product under the agreement based on an event of force majeure. Based on a contention that the force majeure is not valid, and that any tons not taken during such period are somehow forfeited, Mosaic has indicated that it may begin to temporarily suspend delivery of product as early as November 15, 2010. If that should occur, or occurs subsequently, the Company intends to take all necessary steps to enforce its right under the agreements, pending determination of the matters currently in issue before the Court.

The company will continue to assert its position in these proceedings vigorously and it denies liability to Mosaic in connection with its counterclaim.

Between September 11 and October 2, 2008, the company and PCS Sales (USA), Inc. were named as defendants in eight very similar antitrust complaints filed in federal courts. Other potash producers are also defendants in these cases. Each of the separate complaints alleges conspiracy to fix potash prices, to divide markets, to restrict supply and to fraudulently conceal the conspiracy, all in violation of Section 1 of the Sherman Act. The company and PCS Sales (USA), Inc. believe each of these eight private antitrust law lawsuits is without merit and intend to defend them vigorously.

On August 20, 2010, BHP commenced the BHP Offer, being an unsolicited offer to purchase all of the company s issued and outstanding common shares for US$130 per common share. The BHP Offer, unless extended, is open for acceptance until November 18, 2010. After carefully considering the BHP Offer, with the benefit of advice from its independent financial and legal advisors, PotashCorp s Board of Directors unanimously determined that the BHP Offer is not in the best interests of the company, its shareholders or other stakeholders. The Board of Directors has unanimously recommended that shareholders reject the BHP Offer and not tender their common shares to the BHP Offer. For more information, see PotashCorp s Directors Circular and Solicitation/Recommendation Statement on Schedule 14D-9 filed with the US Securities and Exchange Commission and Canadian provincial securities commissions.

In addition, various other claims and lawsuits are pending against the company in the ordinary course of business. While it is not possible to determine the ultimate outcome of such actions at this time, and there exist inherent uncertainties in predicting such outcomes, it is the company s belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on its consolidated financial position or results of operations.

The breadth of the company s operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the taxes it will ultimately pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the company s tax assets and tax liabilities.

The company owns facilities which have been either permanently or indefinitely shut down. It expects to incur nominal annual expenditures for site security and other maintenance costs at certain of these facilities. Should the facilities be dismantled, certain other shutdown-related costs may be incurred. Such costs are not expected to have a material adverse effect on the company s consolidated financial position or results of operations and would be recognized and recorded in the period in which they are incurred.

**16. Guarantees**

In the normal course of operations, the company provides indemnifications, that are often standard contractual terms, to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require the company to compensate the counterparties for costs incurred as a result of various events, including environmental liabilities and changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the company from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. Historically, the company has not made any significant payments under such indemnifications and no amounts have been accrued in the accompanying unaudited interim condensed consolidated financial statements with respect to these indemnification guarantees (apart from any appropriate accruals relating to the underlying potential liabilities).

The company enters into agreements in the normal course of business that may contain features that meet the definition of a guarantee. Various debt obligations (such as overdrafts, lines of credit with counterparties for derivatives and back-to-back loan arrangements) and other commitments (such as railcar leases) related to certain subsidiaries and investees have been directly guaranteed by the company under such agreements with third parties. The company would be required to perform on these guarantees in the event of default by the guaranteed parties. No material loss is anticipated by reason of such agreements and guarantees. At September 30, 2010, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $557.5. It is unlikely that these guarantees will be drawn upon and the maximum potential amount of future payments does not consider the possibility of recovery under recourse or collateral provisions; this amount is not indicative of future cash requirements or the company s expected losses from these arrangements. At September 30, 2010, no subsidiary balances subject to guarantees were outstanding in connection with the company s cash management facilities, and it had no liabilities recorded for other obligations other than subsidiary bank borrowings of approximately $5.9.

The company has guaranteed the gypsum stack capping, closure and post-closure obligations of White Springs and PCS Nitrogen in Florida and Louisiana, respectively, pursuant to the financial assurance regulatory requirements in those states. In addition, the company has guaranteed the performance of certain remediation obligations of PCS Joint Venture and PCS Nitrogen at the Lakeland, Florida and Augusta, Georgia sites respectively. The USEPA has announced that it plans to adopt rules requiring financial assurance from a variety of mining operations, including phosphate rock mining. It is too early in the rulemaking process to determine what the impact, if any, on the company s facilities will be when these rules are issued.

The environmental regulations of the Province of Saskatchewan require each potash mine to have decommissioning and reclamation plans. Financial assurances for these plans must be established within one year following their approval by the responsible provincial minister. The Minister of the Environment for Saskatchewan ( MOE ) has approved the plans. The company had previously provided a CDN $2.0 irrevocable letter of credit and in the second quarter of 2010 finalized all matters regarding the financial assurances for the 2006 review, including the payment of CDN $2.8 into the agreed upon trust fund. Under the regulations, the decommissioning and reclamation plans and financial assurances are to be reviewed at least once every five years, or sooner as required by the MOE. The next scheduled review for the decommissioning and reclamation plans and financial assurances is in 2011 and discussions regarding these financial assurances have commenced. The MOE has indicated it is seeking an increase of the amount paid into the trust fund by the company. Based on current information, the company does not believe that its financial assurance requirements or future obligations with respect to this matter are reasonably likely to have a material impact on its consolidated financial position or results of operations.

The company has met its financial assurance responsibilities as of September 30, 2010. Costs associated with the retirement of long-lived tangible assets have been accrued in the accompanying unaudited interim condensed consolidated financial statements to the extent that a legal liability to retire such assets exists.

During the period, the company entered into various other commercial letters of credit in the normal course of operations. As at September 30, 2010, $35.3 of letters of credit were outstanding.

The company expects that it will be able to satisfy all applicable credit support requirements without disrupting normal business operations.

**17. Reconciliation of Canadian and United States Generally Accepted Accounting Principles**

Canadian GAAP varies in certain significant respects from US GAAP. As required by the United States Securities and Exchange Commission, the effect of these principal differences on the company s unaudited interim condensed consolidated financial statements is described and quantified below. For a complete discussion of US and Canadian GAAP differences, see Note 31 to the consolidated financial statements in the company s 2009 financial review annual report.

**(a) Inventory valuation:** Under Canadian GAAP, when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original writedown. Under US GAAP, the reversal of a writedown is not permitted unless the reversal relates to a writedown recorded in a prior interim period during the same fiscal year.

**(b) Long-term investments:** Certain of the company s investments in international entities are accounted for under the equity method. Accounting principles generally accepted in those foreign jurisdictions may vary in certain important respects from Canadian GAAP and in certain other respects from US GAAP. The company s share of earnings of these equity investees under Canadian GAAP has been adjusted for the significant effects of conforming to US GAAP.

In addition, the company s interest in a foreign joint venture is accounted for using proportionate consolidation under Canadian GAAP. US GAAP requires joint ventures to be accounted for using the equity accounting method. As a result, an adjustment is recorded to reflect the company s interest in the joint venture under the equity method of accounting.

**(c) Property, plant and equipment and goodwill:** The net book value of property, plant and equipment and goodwill under Canadian GAAP is higher than under US GAAP, as past provisions for asset impairment under Canadian GAAP were measured based on the undiscounted cash flow from use together with the residual value of the assets. Under US GAAP, they were measured based on fair value, which was lower than the undiscounted cash flow from use together with the residual value of the assets. Fair value for this purpose is determined based on discounted expected future net cash flows. In certain cases, US GAAP requires that writedowns be based on discounted cash flows, a prescribed discount rate and the un-weighted average first-day-of-the-month resource prices for the prior twelve months; whereas Canadian GAAP requires undiscounted cash flows using estimated future resource prices based on the best information available to the company.

**(d) Depreciation and amortization:** Depreciation and amortization under Canadian GAAP is higher than under US GAAP, as a result of differences in the carrying amounts of property, plant and equipment under Canadian and US GAAP.

**(e) Exploration costs:** Under Canadian GAAP, capitalized exploration costs are classified under property, plant and equipment. For US GAAP, these costs are generally expensed until such time as a final feasibility study has confirmed the existence of a commercially mineable deposit.

**(f) Pension and other post-retirement benefits:** Under US GAAP, the company is required to recognize the difference between the benefit obligation and the fair value of plan assets in the Consolidated Statements of Financial Position with the offset to OCI. No similar requirement currently exists under Canadian GAAP.

In addition, under Canadian GAAP when a defined benefit plan gives rise to an accrued benefit asset, a company must recognize a valuation allowance for the excess of the adjusted benefit asset over the expected future benefit to be realized from the plan asset. Changes in the pension valuation allowance are recognized in income. US GAAP does not specifically address pension valuation allowances, and the US regulators have interpreted this to be a difference between Canadian and US GAAP. In light of this, a difference between Canadian and US GAAP has been recorded for the effects of recognizing a pension valuation allowance and the changes therein under Canadian GAAP.

**(g) Foreign currency translation adjustment:** The company adopted the US dollar as its functional and reporting currency on January 1, 1995. At that time, the consolidated financial statements were translated into US dollars at the December 31, 1994 year-end exchange rate using the translation of convenience method under

Canadian GAAP. This translation method was not permitted under US GAAP. US GAAP required the comparative Consolidated Statements of Operations and Consolidated Statements of Cash Flow to be translated at applicable weighted-average exchange rates, whereas the Consolidated Statements of Financial Position were permitted to be translated at the December 31, 1994 year-end exchange rate. The use of disparate exchange rates under US GAAP gave rise to a foreign currency translation adjustment. Under US GAAP, this adjustment is reported as a component of accumulated OCI.

**(h) Offsetting of certain amounts:** US GAAP requires an entity to adopt a policy of either offsetting or not offsetting fair value amounts recognized for derivative instruments and for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The company adopted a policy to offset such amounts. Under Canadian GAAP, offsetting of the margin deposits is not permitted.

**(i) Stock-based compensation:** Under Canadian GAAP, the company s stock-based compensation plan awards classified as liabilities are measured at intrinsic value at each reporting period. US GAAP requires that these liability awards be measured at fair value at each reporting period. The company uses a Monte Carlo simulation model to estimate the fair value of its performance unit incentive plan liability for US GAAP purposes.

Under Canadian GAAP, stock options are recognized over the service period, which for PotashCorp is established by the option performance period. Effective January 1, 2006, under US GAAP, stock options are recognized over the requisite service period, which does not commence until the option plan is approved by the company s shareholders and options are granted thereunder.

| | Service Period Commenced | |
|---|---|---|
| **Performance Option Plan Year** | **Canadian GAAP** | **US GAAP** |
| 2007 | January 1, 2007 | May 3, 2007 |
| 2008 | January 1, 2008 | May 8, 2008 |
| 2009 | January 1, 2009 | May 7, 2009 |
| 2010 | January 1, 2010 | May 6, 2010 |

This difference impacts the stock-based compensation cost recorded and may impact diluted earnings per share.

**(j) Stripping costs:** Under Canadian GAAP, the company capitalizes and amortizes costs associated with the activity of removing overburden and other mine waste minerals in the production phase. US GAAP requires such stripping costs to be attributed to ore produced in that period as a component of inventory and recognized in cost of sales in the same period as related revenue.

**(k) Income taxes related to the above adjustments:** The income tax adjustment reflects the impact on income taxes of the US GAAP adjustments described above. Accounting for income taxes under Canadian and US GAAP is similar, except that income tax rates of enacted or substantively enacted tax law must be used to calculate future income tax assets and liabilities under Canadian GAAP, whereas only income tax rates of enacted tax law can be used under US GAAP.

**(l) Income tax consequences of stock-based employee compensation:** Under Canadian GAAP, the income tax benefit attributable to stock-based compensation that is deductible in computing taxable income but is not recorded in the consolidated financial statements as an expense of any period (the excess benefit ) is considered to be a permanent difference. Accordingly, such amount is treated as an item that reconciles the statutory income tax rate to the company s effective income tax rate. Under US GAAP, the excess benefit is recognized as additional paid-in capital.

**(m) Income taxes related to uncertain income tax positions:** US GAAP prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its consolidated financial statements uncertain income tax positions that it has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Canadian GAAP has no similar requirements related to uncertain income tax positions.

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**(n) Cash flow statements:** US GAAP requires the disclosure of income taxes paid. Canadian GAAP requires the disclosure of income tax cash flows, which would include any income taxes recovered during the period. For the three months ended September 30, 2010, income taxes paid under US GAAP were $74.3 (2009 $3.6) and for the nine months ended September 30, 2010, income taxes paid under US GAAP were $145.1 (2009 $740.4).

**The application of US GAAP, as described above, would have had the following effects on net income, net income per share, total assets and shareholders equity.**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009(1)** | **2010** | **2009(1)** |
| Net income as reported Canadian GAAP | **$ 402.7** | $ 247.9 | **$ 1,323.9** | $ 741.5 |
| Items increasing (decreasing) reported net income | | | | |
| Inventory valuation (a) | **-** | (1.4) | **1.2** | (1.7) |
| Share of earnings of equity investees (b) | **(0.6)** | (0.6) | **(0.3)** | (0.6) |
| Asset write-down (c) | **-** | - | **(32.8)** | - |
| Depreciation and amortization (d) | **2.1** | 2.1 | **6.3** | 6.3 |
| Exploration costs (e) | **(0.4)** | (0.3) | **(1.0)** | (0.3) |
| Pension and other post-retirement benefits (f) | **-** | 0.3 | **-** | 0.9 |
| Stock-based compensation (i) | **2.9** | (3.6) | **2.2** | 0.5 |
| Stripping costs (j) | **(1.5)** | (3.0) | **(16.4)** | (5.8) |
| Deferred income taxes relating to the above adjustments (k) | **(0.6)** | 1.4 | **10.5** | 2.8 |
| Income taxes related to US GAAP effective income tax rate (k, m) | **2.6** | 12.9 | **4.5** | 12.9 |
| Income taxes related to stock-based compensation (l) | **(33.5)** | (1.2) | **(41.5)** | (5.6) |
| Income taxes related to uncertain income tax positions (m) | **(11.2)** | (4.5) | **5.0** | (8.4) |
| Net income US GAAP | **$ 362.5** | $ 250.0 | **$ 1,261.6** | $ 742.5 |
| Basic weighted average shares outstanding US GAAP | **296,971,000** | 295,721,000 | **296,492,000** | 295,467,000 |
| Diluted weighted average shares outstanding US GAAP (i) | **305,219,000** | 303,927,000 | **304,803,000** | 303,801,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Basic net income per share US GAAP | **$** | **1.22** | $ | 0.85 | **$** | **4.26** | $ | 2.51 |
| Diluted net income per share US GAAP | **$** | **1.19** | $ | 0.82 | **$** | **4.14** | $ | 2.44 |

(1) Corrected as described in Note 18.

| | | **September 30, 2010** | | **December 31, 2009** |
|---|---|---|---|---|
| Total assets as reported Canadian GAAP | **$** | **14,532.0** | $ | 12,922.2 |
| Items increasing (decreasing) reported total assets | | | | |
| Inventory (a) | | **(0.5)** | | (1.7) |
| Investment in equity investees (b) | | **(7.3)** | | (4.0) |
| Property, plant and equipment (c, d) | | **(110.9)** | | (84.4) |
| Goodwill (c) | | **(46.7)** | | (46.7) |
| Exploration costs (e) | | **(14.4)** | | (13.4) |
| Pension and other post-retirement benefits (f) | | **(165.0)** | | (180.9) |
| Margin deposits associated with derivative instruments (h) | | **(224.1)** | | (108.9) |
| Stripping costs (j) | | **(63.5)** | | (47.1) |
| Income tax asset related to uncertain income tax positions (m) | | **2.0** | | 33.7 |
| Total assets US GAAP | **$** | **13,901.6** | $ | 12,468.8 |

| | September 30, 2010 | December 31, 2009[1] |
|---|---|---|
| Total shareholders equity as reported Canadian GAAP | **$ 7,850.5** | $ 6,439.8 |
| Items increasing (decreasing) reported shareholders equity | | |
| Accumulated other comprehensive income | | |
| Share of accumulated other comprehensive income of equity investees (b) | **(2.1)** | (1.9) |
| Pension and other post-retirement benefits (f) | **(218.4)** | (229.7) |
| Foreign currency translation adjustment (g) | **(20.9)** | (20.9) |
| Income taxes related to uncertain income tax positions (m) | **(1.2)** | (1.2) |
| Inventory valuation (a) | **(0.5)** | (1.7) |
| Share of other comprehensive income of equity investees (b) | **(0.2)** | 0.1 |
| Provision for asset impairment and asset write-down (c) | **(250.8)** | (218.0) |
| Depreciation and amortization (d) | **93.2** | 86.9 |
| Exploration costs (e) | **(14.4)** | (13.4) |
| Foreign currency translation adjustment (g) | **20.9** | 20.9 |
| Stock-based compensation (i) | **4.6** | 2.4 |
| Stripping costs (j) | **(63.5)** | (47.1) |
| Deferred income taxes relating to the above adjustments (k) | **49.7** | 39.2 |
| Income taxes related to US GAAP effective income tax rate (k, m) | **(55.7)** | (60.2) |
| Income taxes related to uncertain income tax positions (m) | **94.8** | 89.8 |
| Shareholders equity US GAAP | **$ 7,486.0** | $ 6,085.0 |

(1) Corrected as described in Note 18.

***Supplemental US GAAP Disclosures***

*Disclosures About Derivative Instruments and Hedging Activities*

Fair Values of Derivative Instruments in the Consolidated Statements of Financial Position

| Derivative instrument assets (liabilities)[1] | Balance Sheet Location | September 30, 2010 | December 31, 2009 |
|---|---|---|---|
| **Derivatives designated as hedging instruments** | | | |
| Natural gas derivatives | Prepaid expenses and other current assets | **$ -** | $ 0.5 |
| Natural gas derivatives | Other assets | **-** | 3.2 |
| Natural gas derivatives | Current portion of derivative instrument liabilities | **(92.1)** | (51.5) |

| | | | | | |
|---|---|---|---|---|---|
| Natural gas derivatives | Derivative instrument liabilities | | **(223.6)** | | (123.2) |
| **Total derivatives designated as hedging instruments** | | | **(315.7)** | | (171.0) |
| **Derivatives not designated as hedging instruments** | | | | | |
| Foreign currency derivatives | Prepaid expenses and other current assets | | **2.8** | | 5.3 |
| Foreign currency derivatives | Current portion of derivative instrument liabilities | | **-** | | (0.3) |
| **Total derivatives not designated as hedging instruments** | | **$** | **2.8** | $ | 5.0 |

(1) All fair value amounts are gross and exclude netted cash collateral balances.

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The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended September 30

| atives in Cash Hedging Relationships | Amount of Loss Recognized in OCI (Effective Portion) 2010 | 2009 | Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) 2010 | 2009 | Location of Loss Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of L Recognized Income (Ineffecti Portion ar Amount Excluded fr Effectivene Testing) 2010 | 2 |
|---|---|---|---|---|---|---|---|---|
| al gas derivatives | **$ (97.3)** | $ (17.9) | Cost of goods sold | **$ (19.6)** | $ (23.4) | Cost of goods sold | **$ (0.4)** | $ |

| Derivatives Not Designated as Hedging Instruments | Location of Gain Recognized in Income | Amount of Gain Recognized in Income 2010 | 2009 |
|---|---|---|---|
| Foreign currency derivatives | Foreign exchange | **$ 9.4** | $ 18.2 |

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Nine Months Ended September 30

| tives in Cash Hedging Relationships | Amount of Loss Recognized in OCI (Effective Portion) 2010 | 2009 | Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) 2010 | 2009 | Location of Loss Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of L Recognize Income (Ineffecti Portion ar Amount Excluded fr Effectiven Testing) 2010 | 2 |
|---|---|---|---|---|---|---|---|---|
| l gas derivatives | **$ (199.9)** | $ (64.0) | Cost of goods sold | **$ (57.5)** | $ (64.0) | Cost of goods sold | **$ (0.4)** | $ |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income 2010 | 2009 |
|---|---|---|---|
| Foreign currency derivatives | Foreign exchange | **$ 0.7** | $ (4.3) |
| Natural gas derivatives | Cost of goods sold | **(0.2)** | 1.1 |

*Uncertainty in Income Taxes*

During the three and nine months ended September 30, 2010, unrecognized tax benefits increased $4.3 and decreased $17.1, respectively. It is reasonably possible that a reduction in a range of $17.0 to $19.0 of unrecognized income tax benefits may occur within 12 months as a result of projected resolutions of worldwide income tax disputes.

***Recent Accounting Pronouncements***

*Variable Interest Entities*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued a revised accounting standard to improve financial reporting by enterprises involved with variable interest entities. The standard replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and: (i) the obligation to absorb losses of the entity; or (ii) the right to receive benefits from the entity. The implementation of this guidance prospectively effective January 1, 2010 did not have a material impact on the company s consolidated financial statements.

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*Fair Value Disclosures*

In January 2010, the FASB issued a new accounting standard aimed at improving disclosures about fair value measurements. As of January 1, 2010, the company is required to disclose information on significant transfers in and out of Levels 1 and 2 and the reasons for those transfers. The implementation of this guidance did not have a material impact on the company s consolidated financial statements. Additional disclosures related to details of activity in Level 3 will be required effective January 1, 2011. The company is currently reviewing the impact, if any, on its consolidated financial statements.

*Compensation*

In April 2010, the FASB issued an accounting standard update to clarify the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. The update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this update will be effective for the first fiscal quarter beginning after December 15, 2010, with early adoption permitted. The company is currently reviewing the impact, if any, on its consolidated financial statements.

**18. Comparative Figures**

During the quarter ended March 31, 2010, prior period non-cash errors were identified pertaining to the computation of asset retirement obligations for the phosphate segment, specifically relating to mine reclamation capping costs. The impact of the errors on annual financial statement components, as originally stated and as corrected, is as follows:

| | **2006** | | | **2007** | | | **2008** | | | **200** | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **As Previously Reported** | **Adjustment** | **As Corrected** | **As Previously Reported** | **Adjustment** | **As Corrected** | **As Previously Reported** | **Adjustment** | **As Corrected** | **As Previously Reported** | **Adjust** |
| ements of Financial Position and Accumulated Other Comprehensive Income and Retained Earnings (as applicable) | | | | | | | | | | | |
| rued nental | 545.2 | - | 545.2 | 911.7 | - | 911.7 | 1,183.6 | 7.6 | 1,191.2 | 779.3 | 1 |
| | 110.3 | 40.7 | 151.0 | 121.0 | 39.8 | 160.8 | 133.4 | 78.8 | 212.2 | 134.8 | 8 |
| x | 632.1 | (15.8) | 616.3 | 988.1 | (15.3) | 972.8 | 794.2 | (32.6) | 761.6 | 999.3 | (3 |
| s | 1,286.4 | (24.9) | 1,261.5 | 2,279.6 | (24.5) | 2,255.1 | 2,402.3 | (53.8) | 2,348.5 | 3,272.1 | (6 |
| er come ings | n/a | n/a | n/a | 4,458.5 | (24.5) | 4,434.0 | 3,060.2 | (53.8) | 3,006.4 | 4,920.9 | (6 |

ements of Operations and Retained Earnings and Comprehensive Income (as applicable)
ed

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| d | 2,374.8 | 40.7 | 2,415.5 | 2,882.8 | (0.9) | 2,881.9 | 4,081.8 | 46.6 | 4,128.4 | 2,631.6 | 1 |
| | 158.1 | (15.8) | 142.3 | 416.2 | 0.5 | 416.7 | 1,077.1 | (17.3) | 1,059.8 | 83.5 | ( |
| | 631.8 | (24.9) | 606.9 | 1,103.6 | 0.4 | 1,104.0 | 3,495.2 | (29.3) | 3,465.9 | 987.8 | ( |
| hare | | | | | | | | | | | |
| | 2.03 | (0.08) | 1.95 | 3.50 | - | 3.50 | 11.37 | (0.10) | 11.27 | 3.34 | (0 |
| hare | | | | | | | | | | | |
| | 1.98 | (0.08) | 1.90 | 3.40 | - | 3.40 | 11.01 | (0.09) | 10.92 | 3.25 | (0 |
| ncome | n/a | n/a | n/a | 2,413.5 | 0.4 | 2,413.9 | 1,974.2 | (29.3) | 1,944.9 | 1,978.7 | ( |
| sh | | | | | | | | | | | |
| ed | | | | | | | | | | | |
| | 631.8 | (24.9) | 606.9 | 1,103.6 | 0.4 | 1,104.0 | 3,495.2 | (29.3) | 3,465.9 | 987.8 | ( |
| re | | | | | | | | | | | |
| | 50.0 | (15.8) | 34.2 | 119.6 | 0.5 | 120.1 | 82.2 | (17.3) | 64.9 | 203.2 | ( |
| | 13.4 | 40.7 | 54.1 | (57.9) | (0.9) | (58.8) | 2.3 | 46.6 | 48.9 | (8.0) | 1 |
| es | 696.8 | - | 696.8 | 1,688.9 | - | 1,688.9 | 3,013.2 | - | 3,013.2 | 923.9 | |

n/a = not applicable since the company did not begin to report accumulated other comprehensive income and comprehensive income for Canadian GAAP purposes until 2007

The adjustments are not material to the periods to which they relate. However, as correcting the errors in the first quarter of 2010 would have materially distorted net income for the first quarter, the company has corrected them by revising the impacted balances in the relevant periods, with an adjustment to the opening balance recorded to retained earnings in the first period presented. The impact on the comparative figures presented in the condensed consolidated statements of financial position at December 31, 2009 was as described above.

The impact on the comparative figures presented in the company s unaudited interim condensed consolidated financial statements for the three months ended September 30, 2009 was as follows:

Statements of operations and retained earnings: increase cost of goods sold by $1.5, reduce income tax expense by $0.6; there was no impact on basic or diluted earnings per share.

Statements of cash flow: reduce net income by $0.9, increase adjustments to reconcile net income to cash provided by operating activities through reduction in provision for future income tax of $0.6 and increase in other long-term liabilities of $1.5; there was no net impact on cash flow for the period.

Statements of comprehensive income: reduce net income and comprehensive income by $0.9.

The impact on the comparative figures presented in the company s unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2009 was as follows:

Statements of operations and retained earnings: increase cost of goods sold by $4.5, reduce income tax expense by $1.8, reduce opening retained earnings by $53.8; basic and diluted earnings per share were reduced $0.01.

Statements of cash flow: reduce net income by $2.7, increase adjustments to reconcile net income to cash provided by operating activities through reduction in provision for future income tax of $1.8 and increase in other long-term liabilities of $4.5; there was no net impact on cash flow for the period.

Statements of comprehensive income: reduce net income and comprehensive income by $2.7.

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## ITEM 2. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion and analysis is the responsibility of management and is as of November 5, 2010. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised exclusively of independent directors. The audit committee reviews, and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure. The term PCS refers to Potash Corporation of Saskatchewan Inc. and the terms we , us , our , PotashCorp and the company refer to PCS and, as applicable, PCS and its direct and indirect subsidiaries as a group. Additional information relating to the company, including our Annual Report on Form 10-K, can be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov/edgar.shtml.

## POTASHCORP AND OUR BUSINESS ENVIRONMENT

PotashCorp is an integrated producer of fertilizer, industrial and animal feed products. We are the world s largest fertilizer enterprise by capacity, producing the three primary plant nutrients: potash, phosphate and nitrogen. We sell fertilizer to North American retailers, cooperatives and distributors that provide storage and application services to farmers, the end users. Offshore customers supplied by PotashCorp or Canpotex Limited ( Canpotex , the offshore marketing company for Saskatchewan potash producers) are government agencies and private importers who buy under contract and on the spot market; spot sales are more prevalent in North America, South America and Southeast Asia. Fertilizers are sold primarily for spring and fall application in both Northern and Southern Hemispheres.

Transportation is an important part of the final purchase price for fertilizer so producers usually sell to the closest customers. In North America, we sell mainly on a delivered basis via rail, barge, truck and pipeline. Offshore customers purchase product either at the port where it is loaded or delivered with freight included.

Potash, phosphate and nitrogen are also used as inputs for the production of animal feed and industrial products. Most feed and industrial sales are by contract and are more evenly distributed throughout the year than fertilizer sales.

## CORPORATE DEVELOPMENTS

On August 20, 2010, BHP Billiton Development 2 (Canada) Limited, a wholly owned indirect subsidiary of BHP Billiton Plc ( BHP ), commenced an unsolicited offer to purchase all of the company s issued and outstanding common shares for US$130 per common share (the BHP Offer ). The BHP Offer, unless extended, is open for acceptance until November 18, 2010.

After carefully considering the BHP Offer, with the benefit of advice from its independent financial and legal advisors, the Board of Directors unanimously determined that the BHP Offer is not in the best interests of the company, its shareholders or other stakeholders. The Board of Directors has unanimously recommended that shareholders reject the BHP Offer and not tender their common shares to the BHP Offer. For more information, see PotashCorp s Directors Circular and Solicitation/Recommendation Statement on Schedule 14D-9 filed with the US Securities and Exchange Commission ( SEC ) and Canadian provincial securities commissions.

As events unfold in connection with the BHP Offer, PotashCorp s outlook may vary materially from the narrative in this Management s Discussion and Analysis ( MD&A ) and it is impossible to predict whether the BHP Offer or any alternative transaction will be consummated. Statements regarding the BHP Offer, PotashCorp s response and the pursuit of strategic alternatives are subject to various risks and assumptions. See Forward-Looking Statements.

**POTASHCORP STRATEGY**

To provide our stakeholders with long-term value, our strategy focuses on generating growth while striving to minimize fluctuations in an upward-trending earnings line. This value proposition has given our stakeholders superior value for many years. We apply this strategy by concentrating on our highest margin products. Such analysis dictates our Potash First strategy, focusing our capital internally and through investments to build on

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our world-class potash assets and meet the rising global demand for this vital nutrient. By investing in potash capacity while producing to meet market demand, we create the opportunity for significant growth while limiting downside risk. We complement our potash operations with focused phosphate and nitrogen businesses that emphasize the production of higher-margin products with stable and sustainable earnings potential.

We strive to grow PotashCorp by enhancing our position as supplier of choice to our customers, delivering the highest quality products at market prices when they are needed. We seek to be the preferred supplier to high-volume, high-margin customers with the lowest credit risk. It is critical that our customers recognize our ability to create value for them based on the price they pay for our products.

As we plan our future, we carefully weigh our choices for our cash flow. We base all investment decisions on cash flow return materially exceeding cost of capital, evaluating the best return on any investment that matches our Potash First strategy. Most of our recent capital expenditures have gone to investments in our own potash capacity, and we look to increase our existing offshore potash investments and seek other merger and acquisition opportunities in this nutrient. We also consider share repurchases and increased dividends as ways to maximize shareholder value over the long term.

**KEY PERFORMANCE DRIVERS    PERFORMANCE COMPARED TO GOALS**

Each year we set targets to advance our long-term goals and drive results. Our long-term goals and 2010 targets are set out on pages 39 to 43 of our 2009 financial review annual report. A summary of our progress against selected goals and representative annual targets is set out below.

| Goal | Representative 2010 Annual Target | Performance to September 30, 2010 |
|---|---|---|
| Achieve no harm to people. | Reduce total site severity injury rate by 35 percent from 2008 levels by the end of 2012. | Total site severity injury rate was 61 percent below the 2008 annual level for the first nine months of 2010. The total site severity injury rate was 22 percent below the 2008 annual level for the first nine months of 2009 and 25 percent below the 2008 annual level by the end of 2009. |
| Achieve no damage to the environment. | Reduce total reportable releases, permit excursions and spills by 30 percent from 2009 levels. | Reportable release rate on an annualized basis decreased 11 percent, annualized permit excursions were down 24 percent and annualized spills were down 26 percent during the first nine months of 2010 compared to 2009 annual levels. There were five spills, four permit excursions and four reportable releases in the first nine months of 2010 compared to seven spills, four permit excursions and four reportable releases for the same period in 2009. |
| Maximize long-term shareholder value. | Exceed total shareholder return for our sector and companies on the DAXglobal Agribusiness Index for 2010. | PotashCorp s total shareholder return was 33 percent in the first nine months of 2010 compared to our sector weighted average return (based on market capitalization) of 8 percent and the DAXglobal Agribusiness Index weighted average return (based on |

market capitalization) of 4 percent.

**FINANCIAL OVERVIEW**

This discussion and analysis is based on the company s unaudited interim condensed consolidated financial statements reported under generally accepted accounting principles in Canada ( Canadian GAAP ). These principles differ in certain significant respects from accounting principles generally accepted in the United States. These differences are described and quantified in Note 17 to the unaudited interim condensed consolidated financial

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statements included in Item 1 of this Quarterly Report on Form 10-Q. All references to per-share amounts pertain to diluted net income per share.

For an understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results and financial condition, the entire document should be read carefully together with our 2009 financial review annual report.

***Earnings Guidance    Third Quarter 2010***

| | Company Guidance | Actual Results |
|---|---|---|
| Earnings per share | $0.80 - $1.20 | $1.32 |
| Effective tax rate, including discrete items | 25% | 23% |

***Overview of Actual Results***

*Operations*

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| rs (millions)    except per-share amounts | 2010 | 2009 | Change | % Change | 2010 | 2009 | Change | Ch |
| | **$ 1,575.0** | $ 1,099.1 | $ 475.9 | 43 | **$ 4,726.4** | $ 2,877.6 | $ 1,848.8 | |
| s Margin | **563.3** | 344.7 | 218.6 | 63 | **1,862.0** | 741.9 | 1,120.1 | |
| ating Income | **539.2** | 356.9 | 182.3 | 51 | **1,870.3** | 858.1 | 1,012.2 | |
| ncome | **402.7** | 247.9 | 154.8 | 62 | **1,323.9** | 741.5 | 582.4 | |
| ncome Per Share    Diluted | **1.32** | 0.82 | 0.50 | 61 | **4.34** | 2.44 | 1.90 | |
| Comprehensive Income | **880.2** | 123.9 | 756.3 | 610 | **114.1** | 565.4 | (451.3) | |

Earnings in the third quarter and first nine months of 2010 were higher than the same periods of 2009 as buyers returned to the market and purchased more of all three nutrients following an unprecedented decline in fertilizer demand in 2009. In 2010, potash represented 65 percent of total third-quarter gross margin (73 percent in 2009) and 69 percent of first nine months gross margin (71 percent in 2009). Sales prices for phosphate fertilizer products and all nitrogen products increased significantly during the third quarter and first nine months of 2010 compared to the same periods in 2009.

The continuing challenge of meeting increases in food demand became more pronounced through the third quarter. Added strain from crop production issues in key producing regions    exacerbated by recent under-application of nutrients    reduced global grain inventories and drove crop prices higher. The positive impact of this on grower economics has historically been a powerful driver for the fertilizer sector, and that was the case again in this quarter. Improving agricultural fundamentals established a firm foundation for continuing growth in demand for nutrients and ongoing pricing momentum. Further aided by an early harvest and extended fall application window, customers in

North America moved quickly to secure potash following the announcement of summer-fill pricing programs in late July. On near record demand, North American producers shipped 2.3 million tonnes to the domestic market, more than triple the shipments in the third quarter of 2009 and 42 percent above the previous five-year average. Shipments for the first nine months of 2010 reached 7.0 million tonnes, reflecting a return to normal demand in this mature agriculture market. North American producer offshore potash shipments totaled 2.3 million tonnes in third-quarter 2010, 85 percent higher than in the same quarter last year. As expected, Latin American buyers bought aggressively in preparation for their key planting season, while all other major offshore markets continued large purchases through the quarter. The acceleration of demand combined with diminished distributor inventory levels and typical maintenance related shutdowns pushed global potash producer inventories lower. Inventories of North American producers declined by 41 percent during the quarter and were 17 percent below the previous five-year average at its end. Tightening supplies caused shipping delays and shortfalls and, by the end of the quarter, some suppliers including Canpotex Limited (Canpotex), the offshore marketing company for Saskatchewan potash producers had largely allocated all available product through the end of the year. In the face of tightening fundamentals, pricing momentum escalated meaningfully by September and resulted in shipments being booked at higher prices in spot markets. Phosphate and nitrogen markets also benefited from improved conditions. Robust North American fall demand for solid phosphate fertilizers left US producers with

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limited product for offshore markets, which resulted in significantly higher domestic shipments and relatively flat offshore movement compared to the same period last year. Inventories continued to decline and reached record lows in the third quarter, supporting an improved phosphate pricing environment. In nitrogen, strong agricultural demand pushed third-quarter urea shipments from US producers 41 percent higher on a quarter-over-quarter basis. Stronger prices due to robust demand, tight producer inventories and higher gas prices in key exporting regions coupled with softer US gas prices toward the end of the quarter, improved domestic producer margins.

Other significant factors that affected earnings in the third quarter and first nine months of 2010 compared to the same periods in 2009 were: (1) higher income taxes as a result of increased earnings in 2010 and discrete items which resulted in lower income taxes in 2009 (the effective rate was considerably lower mainly due to an internal restructuring and an increase in permanent deductions that resulted in a recovery; these were partly offset by a functional currency election); (2) higher provincial mining and other taxes as a result of increased sales revenue; (3) increased selling and administrative expenses as a result of our financial performance exceeding budget and an increase in our share price; and (4) increased other income from our share of earnings in Sociedad Quimica y Minera de Chile ( SQM ) and dividends received from Israel Chemicals Ltd ( ICL ), while a gain on disposal of auction rate securities in the second quarter of 2009 did not repeat in 2010. Other comprehensive income in 2010 was impacted by the fair value of our investments in ICL and Sinofert Holdings Limited ( Sinofert ) (which increased more in the third quarter of 2010 compared to 2009 but did not increase as much in the first nine months in 2010 as in the same period in 2009) and the fair value of hedge-accounted natural gas derivatives, which declined due to falling natural gas prices.

*Balance Sheet*

***Changes in Balances December 31, 2009 to September 30, 2010 (in $ millions)***

The increase in property, plant and equipment related primarily (84 percent) to our previously announced potash capacity expansions and other potash projects. Investments rose mainly due to the increase in the fair value of our investments in both ICL and Sinofert. The decrease in receivables was due to the refund of income taxes receivable and provincial mining and other taxes receivable exceeding increased trade receivables (a result of higher

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sales) and increased hedge margin deposits (a result of lower natural gas prices). The decrease in inventories was mainly the result of lower potash levels.

The increase in short-term debt and current portion of long-term debt was the result of reclassifying our senior notes due May 31, 2011 as current, which exceeded the reduction in our outstanding commercial paper during the first nine months of 2010. Payables and accrued charges increased mainly as a result of increased income taxes payable (due to higher anticipated earnings coupled with lower required income tax instalments), increased accrued payroll (higher accruals for incentive plans as a result of our financial performance being above budget and a higher share price) and increased accrued provincial mining taxes (due to higher sales revenue). Other liabilities increased mainly as a result of increases to asset retirement obligations while the fair value of our natural gas derivatives declined due to falling natural gas prices.

Significant changes in equity were the result of net income and other comprehensive income earned during the first nine months of 2010, which is described above.

***Business Segment Review***

Note 6 to the unaudited interim condensed consolidated financial statements provides information pertaining to our business segments. Management includes net sales in segment disclosures in the consolidated financial statements pursuant to Canadian GAAP, which requires segmentation based upon our internal organization and reporting of revenue and profit measures derived from internal accounting methods. As a component of gross margin, net sales (and the related per-tonne amounts) are the primary revenue measures we use and review in making decisions about operating matters on a business segment basis. These decisions include assessments about potash, phosphate and nitrogen performance and the resources to be allocated to these segments. We also use net sales (and the related per-tonne amounts) for business planning and monthly forecasting. Net sales are calculated as sales revenues less freight, transportation and distribution expenses.

Our discussion of segment operating performance is set out below and includes nutrient product and/or market performance results where applicable to give further insight into these results.

*Potash*

| | Three Months Ended September 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dollars (millions) | | | Tonnes (thousands) | | | Average per Tonne(1) | | |
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Sales | **$ 637.2** | $ 423.4 | 50 | | | | | | |
| Freight | **40.1** | 16.8 | 139 | | | | | | |
| Transportation and distribution | **15.0** | 9.2 | 63 | | | | | | |
| Net sales | **$ 582.1** | $ 397.4 | 46 | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Manufactured product | | | | | | | | | |
| Net sales | | | | | | | | | |
| North American | **$ 251.6** | $ 111.0 | 127 | **710** | 266 | 167 | **$ 354.12** | $ 417.38 | (15) |
| Offshore | **328.2** | 283.7 | 16 | **1,187** | 748 | 59 | **$ 276.56** | $ 379.24 | (27) |
| | **579.8** | 394.7 | 47 | **1,897** | 1,014 | 87 | **$ 305.60** | $ 389.24 | (21) |
| Cost of goods sold | **215.6** | 139.1 | 55 | | | | **$ 113.61** | $ 137.17 | (17) |
| Gross margin | **364.2** | 255.6 | 42 | | | | **$ 191.99** | $ 252.07 | (24) |
| Other miscellaneous and purchased product | | | | | | | | | |
| Net sales | **2.3** | 2.7 | (15) | | | | | | |
| Cost of goods sold | **3.0** | 6.9 | (57) | | | | | | |
| Gross margin | **(0.7)** | (4.2) | (83) | | | | | | |
| Gross Margin | **$ 363.5** | $ 251.4 | 45 | | | | **$ 191.62** | $ 247.93 | (23) |

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

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| | Nine Months Ended September 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dollars (millions) | | | Tonnes (thousands) | | | Average per Tonne[1] | | |
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Sales | **$ 2,170.4** | $ 903.3 | 140 | | | | | | |
| Freight | **142.9** | 34.1 | 319 | | | | | | |
| Transportation and distribution | **59.5** | 24.4 | 144 | | | | | | |
| Net sales | **$ 1,968.0** | $ 844.8 | 133 | | | | | | |
| Manufactured product | | | | | | | | | |
| Net sales | | | | | | | | | |
| North American | **$ 913.9** | $ 311.5 | 193 | **2,551** | 599 | 326 | **$ 358.19** | $ 519.95 | (31) |
| Offshore | **1,045.4** | 522.9 | 100 | **3,714** | 1,283 | 189 | **$ 281.46** | $ 407.57 | (31) |
| | **1,959.3** | 834.4 | 135 | **6,265** | 1,882 | 233 | **$ 312.70** | $ 443.34 | (29) |
| Cost of goods sold | **688.3** | 306.3 | 125 | | | | **$ 109.83** | $ 162.73 | (33) |
| Gross margin | **1,271.0** | 528.1 | 141 | | | | **$ 202.87** | $ 280.61 | (28) |
| Other miscellaneous and purchased product | | | | | | | | | |
| Net sales | **8.7** | 10.4 | (16) | | | | | | |
| Cost of goods sold | **3.2** | 14.3 | (78) | | | | | | |
| Gross margin | **5.5** | (3.9) | n/m | | | | | | |
| Gross Margin | **$ 1,276.5** | $ 524.2 | 144 | | | | **$ 203.75** | $ 278.53 | (27) |

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

n/m = not meaningful

**Potash gross margin variance attributable to:**

| Dollars (millions) | Three Months Ended September 30 2010 vs. 2009 | | | | Nine Months Ended September 30 2010 vs. 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Change in Prices/Costs | | | | Change in Prices/Costs | | |
| | Change in Sales Volumes | Net Sales | Cost of Goods Sold | Total | Change in Sales Volumes | Net Sales | Cost of Goods Sold | Total |
| Manufactured product | | | | | | | | |
| North American | $ 138.7 | $ (44.9) | $ 4.4 | $ 98.2 | $ 819.2 | $ (412.8) | $ 39.0 | $ 445.4 |
| Offshore | 65.4 | (55.3) | 0.4 | 10.5 | 807.6 | (468.4) | (41.7) | 297.5 |
| Change in market mix | (35.9) | 37.3 | (1.5) | (0.1) | (50.9) | 62.7 | (11.8) | - |
| Total manufactured product | $ 168.2 | $ (62.9) | $ 3.3 | $ 108.6 | $ 1,575.9 | $ (818.5) | $ (14.5) | $ 742.9 |
| Other miscellaneous and purchased product | | | | 3.5 | | | | 9.4 |
| Total | | | | $ 112.1 | | | | $ 752.3 |

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Canpotex sales to major markets, by percentage of sales volumes, were as follows:

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | **2009** | **Change** | **% Change** | **2010** | **2009** | **Change** | **% Change** |
| China | **10** | 1 | 9 | 900 | **12** | 8 | 4 | 50 |
| India | **16** | 39 | (23) | (59) | **14** | 31 | (17) | (55) |
| Asia (excluding China and India) | **28** | 34 | (6) | (18) | **42** | 41 | 1 | 2 |
| Latin America | **38** | 20 | 18 | 90 | **25** | 14 | 11 | 79 |
| Oceania, Europe and Other | **8** | 6 | 2 | 33 | **7** | 6 | 1 | 17 |
| | **100** | 100 | | | **100** | 100 | | |

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The most significant contributors to the change in total gross margin quarter over quarter were as follows[1]:

| Net Sales Prices | Sales Volumes | Cost of Goods Sold |
|---|---|---|
| â Lower average realized price for the quarter reflected new pricing levels established in major markets following the unprecedented decline in potash demand during the global economic downturn in 2009. | á Farmers increased applications and fertilizer dealers increased purchases due to supportive crop prices and the need to address potash nutrient shortfalls (soil and distribution chain inventories fell significantly during 2009 and have not been replenished in 2010).<br>á North American shipments increased significantly due to rising crop prices, low customer potash inventories, renewed farmer/dealer confidence and an anticipated strong fall application.<br>á Canpotex shipments to offshore markets increased due to supportive crop prices and low customer inventories.<br>Canpotex sales to Latin America and China significantly increased (as a percentage of total sales) while Canpotex sales to India decreased. | á Fewer shutdown costs incurred (17 weeks in 2010 compared to 28 in 2009). Shutdown weeks in 2010 related to expansion activities while 2009 shutdown weeks primarily were the result of matching supply to demand.<br>á Royalty costs lower due to lower average North American listed sales prices per tonne.<br>â Personnel costs higher due to higher staff levels (anticipating the ramp up to expansion levels) and higher wages.<br>â The Canadian dollar strengthened relative to the US dollar. |

The change in market mix produced an unfavorable variance of $35.9 million related to sales volumes and a favorable variance of $37.3 million in sales prices due to the proportional increase in North American sales of higher-priced granular product exceeding the proportional increase in offshore sales of lower-priced standard product. North American customers prefer premium priced granular product over standard product more typically consumed offshore.

[1] Direction of arrows refer to impact on gross margin while the symbol signifies a neutral impact.

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The most significant contributors to the change in total gross margin year over year were as follows[1]:

| Net Sales Prices | Sales Volumes | Cost of Goods Sold |
|---|---|---|
| â Substantial decline in consumption during the 2009 global economic downturn pressured pricing and resulted in new lower pricing levels being established in 2010. | á Volumes were up significantly due to positive global crop prices, the need to address potash-depleted soil and favorable conditions in Brazil (for spring planting) and the US (for fall application).<br>á Canpotex reached short-term agreements with major customers in China and India throughout the first nine months of 2010 (China did not have a contract in 2009 while India did not have a contract in the first half of 2009).<br>á Latin America s proportion of total volumes increased more than any other market due to low inventories entering 2010 and favorable crop economics. India purchased more in 2010 but accounted for a larger proportion of Canpotex sales in 2009.<br>Most buyers purchases were for consumption rather than inventory restocking. | â Personnel costs higher due to higher wages.<br>â The Canadian dollar strengthened relative to the US dollar.<br>â Increased maintenance costs with higher production levels.<br>á Royalty costs declined due to lower average North American listed sales prices per tonne.<br>á Fewer shutdown costs incurred (35 weeks in 2010 compared to 117 weeks in 2009).<br>North American cost of goods sold variance was positive as our lowest cost mine, Rocanville SK, comprised a larger proportion of production while offshore cost of goods sold variance was negative due to more of that product coming from our other mines. |

The change in market mix year over year produced an unfavorable variance of $50.9 million related to sales volumes and a favorable variance of $62.7 million in sales prices due to the proportional increase in North American sales of higher-priced granular product exceeding the proportional increase in offshore sales of lower-priced standard product.

[1] Direction of arrows refer to impact on gross margin while the symbol signifies a neutral impact.

*Phosphate*

| | Three Months Ended September 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dollars (millions) | | | Tonnes (thousands) | | | Average per Tonne[1] | | |
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Sales | **$ 536.0** | $ 357.4 | 50 | | | | | | |
| Freight | **30.6** | 24.3 | 26 | | | | | | |
| Transportation and distribution | **13.5** | 13.9 | (3) | | | | | | |
| Net sales | **$ 491.9** | $ 319.2 | 54 | | | | | | |
| Manufactured product | | | | | | | | | |
| Net sales | | | | | | | | | |
| Fertilizer liquids | **$ 122.5** | $ 68.1 | 80 | **324** | 255 | 27 | **$ 378.20** | $ 267.58 | 41 |
| Fertilizer solids | **191.4** | 89.6 | 114 | **437** | 334 | 31 | **$ 437.34** | $ 267.71 | 63 |
| Feed | **79.5** | 60.5 | 31 | **170** | 143 | 19 | **$ 467.30** | $ 424.69 | 10 |
| Industrial | **91.7** | 95.7 | (4) | **157** | 150 | 5 | **$ 585.50** | $ 640.06 | (9) |
| | **485.1** | 313.9 | 55 | **1,088** | 882 | 23 | **$ 445.77** | $ 356.24 | 25 |
| Cost of goods sold | **389.9** | 275.4 | 42 | | | | **$ 358.27** | $ 312.59 | 15 |
| Gross margin | **95.2** | 38.5 | 147 | | | | **$ 87.50** | $ 43.65 | 100 |
| Other miscellaneous and purchased product | | | | | | | | | |
| Net sales | **6.8** | 5.3 | 28 | | | | | | |
| Cost of goods sold | **2.5** | 1.1 | 127 | | | | | | |
| Gross margin | **4.3** | 4.2 | 2 | | | | | | |
| Gross Margin | **$ 99.5** | $ 42.7 | 133 | | | | **$ 91.45** | $ 48.41 | 89 |

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

| | Nine Months Ended September 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dollars (millions) | | | Tonnes (thousands) | | | Average per Tonne[(1)] | | |
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Sales | **$ 1,300.8** | $ 1,012.0 | 29 | | | | | | |
| Freight | **75.2** | 58.3 | 29 | | | | | | |
| Transportation and distribution | **31.3** | 34.8 | (10) | | | | | | |
| Net sales | **$ 1,194.3** | $ 918.9 | 30 | | | | | | |
| Manufactured product | | | | | | | | | |
| Net sales | | | | | | | | | |
| Fertilizer liquids | **$ 285.4** | $ 155.8 | 83 | **791** | 528 | 50 | **$ 360.65** | $ 295.20 | 22 |
| Fertilizer solids | **414.8** | 262.5 | 58 | **945** | 877 | 8 | **$ 438.82** | $ 299.01 | 47 |
| Feed | **218.6** | 201.2 | 9 | **483** | 396 | 22 | **$ 452.18** | $ 508.70 | (11) |
| Industrial | **255.8** | 286.5 | (11) | **448** | 400 | 12 | **$ 571.89** | $ 717.47 | (20) |
| | **1,174.6** | 906.0 | 30 | **2,667** | 2,201 | 21 | **$ 440.37** | $ 411.72 | 7 |
| Cost of goods sold | **959.3** | 845.6 | 13 | | | | **$ 359.64** | $ 384.28 | (6) |
| Gross margin | **215.3** | 60.4 | 256 | | | | **$ 80.73** | $ 27.44 | 194 |
| Other miscellaneous and purchased product | | | | | | | | | |
| Net sales | **19.7** | 12.9 | 53 | | | | | | |
| Cost of goods sold | **7.4** | 4.3 | 72 | | | | | | |
| Gross margin | **12.3** | 8.6 | 43 | | | | | | |
| Gross Margin | **$ 227.6** | $ 69.0 | 230 | | | | **$ 85.34** | $ 31.35 | 172 |

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

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**Phosphate gross margin variance attributable to:**

| Dollars (millions) | Three Months Ended September 30 2010 vs. 2009 | | | | Nine Months Ended September 30 2010 vs. 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Change in Prices/Costs | | | | Change in Prices/Costs | | |
| | Change in Sales Volumes | Net Sales | Cost of Goods Sold | Total | Change in Sales Volumes | Net Sales | Cost of Goods Sold | Total |
| Manufactured product | | | | | | | | |
| Fertilizer liquids | $ 10.0 | $ 38.9 | $ (14.7) | $ 34.2 | $ 15.6 | $ 51.8 | $ (9.6) | $ 57.8 |
| Fertilizer solids | 11.1 | 69.4 | (45.0) | 35.5 | (10.5) | 131.2 | 2.4 | 123.1 |
| Feed | 3.6 | 9.9 | (9.6) | 3.9 | 23.8 | (25.2) | 41.0 | 39.6 |
| Industrial | 2.6 | (7.2) | (12.4) | (17.0) | 24.6 | (65.1) | (25.1) | (65.6) |
| Change in market mix | 15.6 | (15.5) | - | 0.1 | 16.3 | (16.3) | - | - |
| Total manufactured product | $ 42.9 | $ 95.5 | $ (81.7) | $ 56.7 | $ 69.8 | $ 76.4 | $ 8.7 | $ 154.9 |
| Other miscellaneous and purchased product | | | | 0.1 | | | | 3.7 |
| Total | | | | $ 56.8 | | | | $ 158.6 |

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The most significant contributors to the change in total gross margin quarter over quarter were as follows[1]:

| Net Sales Prices | Sales Volumes | Cost of Goods Sold |
|---|---|---|
| á Positive market conditions, higher grain prices and tighter supplies of available product resulted in improved liquid and solid fertilizer prices.<br>á Feed prices were higher as announced price increases in the second quarter of 2010 were realized during the third quarter.<br>â Certain industrial products are contracted on a cost plus or market-index scale and trail current market conditions, which resulted in a decline from last year s third quarter. | á Both solid and liquid fertilizers increased in anticipation of a strong domestic fall application season. Solid fertilizers were affected by offshore vessel delays from the previous quarter that carried into the current quarter.<br>á Feed volumes increased compared to last year s low total as customers worked off inventories in 2009.<br>á Industrial sales volumes increased due to an improvement in demand for purified phosphoric acid used in downstream food and other commercial markets. | â Costs were higher due to sulfur (up 51 percent), ammonia (up 34 percent) and higher costs of mining phosphate rock (due to a transition to new mining practices at Aurora NC).<br>â Solid fertilizer was impacted by a shut down at Lima OH as ammonia had to be transported from further away.<br>â Industrial variance was also impacted by higher rock costs at Geismar LA (demurrage charges incurred due to weather delays at rock shipping points which also resulted in production delays) and a maintenance turnaround. |

The most significant contributors to the change in total gross margin year over year were as follows[1]:

| Net Sales Prices | Sales Volumes | Cost of Goods Sold |
|---|---|---|
| á Liquid and solid fertilizer prices increased due to positive farm economics and tightening supply.<br>â Prices for feed products, which typically lag solid and liquid phosphate fertilizer, did not immediately reflect the sharp decline in 2009 prices, resulting in a decrease in 2010.<br>â Industrial prices decreased as a result of certain contracts being based on prior year input costs which were significantly lower in 2009 as compared to being higher in 2008. | á Volumes for all major product categories increased due to favorable crop commodity prices and low inventories throughout the supply chain and improved buyer sentiment.<br>á North American liquid fertilizer volumes increased substantially due to low carryover of customer inventories at the start of the year and a favorable spring application season.<br>á Demand for feed products improved due to better economics in the beef, pork and poultry industries in 2010 while in 2009 customers worked down inventories. | â Drag-line moves and a change in mining practice increased costs of mining phosphate rock.<br>á Solid fertilizer and feed variances were positive due to lower sulfur costs (down 3 percent), though solid fertilizer was negatively affected by higher ammonia costs (up 21 percent).<br>â Industrial variance was negatively affected by higher rock costs at Geismar LA (demurrage charges). |

(1) Direction of arrows refer to impact on gross margin.

*Nitrogen*

| | Three Months Ended September 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dollars (millions) | | | Tonnes (thousands) | | | Average per Tonne[1] | | |
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Sales | **$ 401.8** | $ 318.3 | 26 | | | | | | |
| Freight | **10.4** | 12.6 | (17) | | | | | | |
| Transportation and distribution | **9.4** | 13.2 | (29) | | | | | | |
| Net sales | **$ 382.0** | $ 292.5 | 31 | | | | | | |
| Manufactured product | | | | | | | | | |
| Net sales | | | | | | | | | |
| Ammonia | **$ 162.5** | $ 104.2 | 56 | **459** | 457 | - | **$ 354.05** | $ 228.26 | 55 |
| Urea | **91.4** | 100.7 | (9) | **302** | 367 | (18) | **$ 302.45** | $ 274.14 | 10 |
| Nitrogen solutions/Nitric acid/Ammonium nitrate | **96.1** | 75.7 | 27 | **528** | 553 | (5) | **$ 181.91** | $ 136.78 | 33 |
| | **350.0** | 280.6 | 25 | **1,289** | 1,377 | (6) | **$ 271.40** | $ 203.73 | 33 |
| Cost of goods sold | **258.0** | 234.3 | 10 | | | | **$ 200.03** | $ 170.11 | 18 |
| Gross margin | **92.0** | 46.3 | 99 | | | | **$ 71.37** | $ 33.62 | 112 |
| Other miscellaneous and purchased product | | | | | | | | | |
| Net sales | **32.0** | 11.9 | 169 | | | | | | |
| Cost of goods sold | **23.7** | 7.6 | 212 | | | | | | |
| Gross margin | **8.3** | 4.3 | 93 | | | | | | |
| Gross Margin | **$ 100.3** | $ 50.6 | 98 | | | | **$ 77.81** | $ 36.75 | 112 |

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

| | Nine Months Ended September 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dollars (millions) | | | Tonnes (thousands) | | | Average per Tonne(1) | | |
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Sales | **$ 1,255.2** | $ 962.3 | 30 | | | | | | |
| Freight | **32.3** | 37.8 | (15) | | | | | | |
| Transportation and distribution | **32.0** | 41.8 | (23) | | | | | | |
| Net sales | **$ 1,190.9** | $ 882.7 | 35 | | | | | | |
| Manufactured product | | | | | | | | | |
| Net sales | | | | | | | | | |
| Ammonia | **$ 486.9** | $ 319.0 | 53 | **1,350** | 1,386 | (3) | **$ 360.69** | $ 230.17 | 57 |
| Urea | **312.8** | 315.2 | (1) | **970** | 1,092 | (11) | **$ 322.40** | $ 288.58 | 12 |
| Nitrogen solutions/Nitric acid/Ammonium nitrate | **295.6** | 217.9 | 36 | **1,609** | 1,357 | 19 | **$ 183.77** | $ 160.60 | 14 |
| | **1,095.3** | 852.1 | 29 | **3,929** | 3,835 | 2 | **$ 278.79** | $ 222.19 | 25 |
| Cost of goods sold | **757.6** | 712.9 | 6 | | | | **$ 192.84** | $ 185.89 | 4 |
| Gross margin | **337.7** | 139.2 | 143 | | | | **$ 85.95** | $ 36.30 | 137 |
| Other miscellaneous and purchased product | | | | | | | | | |
| Net sales | **95.6** | 30.6 | 212 | | | | | | |
| Cost of goods sold | **75.4** | 21.1 | 257 | | | | | | |
| Gross margin | **20.2** | 9.5 | 113 | | | | | | |
| Gross Margin | **$ 357.9** | $ 148.7 | 141 | | | | **$ 91.09** | $ 38.77 | 135 |

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

**Nitrogen gross margin variance attributable to:**

| Dollars (millions) | Three Months Ended September 30 2010 vs. 2009 | | | | Nine Months Ended September 30 2010 vs. 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Change in Prices/Costs | | | | Change in Prices/Costs | | |
| | Change in Sales Volumes | Net Sales | Cost of Goods Sold | Total | Change in Sales Volumes | Net Sales | Cost of Goods Sold | Total |
| Manufactured product | | | | | | | | |
| Ammonia | $ 6.0 | $ 57.7 | $ (37.2) | $ 26.5 | $ 2.4 | $ 176.2 | $ (64.2) | $ 114.4 |
| Urea | (5.6) | 9.1 | (9.6) | (6.1) | (13.2) | 32.8 | (7.6) | 12.0 |
| Solutions, NA, AN | 1.0 | 29.0 | (7.5) | 22.5 | 22.8 | 37.3 | 7.9 | 68.0 |
| Hedge | - | - | 2.8 | 2.8 | - | - | 4.1 | 4.1 |
| Change in market mix | 5.0 | (5.0) | - | - | 23.9 | (23.9) | - | - |
| Total manufactured product | $ 6.4 | $ 90.8 | $ (51.5) | $ 45.7 | $ 35.9 | $ 222.4 | $ (59.8) | $ 198.5 |
| Other miscellaneous and purchased product | | | | 4.0 | | | | 10.7 |
| Total | | | | $ 49.7 | | | | $ 209.2 |

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales Tonnes (Thousands) | | Price per Tonne | | Sales Tonnes (Thousands) | | Price per Tonne | |
| | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| Fertilizer | **470** | 584 | **$ 252.44** | $ 208.31 | **1,495** | 1,638 | **$ 265.36** | $ 236.82 |
| Feed | **6** | 7 | **$ 370.92** | $ 388.04 | **20** | 21 | **$ 392.82** | $ 403.71 |
| Industrial | **813** | 786 | **$ 281.64** | $ 198.68 | **2,414** | 2,176 | **$ 286.19** | $ 209.38 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **1,289** | 1,377 | **$ 271.40** | $ 203.73 | **3,929** | 3,835 | **$ 278.79** | $ 222.19 |

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The most significant contributors to the change in total gross margin quarter over quarter were as follows[1]:

| Net Sales Prices | Sales Volumes | Cost of Goods Sold |
|---|---|---|
| á Ammonia and urea increases were the result of recovering demand for both industrial and fertilizer products and tighter producer supplies.<br>á Nitrogen solutions, nitric acid and ammonium nitrate all increased due to tighter supply and in the case of ammonium nitrates, higher-priced contracts. | Ammonia volumes were flat as increased demand in the US was offset by reduced available supply due to an extended turnaround at Lima OH.<br>â Urea volumes decreased due to a turnaround at Lima OH.<br>â Nitrogen solutions volumes decreased due to less production being available from Geismar LA. | â Average natural gas costs in production, including hedge, increased 36 percent. Natural gas costs in Trinidad production increased 61 percent (contract prices primarily indexed to ammonia prices) while our US spot costs for natural gas in production increased 36 percent.<br>á Turnarounds at Trinidad and Lima OH increased costs of production. |

The most significant contributors to the change in total gross margin year over year were as follows[1]:

| Net Sales Prices | Sales Volumes | Cost of Goods Sold |
|---|---|---|
| á Realized prices increased as a result of tight global inventory supplies, higher production costs in key exporting regions (the Ukraine and Western Europe) and stronger industrial demand in 2010. | â Ammonia volumes declined due to higher internal consumption which resulted in fewer tonnes being available for external sales.<br>â US produced urea volumes decreased due to less supply being available for sale (lost production from an interruption at Augusta GA, reduced production at Lima in 2010 and lower inventories) and offshore urea sales declining in favor of other nitrogen products.<br>á Nitrogen solutions volumes increased as a result of better planting conditions.<br>á Nitric acid volumes increased as a result of a stronger US economy and improved industrial demand for downstream products. | â Average natural gas costs in production, including hedge, increased 32 percent. Natural gas costs in Trinidad production increased 67 percent while our US spot costs for natural gas in production increased 24 percent.<br>Ammonia and urea cost of goods sold variances were negative while the other product lines were positive due to relatively lower-cost ammonia (which is purchased or transferred and not produced) being used in the other product lines at Geismar LA. |

[1] Direction of arrows refer to impact on gross margin while the symbol signifies a neutral impact.

*Expenses and Other Income*

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| Dollars (millions) | 2010 | 2009 | Change | % Change | 2010 | 2009 | Change | % Change |
| Selling and administrative | **$ 75.2** | $ 35.9 | $ 39.3 | 109 | **$ 169.7** | $ 132.7 | $ 37.0 | 28 |
| Provincial mining and other taxes | **16.2** | 2.1 | 14.1 | 671 | **55.9** | 17.0 | 38.9 | 229 |
| Foreign exchange (gain) loss | **(1.7)** | (9.0) | 7.3 | (81) | **7.2** | (1.3) | 8.5 | n/m |
| Other income | **65.6** | 41.2 | 24.4 | 59 | **241.1** | 264.6 | (23.5) | (9) |
| Interest expense | **16.5** | 31.1 | (14.6) | (47) | **69.7** | 80.8 | (11.1) | (14) |
| Income taxes | **120.0** | 77.9 | 42.1 | 54 | **476.7** | 35.8 | 440.9 | n/m |

n/m = not meaningful

Selling and administrative expenses increased due to higher accruals for deferred share units and our medium-term incentive plan (the price of our common shares increased during the three and nine months ended September 30, 2010) and by higher accruals for our short-term incentive plan (as a result of our financial performance being above budget compared to being below budget in the third quarter and first nine months of 2009).

Provincial mining and other taxes increased as a result of higher potash sales revenue in the third quarter and first nine months of 2010. Saskatchewan Potash Production Taxes are comprised of a base tax per tonne of product sold and an additional tax based on mine profit, which is reduced by potash capital expenditures.

Foreign exchange gains for the third quarter of 2010 were the result of treasury activities and gains on translation of Chilean net monetary assets (almost offset by losses on net monetary liabilities due to a strengthening Canadian dollar) while gains in the third quarter of 2009 resulted from the impact of a strengthening Canadian dollar on a net monetary asset exposure of Canadian dollar taxes receivable. For the first nine months of 2010, losses were mainly due to a stronger Canadian dollar on net monetary liabilities while gains for the same period in 2009 were the result of a strengthening Canadian dollar on a net monetary asset exposure (almost offset by losses on non-USD payments made).

Other income increased quarter over quarter due to higher dividends from ICL and an increase in our share of earnings in SQM, partly offset by costs incurred in connection with and in response to the BHP offer. Other income decreased year over year due to a gain on disposal of auction rate securities and a dividend from Sinofert in 2009 that did not repeat in 2010 while costs in connection with and in response to the BHP offer partly offset the increase in our share of earnings in SQM and a special dividend received from ICL in 2010 (not received last year).

The interest expense category decreased quarter over quarter and year over year as higher capitalized interest (due to increased investments in property, plant and equipment) exceeded the increase in long-term interest expense (due to higher interest rates and two senior notes issuances in the second quarter of 2009, partially offset by lower average outstanding draws on our credit facilities). Weighted average balances of debt obligations outstanding and the associated interest rates were as follows:

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| **Dollars (millions) except percentage amounts** | **2010** | **2009** | **Change** | **% Change** | **2010** | **2009** | **Change** | **% Change** |
| Long-term debt obligations, including current portion | | | | | | | | |
| Weighted average outstanding | **$ 3,357.7** | $ 3,266.6 | $ 91.1 | 3 | **$ 3,432.8** | $ 2,884.6 | $ 548.2 | 19 |
| Weighted average interest rate | **5.7%** | 4.8% | 0.9% | 19 | **5.6%** | 4.7% | 0.9% | 19 |
| Short-term debt obligations | | | | | | | | |
| Weighted average outstanding | **$ 387.1** | $ 694.1 | $ (307.0) | (44) | **$ 483.2** | $ 591.2 | $ (108.0) | (18) |
| Weighted average interest rate | **0.6%** | 0.9% | (0.3)% | (33) | **0.5%** | 1.3% | (0.8)% | (62) |

The weighted average interest rate on long-term debt obligations increased due to the higher proportion of long-term senior notes with higher interest rates in 2010 while in 2009 the proportion of borrowings outstanding under our revolving long-term credit facilities, with lower interest rates, was higher. Rates on short-term debt

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obligations were higher in 2009 as a result of the global economic crisis, which reduced market liquidity and increased the cost of short-term borrowings.

Income taxes increased due to higher income before taxes. The 2010 estimated annual effective tax rate on ordinary earnings was reduced in the quarter due mainly to more permanent deductions in the US. The effective tax rate including discrete items decreased to 23 percent from 24 percent quarter over quarter and increased to 26 percent from 5 percent year over year. To adjust the 2009 income tax provision to the income tax returns filed during the first nine months of 2010, a current income tax expense of $18.2 million was recorded during first-quarter 2010, a current income tax expense of $19.7 million and a future income tax recovery of $11.2 million was recorded during second-quarter 2010, and a current income tax expense of $41.8 million and a future income tax recovery of $34.5 million was recorded during third-quarter 2010. The income tax provision for the first nine months of 2010 was also impacted by a future income tax expense ($6.3 million) as a result of US legislative changes to Medicare Part D adopted during the first quarter of 2010, a current income tax expense ($8.2 million) for international tax issues pertaining to transfer pricing recognized in the second quarter of 2010, and a future income tax recovery ($4.1 million) relating to a second-quarter 2010 functional currency tax election by a subsidiary company for Canadian income tax purposes. The income tax provision for the first nine months of 2009 was impacted by an internal restructuring (tax rate reduction provided a non-cash future income tax recovery of $119.2 million), an increase in permanent deductions in the US from prior years (current income tax recovery of $47.6 million), a functional currency tax election (future income tax expense increased by $24.4 million) and the benefit of a lower proportion of consolidated income earned in higher-tax jurisdictions. Excluding discrete items, for the first nine months of 2010, 80 percent of the effective tax rate pertained to current income taxes and 20 percent related to future income taxes. The increase in the current income tax provision from 50 percent in the same period last year was largely due to higher income before taxes.

## LIQUIDITY AND CAPITAL RESOURCES

### *Cash Requirements*

Our contractual obligations and other commitments detailed on pages 56 and 57 of our 2009 financial review annual report summarizes our short- and long-term liquidity and capital resource requirements but excludes obligations with original maturities of less than one year and planned capital expenditures. Significant changes from December 31, 2009 include:

*Contractual Obligations and Other Commitments*

The following aggregated information about our contractual obligations and other commitments summarizes certain of our short- and long-term liquidity and capital resource requirements. The information presented in the table below does not include obligations that have original maturities of less than one year, planned (but not legally committed) capital expenditures or potential share repurchases.

| | | September 30, 2010<br>Payments Due By Period | | | |
|---|---|---|---|---|---|
| **Dollars (millions)** | **Total** | **Within 1 Year** | **1 to 3 Years** | **3 to 5 Years** | **Over 5 Years** |
| Long-term debt obligations | $ 3,357.7 | $ 601.8 | $ 255.9 | $ 1,000.0 | $ 1,500.0 |
| | 1,590.5 | 193.8 | 287.0 | 237.5 | 872.2 |

| | | | | | |
|---|---|---|---|---|---|
| Estimated interest payments on long-term debt obligations | | | | | |
| Operating leases | 584.6 | 85.7 | 157.0 | 136.4 | 205.5 |
| Purchase commitments | 682.2 | 255.1 | 171.0 | 107.3 | 148.8 |
| Capital commitments | 108.4 | 30.0 | 52.0 | 7.6 | 18.8 |
| Other commitments | 599.8 | 390.3 | 202.7 | 6.8 | - |
| Other long-term liabilities | 1,572.4 | 85.1 | 105.1 | 73.8 | 1,308.4 |
| Total | $ 8,495.6 | $ 1,641.8 | $ 1,230.7 | $ 1,569.4 | $ 4,053.7 |

The company engaged financial advisors to assist in the review of strategic alternatives in connection with the BHP offer and will be required to pay additional fees to the financial advisors. A significant portion of the fees payable to each of the company s financial advisors in connection with their respective engagements is payable on

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consummation of certain transactions with one or more third parties, including upon consummation of the BHP Offer, in the event the company does not consummate the BHP Offer and/or if certain other transactions with any party occur before a certain date. No amounts have been included in the table above in relation to these engagements.

*Capital Expenditures*

Page 20 of our 2009 financial review annual report outlines key construction projects and their expected cost and capacity expansion/debottlenecking. During 2010, we expect to incur capital expenditures, including capitalized interest, of approximately $1,610 million for opportunity capital, approximately $380 million to sustain operations at existing levels and approximately $30 million for site improvements.

The most significant potash projects on which funds are expected to be spent in 2010, excluding capitalized interest, are outlined in the table below:

| CDN Dollars (millions) | 2010 Forecast | Total Forecast | Started | Expected Completion[1] (Description) | Forecasted Remaining Spending |
|---|---|---|---|---|---|
| Allan, Saskatchewan | $ 180 | $ 550 | 2008 | 2012 (general expansion) | $ 370 |
| Cory I, Saskatchewan | $ 500 | $ 1,455 | 2007 | 2010 (red potash mill) | $ 150 |
| Cory II, Saskatchewan[2] | | | 2008 | 2012 (general expansion) | |
| Picadilly, New Brunswick | $ 420 | $ 1,660 | 2007 | 2012 (mine shaft and mill) | $ 780 |
| Rocanville, Saskatchewan | $ 440 | $ 2,800 | 2008 | 2014 (mine shaft and mill) | $ 2,100 |

(1) Excludes ramp up time. We expect these projects will be fully ramped up by the end of 2015, provided market conditions warrant.

(2) 2010 forecast, total forecast and forecasted remaining spending included in Cory I.

We anticipate that all capital spending will be financed by internally generated cash flows supplemented, if and as necessary, by borrowing from existing financing sources.

***Sources and Uses of Cash***

The company s cash flows from operating, investing and financing activities, as reflected in the unaudited interim Condensed Consolidated Statements of Cash Flow, are summarized in the following table:

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| Dollars (millions) | 2010 | 2009 | Change | % Change | 2010 | 2009 | Change | % Change |
| | **$ 503.8** | $ 320.8 | $ 183.0 | 57 | **$ 2,199.1** | $ 355.8 | $ 1,843.3 | 518 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash provided by operating activities | | | | | | | | |
| Cash used in investing activities | **(506.6)** | (450.0) | (56.6) | 13 | **(1,843.6)** | (1,077.9) | (765.7) | 71 |
| Cash (used in) provided by financing activities | **(4.1)** | 149.1 | (153.2) | n/m | **(381.1)** | 836.5 | (1,217.6) | n/m |

n/m = not meaningful

The following table presents summarized working capital information as at September 30, 2010 compared to December 31, 2009:

| **Dollars (millions)** | **except ratio amounts** | **September 30, 2010** | **December 31, 2009** | **Change** | **% Change** |
|---|---|---|---|---|---|
| Current assets | | **$ 1,975.0** | $ 2,271.7 | $ (296.7) | (13) |
| Current liabilities | | **$ (2,200.2)** | $ (1,577.4) | $ (622.8) | 39 |
| Working capital | | **$ (225.2)** | $ 694.3 | $ (919.5) | n/m |
| Current ratio | | **0.90** | 1.44 | (0.54) | (38) |

n/m = not meaningful

Liquidity needs can be met through a variety of sources, including: cash generated from operations, short-term borrowings under our line of credit, commercial paper borrowings and draw-downs under our long-term revolving

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credit facilities. Our primary uses of funds are operational expenses, taxes, sustaining and opportunity capital spending, intercorporate investments, dividends, interest and principal payments on our debt securities. Our working capital turned negative primarily due to our $600.0 million of senior notes due May 31, 2011 being reclassified as current in the second quarter of 2010.

Cash provided by operating activities increased quarter over quarter and year over year due to an increase in net income, the elimination of adjustments for the gain on disposal of auction rate securities (year over year only) experienced in 2009, an increase in non-cash operating working capital changes and partially offset by a reduction in the provision for future income tax. Quarter over quarter, increases in non-cash operating working capital were primarily the result of increased payables (mainly the result of income taxes payable and provincial mining taxes payable which were in a receivable position in 2009) and lower inventories, partially offset by increased trade receivables. Year over year increases in non-cash operating working capital were primarily the result of increased payables, decreased receivables (incomes taxes and provincial mining taxes were receivable in 2009) and reduced inventories. The year over year increase to cash provided by operating activities was also affected by increases in depreciation and amortization and derivative instruments and an increase in undistributed earnings of equity investees.

Cash used in investing activities increased quarter over quarter due to additions to property, plant and equipment. Approximately 84 percent (2009 77 percent) of our expenditures on property, plant and equipment related to the potash segment in the third quarter. Year over year, cash used in investing activities increased due to expenditures on property, plant and equipment related to the potash segment (84 percent in 2010 and 73 percent in 2009) and the purchase of additional shares in ICL in the first quarter of 2010.

Cash was used in financing activities in the first nine months of 2010 to repay long-term and short-term debt obligations while in 2009 cash was provided by financing activities as senior notes issuances and higher commercial paper issuances exceeded repayments of our credit facilities. We issued $1,000.0 million of senior notes during the third quarter of 2009, the net proceeds of which were used to repay other debt obligations and for general corporate purposes.

We believe that internally generated cash flow, supplemented by borrowing from existing financing sources, if necessary, will be sufficient to meet our anticipated capital expenditures and other cash requirements for at least the next 12 months, exclusive of any possible acquisitions. At this time, we do not reasonably expect any presently known trend or uncertainty to affect our ability to access our historical sources of cash.

***Principal Debt Instruments***

| | September 30, 2010 | | |
|---|---|---|---|
| **Dollars (millions)** | **Total Amount** | **Amount Outstanding and Committed** | **Amount Available** |
| Credit facilities[1] | $ 3,250.0 | $ 394.8 | $ 2,855.2 |
| Line of credit | 75.0 | 35.3[2] | 39.7 |

[1] The company increased the amount available under its commercial paper program from $750.0 million to $1,500.0 million in the second quarter of 2010. The amount available under the commercial paper program is

limited to the availability of backup funds under the credit facilities. Included in the amount outstanding and committed is $394.8 million of commercial paper. Per the terms of the agreements, the commercial paper outstanding and committed, as applicable, is based on the US dollar balance or equivalent thereof in lawful money of other currencies at the time of issue; therefore, subsequent changes in the exchange rate applicable to Canadian dollar denominated commercial paper have no impact on this balance.

(2) Letters of credit committed.

We use a combination of short-term and long-term debt to finance our operations. We pay floating rates of interest on our short-term debt and credit facilities and fixed rates on our senior notes. As of September 30, 2010, interest rates were 1.09 percent on outstanding commercial paper denominated in Canadian dollars and ranged from 0.33 percent to 0.83 percent on outstanding commercial paper denominated in US dollars.

Our two syndicated credit facilities provide for unsecured advances up to the total facilities amount less direct borrowings and amounts committed in respect of commercial paper outstanding. The $2,500.0 million and $750.0 million credit facilities mature December 11, 2012 and May 31, 2013, respectively. We also have a

$75.0 million short-term line of credit that is available through June 2011 and an uncommitted $30.0 million letter of credit facility that is due on demand. Direct borrowings and outstanding letters of credit reduce the amount available. These facilities have financial tests and other covenants (described in note 11 to our 2009 annual consolidated financial statements) that if not complied with could result in accelerated repayments and termination of lenders further funding obligations under the credit facilities and line of credit. We were in compliance with all such covenants as of September 30, 2010. In the event any party, acting individually or jointly with another party acquires in excess of 50 percent of the company s outstanding voting stock, lenders of our credit facilities could, at their option, require any outstanding amounts and accrued interest to be immediately repaid and would be relieved of their obligation to make further advances under our existing credit facilities.

Our $3,350.0 million of senior notes were issued under US shelf registration statements.

For the first nine months of 2010, our weighted average cost of capital was 10.0 percent (2009 9.9 percent), of which 90 percent represented equity (2009 88 percent).

Our ability to access reasonably priced debt in the capital markets is dependent, in part, on the quality of our credit ratings. We continue to maintain investment grade credit ratings for our long-term debt. Specifically, Moody s currently rates our total long-term debt Baa1 with a developing outlook (changed from stable outlook in prior quarter as a result of the BHP offer) while Standard & Poor s currently rates our long-term debt A- with a credit watch outlook (changed from stable outlook in prior quarter as a result of the BHP offer).

A downgrade of the credit rating of our long-term debt by Standard & Poor s would increase the interest rates applicable to borrowings under our syndicated credit facilities, our line of credit and our letter of credit facility. In addition, our access to the Canadian commercial paper market, which is normally a source of same day cash for the company, depends primarily on maintaining our R1(Low) commercial paper credit rating by DBRS and our A-1(Low) commercial paper credit rating by Standard & Poor s, as well as general conditions in the money markets. Both credit ratings are under review as a result of the BHP offer.

A security rating is not a recommendation to buy, sell or hold securities. Such rating may be subject to revision or withdrawal at any time by the respective credit rating agency and each rating should be evaluated independently of any other rating.

***Outstanding Share Data***

We had 297,559,913 common shares issued and outstanding at September 30, 2010 compared to 295,975,550 common shares issued and outstanding at December 31, 2009. During the third quarter of 2010, the company issued 978,437 common shares (1,584,363 common shares during the first nine months of 2010) pursuant to the exercise of stock options and our dividend reinvestment plan. At September 30, 2010, there were 11,584,210 options to purchase common shares outstanding under the company s eight stock option plans, as compared to 12,709,425 under seven stock option plans at December 31, 2009.

A shareholder rights plan was adopted by the Board of Directors in the third quarter of 2010. Refer to Note 7 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for information pertaining to this plan.

***Off-Balance Sheet Arrangements***

In the normal course of operations, PotashCorp engages in a variety of transactions that, under Canadian GAAP, are either not recorded on our Consolidated Statements of Financial Position or are recorded on our Consolidated

Statements of Financial Position in amounts that differ from the full contract amounts. Principal off-balance sheet activities we undertake include issuance of guarantee contracts, certain derivative instruments and long-term fixed price contracts. We do not reasonably expect any presently known trend or uncertainty to affect our ability to continue using these arrangements. Refer to Note 16 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for information pertaining to our guarantees. Refer to page 60 of our 2009 financial review annual report for information on our derivative instruments. See Cash Requirements above and our 2009 financial review annual report for obligations related to certain of our long-term raw materials agreements which contain fixed price components.

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## QUARTERLY FINANCIAL HIGHLIGHTS

| ars (millions) pt per-share amounts | September 30, 2010 | June 30, 2010 | March 31, 2010 | December 31, 2009 | September 30, 2009 | June 30, 2009 | March 31, 2009 | Decemb 200 |
|---|---|---|---|---|---|---|---|---|
| s | **$ 1,575.0** | $ 1,437.8 | $ 1,713.6 | $ 1,099.1 | $ 1,099.1 | $ 856.0 | $ 922.5 | $ 1,87 |
| ss margin | **563.3** | 583.6 | 715.1 | 272.7 | 344.7 | 169.1 | 228.1 | 82 |
| income | **402.7** | 472.0 | 449.2 | 239.2 | 247.9 | 186.2 | 307.4 | 75 |
| income per share basic | **1.36** | 1.59 | 1.52 | 0.81 | 0.84 | 0.63 | 1.04 | 2 |
| income per share ted | **1.32** | 1.55 | 1.47 | 0.79 | 0.82 | 0.61 | 1.01 | 2 |

Net income per share for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

Certain aspects of our business can be impacted by seasonal factors. Fertilizers are sold primarily for spring and fall application in both Northern and Southern Hemispheres. However, planting conditions and the timing of customer purchases will vary each year and fertilizer sales can be expected to shift from one quarter to another. Most feed and industrial sales are by contract and are more evenly distributed throughout the year.

## RELATED PARTY TRANSACTIONS

The company sells potash from its Saskatchewan mines for use outside of North America exclusively to Canpotex, a potash export, sales and marketing company owned in equal shares by the three potash producers, including us, in the Province of Saskatchewan. Sales to Canpotex for the quarter ended September 30, 2010 were $282.9 million (2009 $231.6 million). For the first nine months of 2010, these sales were $874.1 million (2009 $449.1 million). Sales to Canpotex are at prevailing market prices and are settled on normal trade terms.

## CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited interim condensed consolidated financial statements, which have been prepared in accordance with Canadian GAAP. These principles differ in certain significant respects from accounting principles generally accepted in the United States. These differences are described and quantified in Note 17 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

The accounting policies used in preparing the unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the 2009 annual consolidated financial statements, except as disclosed in Note 1 to the unaudited interim condensed consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. There have been no material changes to our critical accounting estimate policies in the first nine months of 2010.

We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the audit committee of the Board of Directors, and the audit committee has reviewed the disclosures described in this section.

**RECENT ACCOUNTING CHANGES**

Refer to Note 1 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for information pertaining to accounting changes effective in 2010, and Notes 1 and 17 to the unaudited interim condensed consolidated financial statements for information on issued accounting pronouncements that will be effective in future periods.

***International Financial Reporting Standards***

Of particular note is the area of International Financial Reporting Standards ( IFRSs ). Publicly accountable enterprises in Canada will be required to prepare financial statements in accordance with IFRSs for fiscal years beginning on or after January 1, 2011. The Canadian securities regulatory authorities have granted the company exemptive relief permitting the company to prepare financial statements in accordance with IFRSs for financial periods beginning before January 1, 2011. The SEC also allows foreign private issuers to use IFRSs, without reconciliation to US GAAP, provided that their foreign private issuer status is maintained. We may seek to adopt IFRSs in late 2010.

The company has established a project team that is led by finance management and includes representatives from various areas of the organization to plan for and achieve a smooth transition to IFRSs. An external resource has also been engaged to assist, under the direction of company management, with certain aspects of the project. The audit committee of the Board of Directors regularly receives progress reporting on the status of the IFRSs implementation project.

The implementation project consists of three primary phases: the scoping and diagnostic phase (high-level impact assessment to identify key areas); the impact analysis, evaluation and design phase (project teams to develop policy alternatives, draft financial statement content and determine changes to existing accounting policies, information systems and business processes); and the implementation and review phase (implement and approve changes to accounting policies, information systems, business processes, training programs, develop IFRSs-compliant financial statements and obtain audit committee approval). The company is now in the implementation and review phase.

The following table summarizes the key elements of the company s plan for transitioning to IFRSs and the progress made against each activity. The main changes to the status of these key elements from that disclosed in the company s quarterly report on 10-Q for the six months ended June 30, 2010 relate to: the preliminary drafting of restated financial statements and management s discussion and analysis under IFRSs for the first and second quarter of 2010; and progress on the company s IFRSs training program.

| **Key Activities** | **Milestones** | **Status** |
|---|---|---|
| Accounting policies and procedures:<br>Identify differences between IFRSs and the company s existing policies and procedures<br>Analyze and select ongoing policies where alternatives are permitted<br>Analyze and determine which IFRS 1 exemptions will be taken on transition to IFRSs<br>Revise accounting policy and procedures manuals | Senior management approval and audit committee review of policy decisions by Q1 2010<br>Revised accounting policy and procedures manuals in place by changeover date | Certain major accounting policy decisions were preliminarily approved by senior management and reviewed by the audit committee of the Board of Directors in Q1 2010. Some accounting policy choices are still being analyzed and not all decisions have been made where accounting policy choices are available<br>Revisions to accounting and procedures manuals are being drafted as work on each area of IFRSs progresses |
| Financial statement preparation:<br>Prepare financial statements and note disclosures in compliance with IFRSs<br>Quantify the effects of converting to IFRSs<br>Prepare first-time adoption reconciliations required under IFRS 1 | Senior management approval and audit committee review of preliminary pro forma financial statements and disclosures by Q1 2010<br>Senior management approval and audit committee review of | Preliminary pro forma 2009 financial statements were reviewed by the audit committee in Q1 2010. To prepare for the possible early adoption of IFRSs in 2010, rather than at January 1, 2011, restated MD&A, financial statements and note disclosures for Q1 2010 have |

| | |
|---|---|
| full proforma financial statements prior to changeover | been preliminarily drafted and are being reviewed internally<br>Draft note disclosures have been prepared for each area of IFRSs<br>Effects of the conversion are being quantified as work on each area of IFRSs progresses see summaries of estimated adjustments at the end of this section |

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| Key Activities | Milestones | Status |
|---|---|---|
| Training and communication: | | |
| Provide topic-specific training to key employees involved with implementation<br>Develop awareness of the likely impacts of the transition throughout the company<br>Provide company-specific training on revised policies and procedures to affected personnel<br>Provide timely communication of the impacts of converting to IFRSs to our external stakeholders | Training for IFRSs work stream members provided as work on each IFRSs topic commences<br>Company-specific detailed training implemented prior to changeover date<br>Impacts of converting to IFRSs communicated prior to changeover | Key employees involved with implementation have completed or are in the process of completing topic-specific training<br>Regular awareness presentations are provided at various forums to prepare personnel for the changeover<br>Training is being conducted using a three-tiered approach with more detailed training provided for practitioners and higher-level training provided for other personnel. Approximately 80 percent of identified detailed training requirements have been completed with the remainder planned to be completed in Q4 2010. Group training content has been developed and is planned to be delivered in December 2010<br>Communication to external stakeholders has been ongoing through our MD&A disclosures. Further refinement of expected impacts of the IFRSs conversion will occur in each period up to adoption of IFRSs |
| Business impacts: | | |
| Identify impacts of conversion on contracts including financial covenants and compensation arrangements<br>Identify impacts of conversion on taxation | Impacts on contracts identified by Q4 2009<br>Taxation impacts identified prior to changeover | Identification of impacts on contracts is complete. Adoption of IFRSs is not expected to have any material impact on the company s contracts<br>Income tax accounting impacts have been identified, however quantification of all differences has not yet been finalized. Impacts of the IFRSs conversion on the company s tax compliance processes are still being assessed |
| IT systems: | | |
| Identify changes required to IT systems and implement solutions<br>Determine and implement solution for capturing financial information under Canadian GAAP, US GAAP and IFRSs during the year of transition to IFRSs (for | Necessary changes to IT systems implemented by changeover date<br>Solution for capturing financial information under multiple sets of GAAP | Required changes to IT systems have been identified and are being addressed in conjunction with an upgrade to the company s financial information system<br>IFRSs record-keeping has been implemented within the company s |

| | | |
|---|---|---|
| comparative information) | implemented by 2009 | financial information system to enable the capturing of financial information under multiple sets of accounting principles |
| Control environment: | | |
| For all changes to policies and procedures identified, assess effectiveness of internal controls over financial reporting and disclosure controls and procedures and implement any necessary changes | Sign-off by internal controls group on effectiveness of internal controls prior to changeover | Assessments and sign-offs have been provided for completed work streams and will continue as the remaining work streams progress |
| Design and implement internal controls over the IFRSs changeover process | Internal controls over IFRSs changeover process in place by 2009 | Specific controls have been established and documented in relation to the IFRSs changeover process |

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*First-Time Adoption of IFRSs*

Most adjustments required on transition to IFRSs will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. First-Time Adoption of International Financial Reporting Standards ( IFRS 1 ) provides entities adopting IFRSs for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs. The most significant IFRS 1 exemptions that are expected to apply to the company upon adoption are summarized on pages 67 and 68 of our 2009 financial review annual report.

*Expected Areas of Significance*

Many of the differences identified between IFRSs and Canadian GAAP have now been quantified. We have not yet prepared a full set of annual financial statements under IFRSs; therefore, amounts are unaudited. In some areas, the company is still quantifying the impacts of identified differences. In particular, quantification of IFRSs conversion implications is still underway in relation to income taxes, provisions and property, plant and equipment. These areas could result in material differences from Canadian GAAP. However, we do not expect the adoption of IFRSs to materially impact the underlying cash flows, profitability trends of our operating performance, debt covenants or compensation arrangements.

The key areas where we expect that accounting policies may differ and where accounting policy decisions are necessary that may impact the company s consolidated financial statements were set out on pages 69 to 72 of our 2009 financial review annual report and updated in our Quarterly Reports on Form 10-Q for the three months ended March 31, 2010 (page 48) and six months ended June 30, 2010 (pages 54 and 55). In addition to those previously listed key differences, the following additional impacts have been identified in relation to income tax accounting.

| **Accounting Policy Area** | **Impact of Policy Adoption** |
|---|---|
| Income Taxes (Quantification updated from 2009 financial review annual report) | **Differences from existing Canadian GAAP:** Under IFRSs, unrealized profits resulting from intragroup transactions are eliminated from the carrying amount of assets, but no equivalent adjustment is made for tax purposes. The difference between the tax rates of the two entities will result in an impact on net income. This differs from Canadian GAAP, where current tax payable in relation to such profits is recorded as a current asset until the transaction is realized by the group. As a result, 2009 net income will decrease by $0.3 million. Equity will increase by $5.4 million in 2009 ($5.7 million in 2008).<br>Under IFRSs, deferred tax assets recognized in relation to share-based payment arrangements (for example, our employee stock option plan in the US) are adjusted each period to reflect the amount of future tax deductions that the company expects to receive based on the current market price of the shares. The benefit of such amounts is recognized in contributed surplus, and never impacts net income. Under the company s current Canadian GAAP policy, tax deductions for the company s employee stock option plan in the US are recognized as reductions to tax expense, within net income, in the period that the deduction is allowed. This difference will result in a decrease to net income of $7.1 million in 2009. Equity will increase by $105.6 million in 2009 ($57.2 |

million in 2008).

The summary of expected areas of significance on pages 69 to 72 of our financial review annual report (as updated above) should not be regarded as a complete list of changes that will result from transition to IFRSs. It is intended to highlight those areas we believe to be most significant; however, our assessment of the impacts of certain differences is still in process and not all decisions have been made where choices of accounting policies are available. Moreover, until our adoption date is finalized and we have prepared a full set of annual financial statements under IFRSs, we will not be able to determine or precisely quantify all of the impacts that will result from converting to IFRSs. The International Accounting Standards Board ( IASB ) has significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRSs and their impact on the company s consolidated financial statements in future years. We have processes in place to ensure that such potential changes are monitored and evaluated. The future impacts of IFRSs will also depend on the particular circumstances prevailing in those years. The differences described are those existing based on Canadian GAAP and IFRSs as of November 5, 2010.

The following new standards and amendments or interpretations to existing standards have been published and are mandatory for periods beginning on or after January 1, 2011, or later:

| **Standard** | **Description of Change** |
|---|---|
| IFRS 9, Financial Instruments | In November 2009, the IASB issued guidance relating to the classification and measurement of financial assets. Financial assets will generally be measured initially at fair value plus particular transaction costs. Financial assets will subsequently be measured at either amortized cost or fair value. In October 2010, the IASB issued amendments to IFRS 9 relating to the accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity s own credit risk in other comprehensive income, rather than within profit or loss. The standard must be applied retrospectively and is effective for periods commencing on or after January 1, 2013. The company is currently reviewing the standard to determine the potential impact on its consolidated financial statements. |
| Amendments to IFRIC 14, Prepayments of a Minimum Funding Requirement | In November 2009, the International Financial Reporting Interpretations Committee ( IFRIC ) issued amendments to IFRIC 14 relating to the prepayments of a minimum funding requirement for an employee defined benefit plan. The amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. The amendment must be applied from the beginning of the first comparative period presented in the first financial statements in which the amendment is applied and is effective for periods commencing on or after January 1, 2011. The company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements. |

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| Standard | Description of Change |
|---|---|
| Amendments to IFRS 3, Business Combinations | In May 2010, the IASB issued amendments to IFRS 3 as part of its annual improvements process. The amendments clarified certain issues related to business combinations, including: limiting the scope of the choice to measure non-controlling interests at fair value or at the proportionate share of the acquiree s net assets; and clarifying the accounting treatment for share-based payment transactions that are part of a business combination. The amendments must be applied prospectively and are effective for periods commencing on or after July 1, 2010. As the company intends to make use of the exemption in IFRS 1 to not apply IFRS 3 to business combinations occurring prior to the date of transition to IFRSs, these amendments will not impact accounting for any of the company s historical business combinations. |
| Amendments to IFRS 7, Financial Instruments: Disclosures | In May 2010, the IASB issued amendments to IFRS 7 as part of its annual improvements process. The amendments addressed various requirements relating to the disclosure of financial instruments. The amendments are effective for periods commencing on or after January 1, 2011, with earlier application permitted. The company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements. |
| Amendments to IAS 1, Presentation of Financial Statements | In May 2010, the IASB issued amendments to IAS 1 as part of its annual improvements process. The amendments clarify that entities may present the required reconciliation of changes in each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendments are effective for periods commencing on or after January 1, 2011, with earlier application permitted. The company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements. |
| Transition Requirements for Amendments Arising as a Result of IAS 27, Consolidated and Separate Financial Statements | In May 2010, as part of its annual improvements process, the IASB issued consequential amendments to IAS 21, The Effects of Changes in Foreign Exchange Rates, IAS 28, Investments in Associates and IAS 31, Interest in Joint Ventures. The amendments provide that certain requirements of these standards are to be applied prospectively and are effective for periods commencing on or after July 1, 2010, with earlier application permitted. The company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements. |

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| Standard | Description of Change |
|---|---|
| Amendments to IAS 34, Interim Financial Reporting | In May 2010, the IASB issued amendments to IAS 34 as part of its annual improvements process. The amendments provided clarification of the disclosures required by IAS 34 when considered against the disclosure requirements of other IFRSs and are effective for periods commencing on or after January 1, 2011, with earlier application permitted. The company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements. |

The following unaudited tables show the impacts of the differences between IFRSs and Canadian GAAP which have been identified to date, assuming IFRSs were adopted with a transition date (date of opening IFRSs balance sheet) of January 1, 2009 and the mandatory and optional exemptions and policy choices described on pages 67 to 72 of our 2009 financial review annual report were applied.

*Estimated Adjustments to Net Income on Adoption of IFRSs*

| | (Unaudited) In millions of US dollars |
|---|---|
| **For The Year Ended December 31** | **2009** |
| Net Income Under Canadian GAAP | $987.8 |
| IFRSs adjustments to net income (based on differences identified to date): | |
| Policy choices | |
| Employee benefits Actuarial gains and losses | 28.6 |
| Provisions Changes in decommissioning liabilities | TBD |
| Other | |
| Employee benefits Past service costs | 17.3 |
| Employee benefits Canadian GAAP transition amounts | 0.2 |
| Borrowing costs | (8.4) |
| Impairment of assets | (1.0) |
| Share-based payments | 2.4 |
| Income taxes Tax effect of above differences | (14.8) |
| Income tax related GAAP differences Quantified differences | (125.4) |
| Not yet quantified | TBD |

Revised net income under IFRSs is not presented since assessment of differences has not been completed for all areas. The above adjustments assume a date of transition to IFRSs (date of opening statement of financial position) of January 1, 2009. If the company s actual date of transition to IFRSs were to differ from this assumption, certain transitional adjustments would be re-measured.

TBD = To be determined.

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*Estimated Adjustments to Shareholders Equity on Adoption of IFRSs*

| | (Unaudited) In millions of US dollars | |
|---|---|---|
| **As at December 31** | **2009** | **2008** |
| Shareholders Equity Under Canadian GAAP | $ 6,500.7 | $ 4,588.9 |
| IFRSs adjustments to shareholders equity (based on differences identified to date): | | |
| Policy choices | | |
| Employee benefits Actuarial gains and losses | (364.7) | (369.3) |
| Provisions Changes in decommissioning liabilities | TBD | TBD |
| Other | | |
| Employee benefits Past service costs | 14.2 | (3.1) |
| Employee benefits Canadian GAAP transition amounts | (2.6) | (2.8) |
| Borrowing costs | (14.8) | (6.4) |
| Impairment of assets | 9.4 | 10.4 |
| Share-based payments | 2.4 | - |
| Income taxes Tax effect of above differences | 130.9 | 137.4 |
| Income tax related GAAP differences Quantified differences | 127.5 | 78.3 |
| Not yet quantified | TBD | TBD |

Revised shareholders equity under IFRSs is not presented since assessment of differences has not been completed for all areas. The above adjustments assume a date of transition to IFRSs (date of opening statement of financial position) of January 1, 2009. If the company s actual date of transition to IFRSs were to differ from this assumption, certain transitional adjustments would be re-measured.

TBD = To be determined.

**RISK MANAGEMENT**

Execution of our corporate strategy requires an effective program to manage the associated risks. The PotashCorp Risk Management Framework ( the Framework ) is applied to identify and manage such risks. The Framework consists of a comprehensive risk universe, with six corporate risk categories, and corresponding identification of risk events. The major corporate categories of risks are: markets/business, distribution, operational, financial/information technology, regulatory and integrity/empowerment. Separately and in combination, these risks potentially threaten our strategies and could affect our ability to deliver long-term shareholder value.

The Framework establishes an entity-wide risk ranking methodology. Risk events are evaluated against the criteria of likelihood or frequency of occurrence and the consequential magnitude or severity of the event. Mitigation activities are identified that will reduce the likelihood and/or severity of the occurrence of a risk event. The residual risk that results from identified mitigation activities is also evaluated using the same criteria. Management identifies the most significant risks to our strategy and reports to the Board on the mitigation plans.

The company s Risk Management Process of identification, management, and reporting of risk is continuous and dynamic. Changes to corporate risk that result from changing internal and external factors are evaluated on a quarterly basis and significant changes in risks and corresponding mitigation activities are reported quarterly to the audit committee. Detailed discussion of the PotashCorp Risk Management Process can be found on pages 45 and 46 of our 2009 financial review annual report as well as in our 2009 Annual Report on Form 10-K. Risk management discussions specific to potash, phosphate and nitrogen operations can be found on pages 21, 27 and 33, respectively, of the 2009 financial review annual report.

The company recognizes damage to reputation as its most severe risk consequence, which is mitigated by ongoing and transparent communication with stakeholders, commitment to sustainability, and best practices in corporate governance. Moreover, significant investments and operations in a number of countries subject the company to business risks which could be exaggerated by differences in domestic culture, political and economic conditions, policies, laws and regulations. The company may also be adversely affected by changing anti-trust laws in operating jurisdictions worldwide.

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The risks of greatest potential impact to potash reported in the 2009 financial review annual report include market supply imbalances which may result from fluctuations in global demand for product or from additional competitor supply, inadequacy of the transportation and distribution infrastructure to timely accommodate the volume delivery demands, and physical risks particular to underground mines (such as unexpected underground rock falls and water inflow from underground water-bearing strata). We mitigate the market imbalance risks by managing production to meet market demand. The company mitigates transportation and distribution risks both directly and through Canpotex by working with rail carriers and undertaking sufficient capital investment in transportation infrastructure and railcars. Underground mine risk mitigation activities include advanced geoseismic monitoring. At Lanigan, Saskatchewan mitigation includes ground penetrating radar development and the installation of protective canopies on mining machines.

Similar risks of cyclicality and market imbalance exist in phosphate and nitrogen, largely due to competitive costs, availability of supply and government involvement. The company mitigates these risks by focusing on less cyclical markets, maintaining a diversified sulfur supply portfolio and employing natural gas price risk hedging strategies where appropriate.

**OUTLOOK**

As the long-term food requirements of a growing population continue to intensify, fresh momentum is igniting the agricultural sector. Although 2010 global crop production is expected to reach the third-highest level on record, grain stocks are declining, which reinforces the escalating importance of potash, phosphate and nitrogen fertilizers to improve production.

While US corn prices are commonly used as a barometer of nutrient demand, the wave of interest in fertilizers is much larger than a single crop or a single growing region. It is supported by widespread demand for an array of global agricultural food products, most of which compete for limited arable land and are currently selling at prices well above historical levels. Since the end of the second quarter of 2010, prices for a basket of diverse crops corn, sugar, wheat, rice, palm oil, soybean and cotton have increased nearly 30 percent, demonstrating the widespread improvement in agricultural economics.

In our view, rising agricultural markets are not simply the result of short-term production challenges. The pressures of feeding a growing population, coupled with expanding economies and a desire for protein-rich diets, have been increasing for many decades and cannot be alleviated overnight. This long-term demand story is fueled by the inescapable fact that food production must increase on a sustainable basis. This requires crop prices that encourage farmers to commit to improving productivity over the long term, which includes making necessary investments in proper fertilization.

We believe the fertilizer industry has passed an important inflection point and is returning to a period of powerful growth. We see parallels to the demand-driven environment that led our company to five consecutive years of record performance prior to 2009. The difference today is the added challenge of replenishing the fertilizer pipeline from farmers soils to the distributor supply chain which will be essential to meeting global food demand. We believe all involved have only begun to undertake this essential challenge.

We see an exciting outlook for both the short- and long-term prospects for our company. A strong and growing agricultural economy benefits all three nutrients, as all are essential to improving yields and increasing food quality. As the third-largest global producer of both phosphate and nitrogen, we anticipate significant opportunities at a time of buoyant demand and high industry operating rates, enabling each of these nutrients to make a significant contribution to our earnings as we move forward.

Nonetheless, we believe our greatest opportunity is in potash. For decades, this important nutrient was under applied in a number of key developing markets, but today these regions have growing economies, increasing demand for higher-quality food and greater ability to make the necessary investment in potash. Global potash production capabilities, however, are limited and bringing a greenfield mine into production is a seven- to 10-year proposition. As the world s largest producer, with more than 50 percent of global brownfield expansion capacity under development, we believe we have a unique opportunity in the coming years to capture a significant share of new growth in demand for potash.

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Our long-term approach to business reflects our belief that time is one of our most powerful allies. We have been patient stewards of our resources in all conditions, striving to maximize value for our stakeholders. Now, with the fertilizer industry and potash, in particular poised for what we believe will be an extended period of higher demand and operating rates, we have unique five-way potash leverage to improve our performance: 1) the potential to capture higher prices as demand improves; 2) the ability to sell more volumes; 3) the ability to lower our per-tonne costs for production; 4) the potential to reduce per-tonne profit tax on higher sales volumes; and 5) the benefit we gain from greater value and earnings contributions from our offshore potash-related investments. While this is a long-term growth opportunity, we expect the powerful fundamentals and market trends in place will also generate stronger immediate returns.

In North America, we anticipate robust potash demand through the fourth quarter as growers take advantage of a wider window for fall applications as a result of the early harvest. Although some customers are trying to rebuild inventories for the first time since 2008, limited product availability has meant that most shipments are heading straight to farmers fields. As a result, distributor inventories remain low and we expect strong shipments for 2011. We believe the price increase announced in September ($50 per short ton) will begin to be reflected later in fourth-quarter shipments, while the October announcement (an additional $75 per short ton) will be realized after bookings at the previous price are shipped, likely in first-quarter 2011.

In offshore markets, China is beginning to demonstrate its commitment to redressing the under-application of potash and to securing its supply for the future. A three-year agreement between Canpotex and Sinofert signed in October outlines Sinofert s minimum potash volume requirements for 2011-2013 (3.15 million tonnes), with pricing negotiated on a semi-annual basis. Negotiations are under way for pricing and volumes for the first half of 2011. In India, potash imports are expected to reach record levels in 2010 and remain strong in 2011 as this country works to improve food production capabilities and limit food price inflation. We expect robust demand from other Asian countries to continue, buoyed by highly supportive crop economics across all key crops grown in this region. Even as Latin America exits its high-demand season, shipments are expected to remain above historical fourth-quarter levels and be strong into 2011 as a result of low inventories, supportive grower economics and robust demand for applications on Brazil s safrinha crop the March corn planting that continues to grow in importance. Price increases announced by Canpotex in late September (on average, $50 per tonne in both Southeast Asia and Brazil) are expected to be fully realized with January shipments. We believe the potential exists for additional price increases, resulting from strong demand continuing to pressure supply and the need to transition toward prices supportive of new capacity development.

In this environment, we estimate our 2010 potash segment gross margin will be between $1.65 billion and $1.75 billion on total shipments in the range of 8.3-8.5 million tonnes.

Tight product inventory, strong demand and firm pricing are expected to result in a positive phosphate market through the North American spring season. In nitrogen, these same conditions, along with favorable US natural gas costs relative to key exporting regions, should continue to support a positive demand and pricing environment. We now forecast 2010 phosphate and nitrogen gross margin between $750 million and $850 million.

We expect 2010 net income to be in the range of $5.75-$6.00 per share.

In this tightening environment, we anticipate that restocking of the distribution chain will begin in 2011 and, accordingly, have raised our global potash demand forecast to between 55 million tonnes and 60 million tonnes in the next calendar year. Given our expectation that current conditions represent the front end of an escalation in demand and pricing for our products, we are providing 2011 earnings guidance in the range of $8.00-$8.75 per share.

**FORWARD-LOOKING STATEMENTS**

Certain statements in this Quarterly Report on Form 10-Q, including those in the Outlook section of Management s Discussion and Analysis of Financial Condition and Results of Operations relating to the period after September 30, 2010, are forward-looking statements or forward-looking information ( forward-looking statements ). These statements can be identified by expressions of belief, expectation or intention, as well as those statements that are not historical fact. These statements are based on certain factors and assumptions as set forth in this Form 10-Q, including with respect to foreign exchange rates, expected growth, results of operations, performance, business prospects and opportunities and effective tax rates. While the company considers these factors and assumptions to be reasonable based on information currently available, they may prove to be incorrect. Several factors could cause actual results to differ materially from those expressed in the forward-looking statements, including, but not limited to: future actions taken by BHP Billiton, PotashCorp or shareholders of PotashCorp in connection with, or in response to, the BHP Offer; the possible effect of the BHP Offer on PotashCorp s business; fluctuations in supply and demand in fertilizer, sulfur, transportation and petrochemical markets; changes in competitive pressures, including pricing pressures; the recent global financial crisis and conditions and changes in credit markets; the results of sales contract negotiations with major markets; timing and amount of capital expenditures; risks associated with natural gas and other hedging activities; changes in capital markets and corresponding effects on the company s investments; changes in currency and exchange rates; unexpected geological or environmental conditions, including water inflow; strikes or other forms of work stoppage or slowdowns; changes in, and the effects of, government policy and regulations; and earnings, exchange rates and the decisions of taxing authorities, all of which could affect our effective tax rates. Additional risks and uncertainties can be found in our Form 10-K for the fiscal year ended December 31, 2009 under the captions Forward-Looking Statements and Item 1A Risk Factors and in our other filings with the US Securities and Exchange Commission and Canadian provincial securities commissions. Forward-looking statements are given only as at the date of this report and the company disclaims any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Market risk is the potential for loss from adverse changes in the market value of financial instruments. The level of market risk to which we are exposed varies depending on the composition of our derivative instrument portfolio, as well as current and expected market conditions. A discussion of enterprise-wide risk management can be found in our 2009 financial review annual report, pages 45 to 46, and risk management discussion specific to potash, phosphate and nitrogen operations can be found on pages 21, 27 and 33, respectively, of such report. A discussion of commodity risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk, including risk sensitivities, can be found in Note 13 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

## ITEM 4. *CONTROLS AND PROCEDURES*

As of September 30, 2010, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon that evaluation and as of September 30, 2010, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the company files and submits under the *Securities Exchange Act of 1934* is recorded, processed, summarized and reported as and when required and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. *LEGAL PROCEEDINGS*

BHP LITIGATION

On September 22, 2010, PotashCorp filed a complaint against BHP Billiton Limited, BHP Billiton Plc, and BHP Billiton Development 2 (Canada) Limited (collectively, BHP ) in the United States District Court for the Northern District of Illinois asserting that BHP has violated the federal securities laws by disseminating false and misleading information and omitting material information from its Schedule TO and other BHP Offer documents.

Specifically, the complaint asserts claims that are based on:

BHP s failure to disclose a material condition to the BHP Offer that BHP shareholder approval is reasonably likely to be required if BHP increases the offer consideration;

BHP s misleading and contradictory statements concerning its future plans to enter the potash industry as a competitor and its plans to run PotashCorp if its acquisition is successful;

BHP s misleading and inconsistent positions about its plans with respect to Canpotex Limited, the offshore marketing company for Saskatchewan potash producers; and

BHP s inconsistent statements about its plans to divest the nitrogen and phosphate businesses of PotashCorp.

The complaint seeks, among other relief, (1) a declaration that BHP has violated Section 14(e) of the Securities Exchange Act of 1934, (2) a direction that BHP make full and complete corrective disclosure to PotashCorp shareholders and (3) a preliminary and permanent injunction barring BHP from taking further steps to consummate the BHP Offer or acquiring common shares of PotashCorp, particularly in light of its misleading disclosures and fraudulent, deceptive and manipulative acts.

On October 28, 2010, PotashCorp filed a first amended complaint in the United States District Court for the Northern District of Illinois to provide further factual detail for the claims set forth in the original complaint.

SHAREHOLDER LITIGATION

On October 6 and 13, 2010, named plaintiffs filed substantially similar purported class action complaints in the United States District Court for the Northern District of Illinois, on behalf of themselves and all other shareholders of the company against the company and each of its directors. The complaints allege that the company defendants violated Sections 14(d)(4) and 14(e) of the Securities Exchange Act of 1934. Among other things, the complaints allege that the company s Solicitation/Recommendation Statement on Schedule 14D-9 omits or misrepresents material information about the company s Shareholder Rights Plan, the analysis of the BHP Offer, strategic alternatives and the analysis of the company s financial advisors. The complaints also allege that the company defendants violated Section 241 of the Canada Business Corporations Act in connection with their consideration of the BHP Offer and the adoption of the Shareholder Rights Plan. The complaints seek declaratory and injunctive relief, including an order declaring the Shareholder Rights Plan invalid and of no force and effect. The company believes the plaintiffs allegations lack merit and intends to contest them vigorously.

OTHER

For a description of certain other legal and environmental proceedings, see Note 15 to the unaudited interim condensed consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q.

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## ITEM 5. *OTHER INFORMATION*

MINE SAFETY PRACTICES

Safety is the company s top priority and we are committed to providing a healthy and safe work environment for our employees, contractors and all others at our sites to help meet our company-wide goal of achieving no harm to people.

The operations at the company s Aurora, Weeping Water and White Springs facilities are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006 (the Act ), and the implementing regulations, which impose stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment and other matters. Our Senior Safety Leadership Team is responsible for managing compliance with applicable government regulations, as well as implementing and overseeing the elements of our safety program as outlined in our Safety, Health and Environment Manual. The Weeping Water facility achieved a significant milestone on September 26, 2010, completing six years without a Lost Time Incident.

SECTION 1503 OF DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT: REPORTING REQUIREMENTS REGARDING COAL OR OTHER MINE SAFETY

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires us to include certain safety information in the periodic reports we file with the United States Securities and Exchange Commission. The table below presents the following information for our Aurora**,** Weeping Water and White Springs facilities for the three months ended September 30, 2010:

| | Aurora, North Carolina | Weeping Water, Nebraska | White Springs, Florida |
|---|---|---|---|
| (a) the total number of alleged violations of mandatory health or safety standards that could significantly or substantially contribute to the cause and effect of a coal or other mine safety or health hazard under Section 104 of the Act for which a citation was received from the Mine Safety and Health Administration ( MSHA ); | 2 | 1 | 3 |
| (b) the total number of orders issued under section 104(b) of the Act; | 0 | 0 | 0 |
| (c) the total number of citations received and orders issued under section 104(d) of the Act for alleged unwarrantable failures of the company to comply with mandatory health or safety standards; | 0 | 0 | 0 |
| (d) the total number of alleged flagrant violations under section 110(b)(2) of the Act; | 0 | 0 | 0 |
| (e) the total number of imminent danger orders issued under section 107(a) of the Act; | 0 | 0 | 0 |
| (f) the total dollar value of proposed assessments from the MHSA under the Act; | $ 1,967.00 | $ 263.00 | 0 |
| (g) the total number of mining-related fatalities; and | 0 | 0 | 0 |
| (h) the total number of legal actions pending before the Federal Mine Safety and Health Review Commission as of September 30, 2010. | 1 | 1 | 3 |

During the three months ended September 30, 2010, the company did not receive any written notice from the MSHA of (a) a pattern of violations of mandatory health or safety standards that are of such a nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Act or (b) the potential to have such a pattern.

The table above does not include any citation, order or assessment that was both issued and vacated by the MSHA during the three months ended September 30, 2010.

The legal actions pending as of the close of the three months ended September 30, 2010 do not necessarily relate to the citations, orders or assessments issued by the MSHA during such period. Pending legal action may result in the dismissal of citation(s) and order(s) and the reduction of proposed assessments.

**ITEM 6.** ***EXHIBITS***

(a) EXHIBITS

| | | | Incorporated by Reference | |
|---|---|---|---|---|
| Exhibit Number | Description of Document | Form | Filing Date/ Period End Date | Exhibit Number (if different) |
| 3(a) | Articles of Continuance of the registrant dated May 15, 2002. | 10-Q | 6/30/2002 | |
| 3(b) | Bylaws of the registrant effective May 15, 2002. | 10-Q | 6/30/2002 | |
| 4(a) | Term Credit Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated September 25, 2001. | 10-Q | 6/30/2009 | |
| 4(b) | Syndicated Term Credit Facility Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 23, 2003. | 10-Q | 6/30/2009 | |
| 4(c) | Syndicated Term Credit Facility Second Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 21, 2004. | 8-K | 6/30/2009 | |
| 4(d) | Syndicated Term Credit Facility Third Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 20, 2005. | 8-K | 9/22/2005 | 4(a) |
| 4(e) | Syndicated Term Credit Facility Fourth Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 27, 2006. | 10-Q | 9/30/2006 | |
| 4(f) | Syndicated Term Credit Facility Fifth Amending Agreement between the Bank of Nova Scotia and other financial institutions and the registrant dated as of October 19, 2007. | 8-K | 10/22/2007 | 4(a) |

| | | | | |
|---|---|---|---|---|
| 4(g) | Indenture dated as of June 16, 1997, between the registrant and The Bank of Nova Scotia Trust Company of New York. | 8-K | 6/18/1997 | 4(a) |
| 4(h) | Indenture dated as of February 27, 2003, between the registrant and The Bank of Nova Scotia Trust Company of New York. | 10-K | 12/31/2002 | 4(c) |
| 4(i) | Form of Note relating to the registrant s offering of $600,000,000 principal amount of 7.75% Notes due May 31, 2011. | 8-K | 5/17/2001 | 4 |
| 4(j) | Form of Note relating to the registrant s offering of $250,000,000 principal amount of 4.875% Notes due March 1, 2013. | 8-K | 2/28/2003 | 4 |

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| Exhibit Number | Description of Document | Form | Incorporated by Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 4(k) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 5.875% Notes due December 1, 2036. | 8-K | 11/30/2006 | 4(a) |
| 4(l) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 5.25% Notes due May 15, 2014. | 8-K | 5/1/2009 | 4(a) |
| 4(m) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 6.50% Notes due May 15, 2019. | 8-K | 5/1/2009 | 4(b) |
| 4(n) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 3.75% Notes due September 30, 2015. | 8-K | 9/25/2009 | 4(a) |
| 4(o) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 4.875% Notes due March 30, 2020. | 8-K | 9/25/2009 | 4(b) |
| 4(p) | Revolving Term Credit Facility Agreement between the Bank of Nova Scotia and other financial institutions and the registrant dated December 11, 2009. | 8-K | 12/15/2009 | 4(a) |
| 4(q) | Shareholder Rights Plan Agreement, dated August 16, 2010, between the registrant and CIBC Mellon Trust Company, as Rights Agent. | 8-K/A | 8/23/2010 | 4.1 |

The registrant hereby undertakes to file with the Securities and Exchange Commission, upon request, copies of any constituent instruments defining the rights of holders of long-term debt of the registrant or its subsidiaries that have not been filed herewith because the amounts represented thereby are less than 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| 10(a) | Sixth Voting Agreement dated April 22, 1978, between Central Canada Potash, Division of Noranda, Inc., Cominco Ltd., International Minerals and Chemical Corporation (Canada) Limited, PCS Sales and Texasgulf Inc. | F-1 (File No. 33-31303) | 9/28/1989 | 10(f) |
| 10(b) | Canpotex Limited Shareholders Seventh Memorandum of Agreement effective April 21, 1978, between Central Canada Potash, Division of Noranda Inc., Cominco Ltd., International Minerals and Chemical Corporation (Canada) Limited, PCS Sales, Texasgulf Inc. and Canpotex Limited as amended by Canpotex S&P amending agreement dated November 4, 1987. | F-1 (File No. 33-31303) | 9/28/1989 | 10(g) |
| 10(c) | Producer Agreement dated April 21, 1978, between Canpotex Limited and PCS Sales. | F-1 (File No. 33-31303) | 9/28/1989 | 10(h) |

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| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 10(d) | Canpotex/PCS Amending Agreement, dated as of October 1, 1992. | 10-K | 12/31/1995 | 10(f) |
| 10(e) | Canpotex PCA Collateral Withdrawing/PCS Amending Agreement, dated as of October 7, 1993. | 10-K | 12/31/1995 | 10(g) |
| 10(f) | Canpotex Producer Agreement amending agreement dated as of July 1, 2002. | 10-Q | 6/30/2004 | 10(g) |
| 10(g) | Esterhazy Restated Mining and Processing Agreement dated January 31, 1978, between International Minerals & Chemical Corporation (Canada) Limited and the registrant s predecessor. | F-1 (File No. 33-31303) | 9/28/1989 | 10(e) |
| 10(h) | Agreement dated December 21, 1990, between International Minerals & Chemical Corporation (Canada) Limited and the registrant, amending the Esterhazy Restated Mining and Processing Agreement dated January 31, 1978. | 10-K | 12/31/1990 | 10(p) |
| 10(i) | Agreement effective August 27, 1998, between International Minerals & Chemical (Canada) Global Limited and the registrant, amending the Esterhazy Restated Mining and Processing Agreement dated January 31, 1978 (as amended). | 10-K | 12/31/1998 | 10(l) |
| 10(j) | Agreement effective August 31, 1998, among International Minerals & Chemical (Canada) Global Limited, International Minerals & Chemical (Canada) Limited Partnership and the registrant assigning the interest in the Esterhazy Restated Mining and Processing Agreement dated January 31, 1978 (as amended) held by International Minerals & Chemical (Canada) Global Limited to International Minerals & Chemical (Canada) Limited Partnership. | 10-K | 12/31/1998 | 10(m) |
| 10(k) | Potash Corporation of Saskatchewan Inc. Stock Option Plan Directors, as amended. | 10-K | 12/31/2006 | 10(l) |

| | | | | |
|---|---|---|---|---|
| 10(l) | Potash Corporation of Saskatchewan Inc. Stock Option Plan Officers and Employees, as amended. | 10-K | 12/31/2006 | 10(m) |
| 10(m) | Short-Term Incentive Plan of the registrant effective January 2000, as amended. | 10-Q | 9/30/2009 | |
| 10(n) | Resolution and Forms of Agreement for Supplemental Retirement Income Plan, for officers and key employees of the registrant. | 10-K | 12/31/1995 | 10(o) |
| 10(o) | Amending Resolution and revised forms of agreement regarding Supplemental Retirement Income Plan of the registrant. | 10-Q | 6/30/1996 | 10(x) |

| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 10(p) | Amended and restated Supplemental Retirement Income Plan of the registrant and text of amendment to existing supplemental income plan agreements. | 10-Q | 9/30/2000 | 10(mm) |
| 10(q) | Amendment, dated February 23, 2009, to the amended and restated Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(r) |
| 10(r) | Form of Letter of amendment to existing supplemental income plan agreements of the registrant. | 10-K | 12/31/2002 | 10(cc) |
| 10(s) | Amended and restated agreement dated February 20, 2007, between the registrant and William J. Doyle concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2006 | |
| 10(t) | Amendment, dated December 24, 2008, to the amended and restated agreement, dated February 20, 2007, between the registrant and William J. Doyle concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(u) |
| 10(u) | Amendment, dated February 23, 2009, to the amended and restated agreement, dated February 20, 2007, between the registrant and William J. Doyle concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(v) |
| 10(v) | Amendment, dated February 23, 2009, to the amended and restated agreement dated August 2, 2006, between the registrant and Wayne R. Brownlee concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(w) |
| 10(w) | Amendment, dated February 23, 2009, to the amended and restated agreement, dated August 2, 1996, between the registrant and Garth W. Moore concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(x) |

| | | | | |
|---|---|---|---|---|
| 10(x) | Supplemental Retirement Benefits Plan for U.S. Executives dated effective January 1, 1999. | 10-Q | 6/30/2002 | 10(aa) |
| 10(y) | Amendment No. 1, dated December 24, 2008, to the Supplemental Retirement Plan for U.S. Executives. | 10-K | 12/31/2008 | 10(z) |
| 10(z) | Amendment No. 2, dated February 23, 2009, to the Supplemental Retirement Plan for U.S. Executives. | 10-K | 12/31/2008 | 10(aa) |
| 10(aa) | Forms of Agreement dated December 30, 1994, between the registrant and certain officers of the registrant. | 10-K | 12/31/1995 | 10(p) |
| 10(bb) | Form of Agreement of Indemnification dated August 8, 1995, between the registrant and certain officers and directors of the registrant. | 10-K | 12/31/1995 | 10(q) |
| 10(cc) | Resolution and Form of Agreement of Indemnification dated January 24, 2001. | 10-K | 12/31/2000 | 10(ii) |
| 10(dd) | Resolution and Form of Agreement of Indemnification July 21, 2004. | 10-Q | 6/30/2004 | 10(ii) |

| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 10(ee) | Chief Executive Officer Medical and Dental Benefits. | 10-K | 12/31/2004 | 10(jj) |
| 10(ff) | Deferred Share Unit Plan for Non-Employee Directors, as amended. | 10-Q | 3/31/2008 | 10(bb) |
| 10(gg) | U.S. Participant Addendum No. 1 to the Deferred Share Unit Plan for Non-Employee Directors. | 10-K | 12/31/2008 | 10(jj) |
| 10(hh) | Potash Corporation of Saskatchewan Inc. 2005 Performance Option Plan and Form of Option Agreement, as amended. | 10-K | 12/31/2006 | 10(cc) |
| 10(ii) | Potash Corporation of Saskatchewan Inc. 2006 Performance Option Plan and Form of Option Agreement, as amended. | 10-K | 12/31/2006 | 10(dd) |
| 10(jj) | Potash Corporation of Saskatchewan Inc. 2007 Performance Option Plan and Form of Option Agreement. | 10-Q | 3/31/2007 | 10(ee) |
| 10(kk) | Potash Corporation of Saskatchewan Inc. 2008 Performance Option Plan and Form of Option Agreement. | 10-Q | 3/31/2008 | 10(ff) |
| 10(ll) | Potash Corporation of Saskatchewan Inc. 2009 Performance Option Plan and Form of Option Agreement. | 10-Q | 3/31/2009 | 10(mm) |
| 10(mm) | Potash Corporation of Saskatchewan Inc. 2010 Performance Option Plan and Form of Option Agreement. | 8-K | 5/7/2010 | 10.1 |
| 10(nn) | Medium-Term Incentive Plan of the registrant effective January 2009. | 10-K | 12/31/2008 | 10(qq) |
| 11 | Statement re Computation of Per Share Earnings. | | | |
| 31(a) | Certification pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002.* | | | |

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| 31(b) | Certification pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002.* |
| 32 | Certification pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002.* |

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POTASH CORPORATION OF
SASKATCHEWAN INC.

November 5, 2010

By: /s/ Joseph Podwika

Joseph Podwika
*Senior Vice President, General Counsel and Secretary*

November 5, 2010

By: /s/ Wayne R. Brownlee

Wayne R. Brownlee
*Executive Vice President, Treasurer and Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

# EXHIBIT INDEX

| Exhibit Number | Description of Document | Form | Incorporated by Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 3(a) | Articles of Continuance of the registrant dated May 15, 2002. | 10-Q | 6/30/2002 | |
| 3(b) | Bylaws of the registrant effective May 15, 2002. | 10-Q | 6/30/2002 | |
| 4(a) | Term Credit Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated September 25, 2001. | 10-Q | 6/30/2009 | |
| 4(b) | Syndicated Term Credit Facility Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 23, 2003. | 10-Q | 6/30/2009 | |
| 4(c) | Syndicated Term Credit Facility Second Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 21, 2004. | 8-K | 6/30/2009 | |
| 4(d) | Syndicated Term Credit Facility Third Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 20, 2005. | 8-K | 9/22/2005 | 4(a) |
| 4(e) | Syndicated Term Credit Facility Fourth Amending Agreement between The Bank of Nova Scotia and other financial institutions and the registrant dated as of September 27, 2006. | 10-Q | 9/30/2006 | |
| 4(f) | Syndicated Term Credit Facility Fifth Amending Agreement between the Bank of Nova Scotia and other financial institutions and the registrant dated as of October 19, 2007. | 8-K | 10/22/2007 | 4(a) |
| 4(g) | Indenture dated as of June 16, 1997, between the registrant and The Bank of Nova Scotia Trust Company of New York. | 8-K | 6/18/1997 | 4(a) |

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|---|---|---|---|---|
| 4(h) | Indenture dated as of February 27, 2003, between the registrant and The Bank of Nova Scotia Trust Company of New York. | 10-K | 12/31/2002 | 4(c) |
| 4(i) | Form of Note relating to the registrant s offering of $600,000,000 principal amount of 7.75% Notes due May 31, 2011. | 8-K | 5/17/2001 | 4 |
| 4(j) | Form of Note relating to the registrant s offering of $250,000,000 principal amount of 4.875% Notes due March 1, 2013. | 8-K | 2/28/2003 | 4 |

| Exhibit Number | Description of Document | Form | Incorporated by Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 4(k) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 5.875% Notes due December 1, 2036. | 8-K | 11/30/2006 | 4(a) |
| 4(l) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 5.25% Notes due May 15, 2014. | 8-K | 5/1/2009 | 4(a) |
| 4(m) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 6.50% Notes due May 15, 2019. | 8-K | 5/1/2009 | 4(b) |
| 4(n) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 3.75% Notes due September 30, 2015. | 8-K | 9/25/2009 | 4(a) |
| 4(o) | Form of Note relating to the registrant s offering of $500,000,000 principal amount of 4.875% Notes due March 30, 2020. | 8-K | 9/25/2009 | 4(b) |
| 4(p) | Revolving Term Credit Facility Agreement between the Bank of Nova Scotia and other financial institutions and the registrant dated December 11, 2009. | 8-K | 12/15/2009 | 4(a) |
| 4(q) | Shareholder Rights Plan Agreement, dated August 16, 2010, between the registrant and CIBC Mellon Trust Company, as Rights Agent. | 8-K/A | 8/23/2010 | 4.1 |

The registrant hereby undertakes to file with the Securities and Exchange Commission, upon request, copies of any constituent instruments defining the rights of holders of long-term debt of the registrant or its subsidiaries that have not been filed herewith because the amounts represented thereby are less than 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
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| | | | | |
|---|---|---|---|---|
| 10(a) | Sixth Voting Agreement dated April 22, 1978, between Central Canada Potash, Division of Noranda, Inc., Cominco Ltd., International Minerals and Chemical Corporation (Canada) Limited, PCS Sales and Texasgulf Inc. | F-1 (File No. 33-31303) | 9/28/1989 | 10(f) |
| 10(b) | Canpotex Limited Shareholders Seventh Memorandum of Agreement effective April 21, 1978, between Central Canada Potash, Division of Noranda Inc., Cominco Ltd., International Minerals and Chemical Corporation (Canada) Limited, PCS Sales, Texasgulf Inc. and Canpotex Limited as amended by Canpotex S&P amending agreement dated November 4, 1987. | F-1 (File No. 33-31303) | 9/28/1989 | 10(g) |
| 10(c) | Producer Agreement dated April 21, 1978, between Canpotex Limited and PCS Sales. | F-1 (File No. 33-31303) | 9/28/1989 | 10(h) |
| 10(d) | Canpotex/PCS Amending Agreement, dated as of October 1, 1992. | 10-K | 12/31/1995 | 10(f) |

| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 10(e) | Canpotex PCA Collateral Withdrawing/PCS Amending Agreement, dated as of October 7, 1993. | 10-K | 12/31/1995 | 10(g) |
| 10(f) | Canpotex Producer Agreement amending agreement dated as of July 1, 2002. | 10-Q | 6/30/2004 | 10(g) |
| 10(g) | Esterhazy Restated Mining and Processing Agreement dated January 31, 1978, between International Minerals & Chemical Corporation (Canada) Limited and the registrant s predecessor. | F-1 (File No. 33-31303) | 9/28/1989 | 10(e) |
| 10(h) | Agreement dated December 21, 1990, between International Minerals & Chemical Corporation (Canada) Limited and the registrant, amending the Esterhazy Restated Mining and Processing Agreement dated January 31, 1978. | 10-K | 12/31/1990 | 10(p) |
| 10(i) | Agreement effective August 27, 1998, between International Minerals & Chemical (Canada) Global Limited and the registrant, amending the Esterhazy Restated Mining and Processing Agreement dated January 31, 1978 (as amended). | 10-K | 12/31/1998 | 10(l) |
| 10(j) | Agreement effective August 31, 1998, among International Minerals & Chemical (Canada) Global Limited, International Minerals & Chemical (Canada) Limited Partnership and the registrant assigning the interest in the Esterhazy Restated Mining and Processing Agreement dated January 31, 1978 (as amended) held by International Minerals & Chemical (Canada) Global Limited to International Minerals & Chemical (Canada) Limited Partnership. | 10-K | 12/31/1998 | 10(m) |
| 10(k) | Potash Corporation of Saskatchewan Inc. Stock Option Plan Directors, as amended. | 10-K | 12/31/2006 | 10(l) |
| 10(l) | Potash Corporation of Saskatchewan Inc. Stock Option Plan Officers and Employees, as amended. | 10-K | 12/31/2006 | 10(m) |

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| 10(m) | Short-Term Incentive Plan of the registrant effective January 2000, as amended. | 10-Q | 9/30/2009 | |
| 10(n) | Resolution and Forms of Agreement for Supplemental Retirement Income Plan, for officers and key employees of the registrant. | 10-K | 12/31/1995 | 10(o) |
| 10(o) | Amending Resolution and revised forms of agreement regarding Supplemental Retirement Income Plan of the registrant. | 10-Q | 6/30/1996 | 10(x) |
| 10(p) | Amended and restated Supplemental Retirement Income Plan of the registrant and text of amendment to existing supplemental income plan agreements. | 10-Q | 9/30/2000 | 10(mm) |

**Table of Contents**

| Exhibit Number | Description of Document | Form | Incorporated By Reference Filing Date/ Period End Date | Exhibit Number (if different) |
|---|---|---|---|---|
| 10(q) | Amendment, dated February 23, 2009, to the amended and restated Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(r) |
| 10(r) | Form of Letter of amendment to existing supplemental income plan agreements of the registrant. | 10-K | 12/31/2002 | 10(cc) |
| 10(s) | Amended and restated agreement dated February 20, 2007, between the registrant and William J. Doyle concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2006 | |
| 10(t) | Amendment, dated December 24, 2008, to the amended and restated agreement, dated February 20, 2007, between the registrant and William J. Doyle concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(u) |
| 10(u) | Amendment, dated February 23, 2009, to the amended and restated agreement, dated February 20, 2007, between the registrant and William J. Doyle concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(v) |
| 10(v) | Amendment, dated February 23, 2009, to the amended and restated agreement dated August 2, 2006, between the registrant and Wayne R. Brownlee concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(w) |
| 10(w) | Amendment, dated February 23, 2009, to the amended and restated agreement, dated August 2, 1996, between the registrant and Garth W. Moore concerning the Supplemental Retirement Income Plan. | 10-K | 12/31/2008 | 10(x) |
| 10(x) | Supplemental Retirement Benefits Plan for U.S. Executives dated effective January 1, 1999. | 10-Q | 6/30/2002 | 10(aa) |
| 10(y) | | 10-K | 12/31/2008 | 10(z) |

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|---|---|---|---|---|
| | Amendment No. 1, dated December 24, 2008, to the Supplemental Retirement Plan for U.S. Executives. | | | |
| 10(z) | Amendment No. 2, dated February 23, 2009, to the Supplemental Retirement Plan for U.S. Executives. | 10-K | 12/31/2008 | 10(aa) |
| 10(aa) | Forms of Agreement dated December 30, 1994, between the registrant and certain officers of the registrant. | 10-K | 12/31/1995 | 10(p) |
| 10(bb) | Form of Agreement of Indemnification dated August 8, 1995, between the registrant and certain officers and directors of the registrant. | 10-K | 12/31/1995 | 10(q) |
| 10(cc) | Resolution and Form of Agreement of Indemnification dated January 24, 2001. | 10-K | 12/31/2000 | 10(ii) |
| 10(dd) | Resolution and Form of Agreement of Indemnification July 21, 2004. | 10-Q | 6/30/2004 | 10(ii) |
| 10(ee) | Chief Executive Officer Medical and Dental Benefits. | 10-K | 12/31/2004 | 10(jj) |

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|---|---|---|---|---|
| 10(ff) | Deferred Share Unit Plan for Non-Employee Directors, as amended. | 10-Q | 3/31/2008 | 10(bb) |
| 10(gg) | U.S. Participant Addendum No. 1 to the Deferred Share Unit Plan for Non-Employee Directors. | 10-K | 12/31/2008 | 10(jj) |
| 10(hh) | Potash Corporation of Saskatchewan Inc. 2005 Performance Option Plan and Form of Option Agreement, as amended. | 10-K | 12/31/2006 | 10(cc) |
| 10(ii) | Potash Corporation of Saskatchewan Inc. 2006 Performance Option Plan and Form of Option Agreement, as amended. | 10-K | 12/31/2006 | 10(dd) |
| 10(jj) | Potash Corporation of Saskatchewan Inc. 2007 Performance Option Plan and Form of Option Agreement. | 10-Q | 3/31/2007 | 10(ee) |
| 10(kk) | Potash Corporation of Saskatchewan Inc. 2008 Performance Option Plan and Form of Option Agreement. | 10-Q | 3/31/2008 | 10(ff) |
| 10(ll) | Potash Corporation of Saskatchewan Inc. 2009 Performance Option Plan and Form of Option Agreement. | 10-Q | 3/31/2009 | 10(mm) |
| 10(mm) | Potash Corporation of Saskatchewan Inc. 2010 Performance Option Plan and Form of Option Agreement. | 8-K | 5/7/2010 | 10.1 |
| 10(nn) | Medium-Term Incentive Plan of the registrant effective January 2009. | 10-K | 12/31/2008 | 10(qq) |
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| | |
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