POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
November 07, 2007

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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, 2007

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	**N/A**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
122 1st Avenue South Saskatoon, Saskatchewan, Canada	**S7K 7G3**
(Address of principal executive offices)	*(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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, 2007, Potash Corporation of Saskatchewan Inc. had 316,166,129 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, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	**$ 442.5**	$ 325.7
Other short-term investments (Note 2)	**112.5**	-
Accounts receivable	**581.3**	442.3
Inventories (Note 3)	**433.3**	501.3
Prepaid expenses and other current assets	**39.9**	40.9
Current portion of derivative instrument assets	**41.4**	-
	1,650.9	1,310.2
Derivative instrument assets	**73.5**	-
Property, plant and equipment	**3,722.9**	3,525.8
Investments (Note 4)	**2,926.1**	1,148.9
Other assets	**128.1**	105.8
Intangible assets	**25.8**	29.3
Goodwill	**97.0**	97.0
	$ 8,624.3	$ 6,217.0
Liabilities		
Current liabilities		
Short-term debt	**$ 92.1**	$ 157.9
Accounts payable and accrued charges	**681.1**	545.2
Current portion of long-term debt	**0.2**	400.4
	773.4	1,103.5

Long-term debt (Note 6)	**1,337.9**	1,357.1
Future income tax liability	**1,019.4**	632.1
Accrued pension and other post-retirement benefits	**237.4**	219.6
Accrued environmental costs and asset retirement obligations	**122.2**	110.3
Other non-current liabilities and deferred credits	**3.5**	14.1
	3,493.8	3,436.7
Contingencies and Guarantees (Notes 17 and 18, respectively)		
Shareholders Equity		
Share capital (Note 7)	**1,456.2**	1,431.6
Unlimited authorization of common shares without par value; issued and outstanding 316,114,911 and 314,403,147 at September 30, 2007 and December 31, 2006, respectively		
Unlimited authorization of first preferred shares; none outstanding		
Contributed surplus	**95.1**	62.3
Accumulated other comprehensive income (Note 8)	**1,644.8**	-
Retained earnings	**1,934.4**	1,286.4
	5,130.5	2,780.3
	$ 8,624.3	$ 6,217.0

(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	
	2007	**2006**	**2007**	**2006**
Sales (Note 11)	**$ 1,295.0**	$ 953.5	**$ 3,802.8**	$ 2,743.8
Less: Freight	**80.6**	65.6	**254.8**	182.8
Transportation and distribution	**31.0**	37.6	**94.6**	104.6
Cost of goods sold	**708.3**	604.5	**2,107.2**	1,753.7
Gross Margin	**475.1**	245.8	**1,346.2**	702.7
Selling and administrative	**43.9**	35.9	**158.0**	114.6
Provincial mining and other taxes	**28.2**	12.5	**95.3**	41.2
Foreign exchange loss (gain)	**25.9**	(4.7)	**67.4**	9.2
Other income (Note 14)	**(29.1)**	(21.1)	**(111.3)**	(72.3)
	68.9	22.6	**209.4**	92.7
Operating Income	**406.2**	223.2	**1,136.8**	610.0
Interest Expense (Note 15)	**12.7**	25.2	**59.0**	69.1
Income Before Income Taxes	**393.5**	198.0	**1,077.8**	540.9
Income Taxes (Note 9)	**150.4**	52.8	**351.0**	95.1
Net Income	**$ 243.1**	$ 145.2	**726.8**	445.8
Retained Earnings, Beginning of Period			**1,286.4**	716.9
Change in Accounting Policy (Note 1)			**0.2**	-
Dividends			**(79.0)**	(46.5)
Retained Earnings, End of Period			**$ 1,934.4**	$ 1,116.2

Net Income Per Share (Note 10)								
Basic	**$**	**0.77**	$	0.47	**$**	**2.30**	$	1.43
Diluted	**$**	**0.75**	$	0.46	**$**	**2.25**	$	1.40
Dividends Per Share	**$**	**0.10**	$	0.05	**$**	**0.25**	$	0.15

(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	
	2007	**2006**	**2007**	**2006**
Operating Activities				
Net income	**$ 243.1**	$ 145.2	**$ 726.8**	$ 445.8
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	**69.5**	62.2	**216.3**	181.4
Stock-based compensation	**4.2**	2.8	**34.7**	26.8
Loss (gain) on disposal of property, plant and equipment and long-term investments	**0.2**	(4.2)	**5.6**	(3.9)
Provision for plant shutdowns - phosphate segment	**-**	6.3	**-**	6.3
Foreign exchange on future income tax	**21.4**	-	**47.5**	12.1
Provision for future income tax	**52.6**	17.8	**119.8**	3.9
Undistributed earnings of equity investees	**(15.7)**	(10.6)	**(17.6)**	(9.1)
Unrealized gain on derivative instruments	**(13.0)**	-	**(18.4)**	-
Other long-term liabilities	**(25.6)**	9.3	**(21.3)**	11.9
Subtotal of adjustments	**93.6**	83.6	**366.6**	229.4
Changes in non-cash operating working capital				
Accounts receivable	**(100.2)**	(52.6)	**(139.9)**	(1.1)
Inventories	**35.5**	23.3	**51.6**	21.8
Prepaid expenses and other current assets	**0.8**	10.4	**1.3**	(23.3)
Accounts payable and accrued charges	**38.8**	15.0	**150.9**	(319.0)
Subtotal of changes in non-cash operating working capital	**(25.1)**	(3.9)	**63.9**	(321.6)
Cash provided by operating activities	**311.6**	224.9	**1,157.3**	353.6
Investing Activities				
Additions to property, plant and equipment	**(145.1)**	(133.8)	**(381.6)**	(384.9)
Purchase of long-term investments	**(21.0)**	-	**(30.7)**	(130.0)

Purchase of other short-term investments	**(132.5)**	-	**(132.5)**	-
Proceeds from disposal of property, plant and equipment and long-term investments	**2.9**	7.8	**4.2**	10.0
Other assets and intangible assets	**(0.9)**	(0.7)	**9.8**	2.3
Cash used in investing activities	**(296.6)**	(126.7)	**(530.8)**	(502.6)
Cash before financing activities	**15.0**	98.2	**626.5**	(149.0)
Financing Activities				
Repayment and issue costs of long-term debt obligations	**-**	(0.3)	**(403.6)**	(1.0)
Proceeds from (repayment of) short-term debt obligations	**5.5**	(26.5)	**(65.8)**	277.8
Dividends	**(31.3)**	(15.2)	**(62.6)**	(45.7)
Issuance of common shares	**3.6**	5.5	**22.3**	15.4
Cash (used in) provided by financing activities	**(22.2)**	(36.5)	**(509.7)**	246.5
(Decrease) Increase in Cash and Cash Equivalents	**(7.2)**	61.7	**116.8**	97.5
Cash and Cash Equivalents, Beginning of Period	**449.7**	129.7	**325.7**	93.9
Cash and Cash Equivalents, End of Period	**$ 442.5**	$ 191.4	**$ 442.5**	$ 191.4
Cash and cash equivalents comprised of:				
Cash	**$ 11.3**	$ 25.7	**$ 11.3**	$ 25.7
Short-term investments	**431.2**	165.7	**431.2**	165.7
	$ 442.5	$ 191.4	**$ 442.5**	$ 191.4
Supplemental cash flow disclosure				
Interest paid	**$ 15.7**	$ 24.4	**$ 71.5**	$ 74.5
Income taxes paid	**$ 59.1**	$ 18.7	**$ 128.2**	$ 243.2

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.

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

	Three Months Ended September 30, 2007		
	Before Income Taxes	**Income Taxes**	**Net of Income Taxes**
Net income	**$ 393.5**	**$ 150.4**	**$ 243.1**
Other comprehensive income			
Net increase in unrealized gains on available-for-sale securities[1]	281.5	23.4	258.1
Net losses on derivatives designated as cash flow hedges[2]	(17.0)	(4.7)	(12.3)
Reclassification to income of gains on cash flow hedges[2]	(8.5)	(3.7)	(4.8)
Unrealized foreign exchange gains on translation of self-sustaining foreign operations	1.0	-	1.0
Other comprehensive income	**257.0**	**15.0**	**242.0**
Comprehensive income	**$ 650.5**	**$ 165.4**	**$ 485.1**

	Nine Months Ended September 30, 2007		
	Before Income Taxes	**Income Taxes**	**Net of Income Taxes**
Net income	**$ 1,077.8**	**$ 351.0**	**$ 726.8**
Other comprehensive income			
Net increase in unrealized gains on available-for-sale securities[1]	844.7	57.4	787.3
Net gains on derivatives designated as cash flow hedges[2]	13.9	4.6	9.3
Reclassification to income of gains on cash flow hedges[2]	(39.8)	(13.1)	(26.7)
	5.9	-	5.9

Unrealized foreign exchange gains on translation of self-sustaining foreign operations			
Other comprehensive income	**824.7**	**48.9**	**775.8**
Comprehensive income	**$ 1,902.5**	**$ 399.9**	**$ 1,502.6**

(1) Available-for-sale securities are comprised of shares in Israel Chemicals Ltd., Sinofert Holdings Limited and other short-term investments

(2) Natural gas derivative instruments

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Notes to the Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2007
(in millions of US dollars except share and per-share 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 19. The accounting policies used in preparing these interim condensed consolidated financial statements are consistent with those used in the preparation of the 2006 annual consolidated financial statements, except as described below.

These 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 2006 annual consolidated financial statements. In management s opinion, the unaudited 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.

Changes in Accounting Policies

Comprehensive Income, Equity, Financial Instruments and Hedges

Effective January 1, 2007, the company adopted Canadian Institute of Chartered Accountants (CICA) Section 1530, Comprehensive Income , Section 3251, Equity , Section 3855, Financial Instruments Recognition and Measurement and Section 3865, Hedges . These pronouncements increase harmonization with US GAAP. Under the standards:

Financial assets are classified as loans and receivables, held-to-maturity, held-for-trading or available-for-sale. Loans and receivables include all loans and receivables except debt securities and are accounted for at amortized cost. Held-to-maturity classification is restricted to fixed maturity instruments that the company intends and is able to hold to maturity and are accounted for at amortized cost. Held-for-trading instruments include all derivative financial instruments not included in a hedging relationship and any designated instruments and are recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets are classified as available-for-sale. These are recorded at fair value with unrealized gains and losses reported in a new category of the Consolidated Statements of Financial Position under shareholders equity called accumulated other comprehensive income (AOCI);

Financial liabilities are classified as either held-for-trading or other. Held-for-trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net income. Other instruments are accounted for at amortized cost with gains and losses reported in net income in the period that the liability is derecognized; and

Derivative instruments (derivatives) are classified as held-for-trading unless designated as hedging instruments. All derivatives are recorded at fair value on the Consolidated Statements of Financial Position. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives fair value are reported in net income and are substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in

cash flows, the effective portion of the changes in the derivatives fair value are initially recognized in other comprehensive income (OCI) and the ineffective portion is recorded in net income. Amounts temporarily recorded in AOCI will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

These standards have been applied prospectively; accordingly comparative amounts for prior periods have not been restated. The adoption of these standards resulted in the following adjustments as of January 1, 2007 in accordance with the transition provisions:

(1) Available-for-sale securities

The company s investments in Israel Chemicals Ltd. (ICL) and Sinofert Holdings Limited (Sinofert) have been classified as available-for-sale and recorded at fair value in the Consolidated Statements of Financial Position, resulting in an increase in investments of $887.8, an increase to AOCI of $789.6 and an increase in future income tax liability of $98.2;

(2) Deferred debt costs

Bond issue costs were reclassified from other assets to long-term debt and deferred swap gains were reclassified from other non-current liabilities to long-term debt, resulting in a reduction in other assets of $23.9, a reduction in other non-current liabilities of $6.6 and a reduction in long-term debt of $17.3;

(3) Natural gas derivatives

The company employs futures, swaps and option agreements to establish the cost of a portion of its natural gas requirements. These derivative instruments generally qualify for hedge accounting. Derivative instruments were recorded on the Consolidated Statements of Financial Position at fair value resulting in an increase in current portion of derivative instrument assets of $50.9, an increase in derivative instrument assets (non-current) of $69.4, an increase in future income tax liability of $45.6 and an increase in AOCI of $74.7;

Hedge ineffectiveness on these derivative instruments was recorded as a cumulative effect adjustment to opening retained earnings, net of tax, resulting in an increase in retained earnings of $0.2 and a decrease in AOCI of $0.2. The effect on basic and diluted earnings per share was not significant; and

Deferred realized hedging gains were reclassified from inventory to AOCI resulting in an increase in inventory of $8.0, an increase in future income tax liability of $3.1 and an increase in AOCI of $4.9.

Accounting Changes

In July 2006, the CICA revised Section 1506, Accounting Changes , which requires that: (1) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (2) changes in accounting policy are generally applied retrospectively; and (3) prior period errors are corrected retrospectively. Section 1506 is effective for fiscal years beginning on or after January 1, 2007. The implementation of this guidance did not have a material impact on the company s consolidated financial statements.

Stripping Costs Incurred in the Production Phase of a Mining Operation

In March 2006, the Emerging Issues Committee issued Abstract No. 160, Stripping Costs Incurred in the Production Phase of a Mining Operation (EIC-160). EIC-160 discusses the treatment of costs associated with the activity of removing overburden and other mine waste minerals in the production phase of a mining operation. It concludes that such stripping costs should be accounted for according to the benefit received by the entity and recorded as either a component of inventory or a betterment to the mineral property, depending on the benefit received. The implementation of EIC-160, effective January 1, 2007, resulted in a decrease in inventory of $21.1, a decrease in other assets of $7.4 and an increase in property, plant and equipment of $28.5. The opening balance of these costs at January 1, 2007 was $28.5, additions during the nine months ended September 30, 2007 were $18.4

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and amortization was $14.2 for a balance at September 30, 2007 of $32.7. Costs are amortized on a unit-of-production basis over the ore mined from the mineable acreage stripped.

Recent Accounting Pronouncements

Determining the Variability to be Considered in Applying the Variable Interest Entity Standards

In September 2006, the Emerging Issues Committee issued Abstract No. 163, Determining the Variability to be Considered in Applying AcG-15 (EIC-163). This guidance provides additional clarification on how to analyze and consolidate a variable interest entity (VIE). EIC-163 concludes that the by-design approach should be the method used to assess variability (that is created by risks the entity is designed to create and pass along to its interest holders) when applying the VIE standards. The by-design approach focuses on the substance of the risks created over the form of the relationship. The guidance may be applied to all entities (including newly created entities) with which an enterprise first becomes involved, and to all entities previously required to be analyzed under the VIE standards when a reconsideration event has occurred, effective January 1, 2007. The implementation of this guidance did not have a material impact on the company s consolidated financial statements.

Capital Disclosures

In December 2006, the CICA issued Section 1535, Capital Disclosures . This Section establishes standards for disclosing information about an entity s capital and how it is managed. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company s consolidated financial statements.

Financial Instruments

Effective January 1, 2007, the company adopted CICA Section 3861, Financial Instruments Disclosure and Presentation , which requires entities to provide disclosures in their financial statements that enable users to evaluate: (1) the significance of financial instruments for the entity s financial position and performance; and (2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The applicable disclosures required under this standard are included in Notes 5, 6 and 15.

In March 2007, the CICA issued Section 3862, Financial Instruments Disclosures , which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company s consolidated financial statements.

In March 2007, the CICA issued Section 3863, Financial Instruments Presentation to enhance financial statement users understanding of the significance of financial instruments to an entity s financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company s consolidated financial statements.

Inventories

In June 2007, the CICA issued Section 3031, Inventories , which replaces Section 3030 and harmonizes the Canadian standard related to inventories with International Financial Reporting Standards. This Section provides more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This

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Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and is not expected to have a material impact on the company s consolidated financial statements.

International Financial Reporting Standards

In May 2007, the CICA published an updated version of its Implementation Plan for Incorporating International Financial Reporting Standards (IFRS) into Canadian GAAP . This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. It is anticipated that the decision on the changeover date from current Canadian GAAP to IFRS will be made by March 31, 2008.

2. Other Short-term Investments

Other short-term investments consist of auction rate securities carried at $112.5 (face value $132.5) as of September 30, 2007, that have been classified as available-for-sale. In prior periods, auction rate securities were included with cash and cash equivalents. The company has not reclassified prior periods as the adjustments are not considered material.

3. Inventories

	September 30, 2007	December 31, 2006
Finished products	**$ 191.6**	$ 237.1
Intermediate products	**75.2**	98.5
Raw materials	**60.0**	62.4
Materials and supplies	**106.5**	103.3
	$ 433.3	$ 501.3

4. Investments

During July 2007, the company s ownership interest in Sinofert was diluted from 20 percent to approximately 19 percent due to issuance of shares of Sinofert.

Also during July 2007, the company purchased an additional 1,011,062 shares of Sociedad Quimica y Minera de Chile S.A. (SQM) for cash consideration of $16.8. The company s ownership interest in SQM remains at approximately 32 percent.

5. Financial Instruments and Risk Management

Accounting Policies

Financial Assets and Liabilities

The company classifies its financial assets in the following categories: held-to-maturity, held-for-trading, loans and receivables and available-for-sale. The company classifies its financial liabilities in the following categories: held-for-trading and other. Held-for-trading is the required designation for all derivative financial instruments not included in a hedging relationship. The company has not designated any other financial assets or liabilities as held-for-trading. Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available-for-sale financial assets primarily include financial assets that are quoted in an active market.

Regular way purchases and sales of financial assets are recognized on the trade date, the date on which the company commits to buy or sell the asset. Transaction costs related to financial assets or financial liabilities classified as other than held-for-trading will be added to the initial carrying value of the financial asset or financial liability. Where transaction costs relate to available-for-sale financial assets they will be charged to other comprehensive income immediately after capitalization, as available-for-sale assets are recorded at fair value.

Derivative Financial Instruments and Hedging

Derivative financial instruments are used by the company to manage its exposure to exchange rate, interest rate and commodity price fluctuations. The company recognizes all of its derivative instruments (whether designated in hedging relationships or not, or embedded within hybrid instruments) at fair value on the Consolidated Statements of Financial Position. Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments (except contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with our expected purchase, sale or usage requirements) are accounted for as financial instruments. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For strategies designated as fair value hedges, the effective portion of the change in the fair value of the derivative is offset in income against the change in fair value, attributed to the risk being hedged, of the underlying hedged asset, liability or firm commitment. For cash flow hedges, the effective portion of the change in the fair value of the derivative is accumulated in OCI until the variability in cash flows being hedged is recognized in earnings in future accounting periods. For both fair value and cash flow hedges, if a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Ineffective portions of fair value or cash flow hedges are recorded in earnings in the current period. The change in fair value of derivative instruments not designated as hedges are recorded in income in the current period. For transitional purposes, the company has elected to record embedded derivatives only for contracts entered into or substantively modified on or after January 1, 2003.

The company s policy is to not use derivative financial instruments for trading or speculative purposes, though it may choose not to designate a relationship that results in measurement at fair value as an accounting hedge. The company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking derivatives to specific assets and liabilities or to specific firm commitments or forecast transactions. The company also assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

A hedging relationship is terminated if the hedge ceases to be effective, if the underlying asset or liability being hedged is derecognized or if it is no longer probable that the anticipated transaction will occur and the derivative instrument is still outstanding, or if the derivative instrument is no longer designated as a hedging instrument. If a hedging relationship is terminated, the difference between the fair value and the accrued value of the hedging derivatives upon termination is deferred and recognized into earnings on the same basis as gains, losses, revenue and expenses of the previously hedged item are recognized.

The company enters into natural gas futures, swaps and option agreements to manage the cost of natural gas and generally designates them as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are effective at offsetting changes in the hedged item is reported as a component of AOCI and then is reclassified into cost of goods sold when the product containing the hedged item impacts earnings. Any hedge ineffectiveness is recorded in cost of goods sold in the current period.

The company periodically uses interest rate swaps as fair value hedges to manage the interest rate mix of its total debt portfolio and related overall cost of borrowing. Hedge accounting treatment for interest rate swaps results in interest expense on the related debt being reflected at hedged rates rather than original contractual interest rates.

The company enters into foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to Canadian dollar expenditures and expenditures denominated in currencies other than the

US or Canadian dollar. These contracts are not designated as hedging instruments for accounting purposes. Accordingly, they are marked-to-market and carried at fair value as assets or liabilities, as appropriate, with changes in fair value recognized through foreign exchange gain or loss in earnings.

Fair Value

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair values are designed to approximate amounts at which the financial instruments could be exchanged in a current transaction between willing parties. Futures contracts are exchange-traded and fair value is determined based on exchange prices. Swaps and option agreements are traded in the over-the-counter market and fair value is calculated based on a price that is converted to an exchange-equivalent price. Fair value for investments in equity securities and other short-term investments designated as available-for-sale is based on the closing bid price as of the balance sheet date. Where there is no active market, fair value is determined using valuation techniques such as recent arm s-length market transactions if available; reference to the current market value of a substantially similar instrument; discounted cash flow analysis; and pricing models. If possible, fair value is determined using a valuation technique that is commonly used by market participants to price the instrument and that has been demonstrated to provide reliable estimates of prices obtained in actual market transactions. If observable inputs are not available, such as a situation in which there is little, if any, market activity for the asset (or similar assets) at the measurement date, unobservable inputs are considered. The unobservable inputs used in the pricing model reflect the company s own expectations about the assumptions that market participants would use in pricing the asset in a current transaction (including assumptions about risk). Where fair value cannot be reliably estimated, assets are carried at cost. Fair value for the company s investments in other short-term investments, which represent debt securities designated as available-for-sale that are currently considered to be illiquid, is based on valuation techniques which reflect the company s own expectations about the assumptions that market participants would use in pricing the asset in a current transaction (including assumptions about risk) as of the balance sheet date with the unrealized loss recorded in AOCI.

Other Short-term Investments

Other short-term investments consist of AAA-rated auction rate securities with maturities extending through 2046. Interest rates are typically reset every 28 days through the sale of the securities in a dutch auction process; however, in the event of market illiquidity the interest rate is reset based on a spread to LIBOR. The investments are recorded at fair value in the Consolidated Statements of Financial Position, with unrealized gains and losses, net of related income taxes, recorded in AOCI. The cost of securities sold is based on the specific identification method. Realized gains and losses, including any other than temporary decline in value, on these debt securities are relieved from AOCI and recorded in net income.

Other short-term investments are classified as current assets since they are expected to be realizable within one year from the date of the Consolidated Statements of Financial Position.

Investments

Investments designated as available-for-sale include the company s investments in Sinofert and ICL. The fair value is recorded in the Consolidated Statements of Financial Position, with unrealized gains and losses, net of related income taxes, recorded in AOCI. The cost of securities sold is based on the specific identification method. Realized gains and losses on these equity securities are relieved from AOCI and recorded in other income.

Investments in which the company has significant influence over the investee are recorded using the equity method of accounting. The proportionate share of any net income or losses from investments accounted for using the equity method, and any gain or loss on disposal, are recorded in other income.

All investments are classified as long-term.

Supplemental Disclosures

Derivative financial instruments are contracts whose value is derived from a foreign exchange rate, interest rate or commodity index. The company uses derivative financial instruments, including foreign currency forward contracts, futures, swaps and option agreements, to manage foreign exchange, interest rate and commodity price risk.

The notional amounts of the company s derivative financial instruments described below represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. These notional amounts do not represent assets or liabilities and therefore are not reflected in the Consolidated Statements of Financial Position.

The company manages interest rate exposures by using a diversified portfolio of fixed and floating rate instruments. Its sensitivity to fluctuations in interest rates is substantially limited to certain of its cash and cash equivalents, short-term debt and long-term debt. Generally, cash and cash equivalents and short-term debt are exposed to cash flow risk as these are typically floating rate instruments and long-term debt is subject to price risk as these borrowings are generally at fixed rates. The company has terminated interest rate swaps in prior periods. Hedge accounting on all terminated interest rate swap contracts was discontinued prospectively. The associated gains are being amortized over the remaining term of the related debt as a reduction to interest expense. No interest rate swap contracts were outstanding as at September 30, 2007.

The company uses derivative financial instruments to hedge the future cost of the anticipated natural gas purchases for its US nitrogen and phosphate plants. Under these arrangements, the company receives or makes payments based on the differential between a specified price and the actual spot price of natural gas. The company has certain available lines of credit that are used to reduce cash margin requirements to maintain the derivatives. At September 30, 2007, the company had collected cash margin requirements of $25.0, which were included in accounts payable and accrued charges.

As at September 30, 2007, the company had derivatives qualifying for hedge accounting in the form of futures and swaps which represented a notional amount of 74.5 million MMBtu with maturities in 2007 through 2017. For the three and nine months ended September 30, 2007, respectively, gains of $8.9 and $39.0 were recognized in cost of goods sold, excluding ineffectiveness resulting in a loss of $0.3 for the three months ended September 30, 2007 and a gain of $0.9 for the nine months ended September 30, 2007. Of the deferred gains and losses at September 30, 2007, approximately $29.1 of net gains will be reclassified to cost of goods sold within the next 12 months. Current portion of derivative instrument assets and liabilities represents unrealized gains and losses with settlement dates in the next 12 months.

As at September 30, 2007, the company had entered into foreign currency forward contracts to sell US dollars and receive Canadian dollars in the notional amount of $175.0 at an average exchange rate of 1.0609 per US dollar. The company had also entered into forward contracts to sell US dollars and receive euros in the notional amount of $6.3 at an average exchange rate of 1.3906 per euro, and to sell Canadian dollars and receive euros in the notional amount of Cdn $0.4 at an average exchange rate of 1.4067 per euro. Maturity dates for substantially all forward contracts are within 2007; a small portion mature in 2008 and 2009. The company recognized a gain of $9.1 for the nine months ended September 30, 2007, including a gain of $8.9 for the three months ended September 30, 2007, in foreign exchange (gain) loss related to foreign currency forward contracts classified as held-for-trading. The fair value of these contracts at September 30, 2007, represented a net unrealized gain of $10.5.

The company is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. It anticipates, however, that counterparties will be able to fully satisfy their obligations under the contracts. The major concentration of credit risk arises from the company s receivables. A majority of its sales are in North America and are primarily for use in the agricultural industry. The company seeks to manage the credit risk relating to these sales through a credit management program. Internationally, the company s products are sold primarily through two export associations whose accounts receivable are substantially insured or secured by letters of credit. At September 30, 2007, $95.2 of accounts receivable was due from Canpotex Limited (Canpotex). In addition, the company is exposed to liquidity and credit risk on its other short-term investments due to the current lack of

liquidity for the company s investments in auction rate securities that has existed since August 2007; therefore the company is holding such securities longer than the approximately 28 days that was originally anticipated. The company s auction rate securities consist of collateralized loan obligations with a face value of $48.3 and collateralized debt obligations with a face value of $84.2. The unrealized decrease in the fair value of other short-term investments is included in AOCI. While the company is uncertain as to when the liquidity for such securities will improve, it currently expects liquidity within a year.

Fair Value

Due to their short-term nature, the fair value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable and accrued charges is assumed to approximate carrying value. The effective interest rate on the company s other short-term investments at September 30, 2007 was 7.13%. The effective interest rate on the company s short-term debt at September 30, 2007 was 5.48%. The fair value of the company s gas hedging contracts at September 30, 2007 approximated $102.0 (including liabilities of $0.8 recorded in accounts payable and accrued charges and $1.0 recorded in other non-current liabilities and deferred credits) using discount rates between 4.58% and 5.23% depending on the settlement date. The fair value of the company s notes payable at September 30, 2007 approximated $1,340.7 and reflects a current yield valuation based on observed market prices. The current yield on the notes payable ranges from 5.50% to 6.56%. The fair value of the company s other long-term debt instruments approximated carrying value.

6. Long-term Debt

In February 2007, the company entered into a back-to-back loan arrangement involving certain financial assets and financial liabilities. The company has presented $195.0 of financial assets and financial liabilities on a net basis because a legal right to set-off exists, and it intends to settle with the same party on a net basis. The company incurred $3.2 of debt issue costs as a result of this arrangement which were included as a reduction to long-term debt and are being amortized using the effective interest rate method over the term of the related liability.

Long-term debt is comprised of the following:

	September 30 2007	Effective Interest Rate[1]	December 31 2006
Notes Payable			
7.125% notes payable June 15, 2007	**$ -**	-	$ 400.0
7.750% notes payable May 31, 2011	**600.0**	7.65%	600.0
4.875% notes payable March 1, 2013	**250.0**	5.08%	250.0
5.875% notes payable December 1, 2036	**500.0**	6.11%	500.0
Other	**7.1**	7.60%	7.5
	1,357.1		1,757.5
Less: Net unamortized debt costs	**(25.0)**		-
Add: Unamortized swap gains	**5.6**		-
	1,337.7		1,757.5
Less: Current maturities	**(0.2)**		(400.4)
Add: Current portion of amortization[2]	**0.4**		-

	$ 1,337.9	$ 1,357.1

(1) The effective interest rate by instrument includes the impact of swap gains and debt costs.

(2) The current portion of amortization of debt costs is included in Prepaid expenses and other current assets.

7. Share Capital

On May 2, 2007, the Board of Directors of PCS approved a three-for-one split of the company s outstanding common shares. The stock split was effected in the form of a stock dividend of two additional common shares for each share owned by shareholders of record at the close of business on May 22, 2007. All equity-based benefit plans have been adjusted to reflect the stock split. In this Quarterly Report on Form 10-Q, all share and per-share data have been adjusted to reflect the stock split. Information on an adjusted basis, showing the impact of this split for the first

quarter of 2007, and by quarter and total year for 2006 and 2005 is presented in the table below. Comparative results for the second and third quarters of 2007 are also included.

Quarterly Data (Post Split Basis)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Basic net income per share					
2007	$ 0.63	$ 0.91	$ 0.77		
2006	$ 0.40	$ 0.56	$ 0.47	$ 0.59	$ 2.03
2005	$ 0.39	$ 0.50	$ 0.40	$ 0.37	$ 1.67
Diluted net income per share					
2007	$ 0.62	$ 0.88	$ 0.75		
2006	$ 0.40	$ 0.55	$ 0.46	$ 0.58	$ 1.98
2005	$ 0.38	$ 0.49	$ 0.39	$ 0.36	$ 1.63

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.

8. Accumulated Other Comprehensive Income

The balances related to each component of accumulated other comprehensive income, net of related income taxes, are as follows:

	Net unrealized holding gains on available-for-sale securities	Net unrealized gains on derivatives designated as cash flow hedges	Unrealized foreign exchange gains on self-sustaining foreign operations	Total Accumulated Other Comprehensive Income
Cumulative effect adjustment at January 1, 2007 (Note 1)	$ 789.6	$ 79.4	$ -	$ 869.0
Increase (decrease) for the nine months ended September 30, 2007	787.3	(17.4)	5.9	775.8
Accumulated other comprehensive income, September 30, 2007	**$ 1,576.9**	**$ 62.0**	**$ 5.9**	**1,644.8**
Retained Earnings, September 30, 2007				1,934.4

Accumulated other comprehensive income and retained earnings, September 30, 2007	**$**	**3,579.2**

9. Income Taxes

The company s consolidated reported income tax rate for the three months ended September 30, 2007 was approximately 38 percent (2006 27 percent) and for the nine months ended September 30, 2007 was approximately 33 percent (2006 18 percent). For the three and nine months ended September 30, 2007, the consolidated effective income tax rate was 33 percent (2006 30 percent). Items to note include the following:

A scheduled 2-percentage point reduction in the Canadian federal income tax rate applicable to resource companies, effective at the beginning of 2007, was more than offset by a higher percentage of consolidated income earned in higher-tax jurisdictions during the three and nine months ended September 30, 2007, compared to the same periods in 2006. As a result of the increasing proportion of consolidated income earned in higher-tax jurisdictions, during the third quarter of 2007, it was determined that the consolidated effective rate for the year had increased from 30 percent to 33 percent. The reported income tax rate for the third quarter of 2007 is higher than the effective rate as the impact of this change on prior periods, as applicable, was reflected during the quarter.

During the second quarter of 2007, the Government of Canada enacted a reduction of the federal corporate income tax rate to 18.5 percent by 2011. This reduction was in addition to changes enacted by the Government of Canada in the second quarter of 2006 to reduce the federal corporate income tax rate from

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23 percent in 2006 to 19 percent by 2010 and reduce the federal corporate surtax from 1.12 percent to nil in 2008. These changes reduced the company s future income tax liability by $4.7 in the second quarter of 2007 and $22.9 in the second quarter of 2006.

In addition to the federal changes noted above, the Province of Saskatchewan enacted changes to the corporate income tax during the quarter ended June 30, 2006, reducing the rate from 17 percent to 12 percent by 2009. These changes resulted in a $21.9 reduction in the company s future income tax liability in the second quarter of 2006.

Income tax refunds totaling $22.4 for the 1999 and 2001-2004 taxation years were recorded during the nine months ended September 30, 2006, $6.6 of which was recognized during the third quarter of 2006. The refunds related to a Canadian appeal court decision (pertaining to a uranium producer) which affirmed the deductibility of the Saskatchewan capital tax resource surcharge.

10. Net Income Per Share

Basic net income per share for the quarter is calculated on the weighted average shares issued and outstanding for the three months ended September 30, 2007 of 315,962,000 (2006 311,721,000). Basic net income per share for the nine months ended September 30, 2007 is calculated based on the weighted average shares issued and outstanding of 315,444,000 (2006 311,344,000).

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 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. The weighted average number of shares outstanding for the diluted net income per share calculation for the three months ended September 30, 2007 was 324,741,000 (2006 318,134,000) and for the nine months ended September 30, 2007 was 323,580,000 (2006 317,801,000).

11. Segment Information

The company has three reportable business segments: potash, nitrogen and phosphate. 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, 2007				
	Potash	**Nitrogen**	**Phosphate**	**All Others**	**Consolidated**
Sales	**$ 427.4**	**$ 436.0**	**$ 431.6**	**$ -**	**$ 1,295.0**
Freight	**38.3**	**15.4**	**26.9**	**-**	**80.6**
Transportation and distribution	**8.7**	**12.9**	**9.4**	**-**	**31.0**
Net sales third party	**380.4**	**407.7**	**395.3**	**-**	
Cost of goods sold	**159.1**	**283.8**	**265.4**	**-**	**708.3**

Gross margin	**221.3**	**123.9**	**129.9**	**-**	**475.1**
Depreciation and amortization	**15.5**	**22.2**	**29.3**	**2.5**	**69.5**
Inter-segment sales	**-**	**25.0**	**-**	**-**	**-**

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	Three Months Ended September 30, 2006				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales	$ 334.3	$ 292.6	$ 326.6	$ -	$ 953.5
Freight	33.6	9.4	22.6	-	65.6
Transportation and distribution	10.5	13.4	13.7	-	37.6
Net sales third party	290.2	269.8	290.3	-	
Cost of goods sold	136.6	207.4	260.5	-	604.5
Gross margin	153.6	62.4	29.8	-	245.8
Depreciation and amortization	16.4	19.5	23.3	3.0	62.2
Inter-segment sales	0.2	25.4	0.9	-	-

	Nine Months Ended September 30, 2007				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales	**$ 1,318.1**	**$ 1,336.8**	**$ 1,147.9**	**$ -**	**$ 3,802.8**
Freight	**135.0**	**40.0**	**79.8**	**-**	**254.8**
Transportation and distribution	**30.9**	**39.1**	**24.6**	**-**	**94.6**
Net sales third party	**1,152.2**	**1,257.7**	**1,043.5**	**-**	
Cost of goods sold	**496.3**	**858.3**	**752.6**	**-**	**2,107.2**
Gross margin	**655.9**	**399.4**	**290.9**	**-**	**1,346.2**
Depreciation and amortization	**54.4**	**65.5**	**88.6**	**7.8**	**216.3**
Inter-segment sales	**-**	**84.1**	**1.9**	**-**	**-**

	Nine Months Ended September 30, 2006				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales	$ 856.5	$ 966.9	$ 920.4	$ -	$ 2,743.8
Freight	91.4	28.1	63.3	-	182.8
Transportation and distribution	28.9	40.3	35.4	-	104.6
Net sales third party	736.2	898.5	821.7	-	
Cost of goods sold	359.0	665.0	729.7	-	1,753.7
Gross margin	377.2	233.5	92.0	-	702.7
Depreciation and amortization	43.2	57.8	70.5	9.9	181.4
Inter-segment sales	5.0	85.8	5.5	-	-

12. Stock-Based Compensation

On May 3, 2007, the company s shareholders approved the 2007 Performance Option Plan under which the company may, after February 20, 2007 and before January 1, 2008, issue options to acquire up to 3,000,000 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 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, 2007, options to purchase a total of 1,730,550 common shares have been granted under the plan. The weighted average fair value of options granted was $22.68 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	29%
Risk-free interest rate	4.48%
Expected life of options	6.4 years

13. Pension and Other Post-Retirement Expenses

Defined Benefit Pension Plans	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Service cost	**$ 3.9**	$ 3.6	**$ 11.5**	$ 10.8
Interest cost	**9.1**	8.5	**27.3**	25.3
Expected return on plan assets	**(10.7)**	(9.7)	**(32.1)**	(28.9)
Net amortization and change in valuation allowance	**3.2**	3.5	**9.6**	10.4
Net expense	**$ 5.5**	$ 5.9	**$ 16.3**	$ 17.6

Other Post-Retirement Plans	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Service cost	**$ 1.5**	$ 1.1	**$ 4.4**	$ 3.5
Interest cost	**3.6**	3.2	**10.6**	9.3
Net amortization	**0.1**	(0.1)	**0.4**	(0.3)
Net expense	**$ 5.2**	$ 4.2	**$ 15.4**	$ 12.5

For the three months ended September 30, 2007, the company contributed $39.4 to its defined benefit pension plans, $0.4 to its defined contribution pension plans and $2.0 to its other post-retirement plans. Contributions for the nine months ended September 30, 2007 were $56.2 to its defined benefit pension plans, $13.2 to its defined contribution pension plans and $6.2 to its other post-retirement plans. Total 2007 contributions to these plans are expected to approximate $124.3 for the year ended December 31, 2007.

14. Other Income

	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006

Share of earnings of equity investees	**$ 15.4**	$ 10.6	**$ 58.2**	$ 39.0
Dividend income	**8.8**	9.0	**47.5**	21.1
Other	**4.9**	1.5	**5.6**	12.2
	$ 29.1	$ 21.1	**$ 111.3**	$ 72.3

15. Interest Expense

	Three Months Ended September 30		**Nine Months EndedSeptember 30**	
	2007	**2006**	**2007**	**2006**
Interest expense on				
Short-term debt	**$ 1.9**	$ 11.9	**$ 7.7**	$ 28.5
Long-term debt	**24.4**	23.7	**86.3**	70.7
Interest capitalized to property, plant and equipment	**(5.7)**	(4.0)	**(14.5)**	(13.3)
Interest income	**(7.9)**	(6.4)	**(20.5)**	(16.8)
	$ 12.7	$ 25.2	**$ 59.0**	$ 69.1

16. 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.

17. Contingencies

Canpotex

PotashCorp 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. There were no such operating losses or other liabilities during the first nine months of 2007 or 2006.

Mining Risk

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

Investment in Arab Potash Company Ltd. (APC)

The company is party to a shareholders agreement with Jordan Investment Company (JIC) with respect to its investment in APC. The terms of the shareholders agreement provide that, from October 17, 2006 to October 16, 2009, JIC may seek to exercise a put option (the Put) to require the company to purchase JIC s remaining common shares in APC. If the Put were exercised, the company s purchase price would be calculated in accordance with a specified formula based, in part, on earnings of APC. The amount, if any, which the company may have to pay for JIC s remaining common shares if there were to be a valid exercise of the Put would be determinable at the time JIC provides appropriate notice to the company pursuant to the terms of the agreement.

Legal and Other Matters

In 1994, PCS Joint Venture Ltd. (PCS Joint Venture) responded to information requests from the US Environmental Protection Agency (USEPA) and the Georgia Department of Natural Resources, Environmental Protection Division (GEPD) regarding conditions at its Moultrie, Georgia location. PCS Joint Venture believes that the lead-contaminated soil and groundwater found at the site are attributable to former operations at the site prior to PCS Joint Venture s ownership. In 2005, the GEPD approved a Corrective Action Plan to address environmental conditions at this location. As anticipated, the approved remedy requires some excavation and off-site disposal of impacted soil and installation of a groundwater recovery and treatment system. PCS Joint Venture began the remediation in November 2005 and completed soil excavation activities in March 2006, and it is proceeding consistent with the projected schedule and budget.

In 1998, the company, along with other parties, was notified by the USEPA of potential liability under the US federal 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 certain adjoining property. In 1999, PCS Joint Venture signed an Administrative Order and Consent with the USEPA pursuant to which PCS Joint Venture agreed to conduct a Remedial Investigation and Feasibility Study (RI/FS) of these conditions. PCS Joint Venture and another party have shared the costs of the RI/FS, which is now complete. A Record of Decision (ROD) based upon the RI/FS was issued on September 27, 2007. The ROD 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. Soil excavation activities are expected to begin by the end of 2008. The USEPA has issued letters to PCS and five other alleged potentially responsible parties and negotiations are underway regarding the appropriate share of the cost of the remedy that should be borne by each party. Although PCS Joint Venture sold the Lakeland property in July 2006, it has retained the above-described remediation responsibilities and has indemnified the third-party purchaser for the costs of remediation and certain related claims.

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 $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. In the third quarter of 2007, the Court issued its decision for the first phase of the case in which it determined that PCS Nitrogen is the successor to a former owner of the site and may be liable to Ashley II of Charleston, L.L.C. for its environmental response costs at the site. PCS Nitrogen has also filed third-party complaints in the case against owners and operators that should be responsible parties with respect to the site. PCS Nitrogen is going to pursue these third-party complaints in the second phase of the case during which the Court will enter a final decision regarding the allocation and amount of any such liability. PCS Nitrogen denies that it is a potentially responsible party and is vigorously defending its interests in these actions.

PCS Phosphate, along with several other entities has received notice from parties to an Administrative Settlement Agreement (Settling Parties) with USEPA of alleged contribution liability under CERCLA for costs incurred and to be incurred addressing PCB soil contamination at the Ward Superfund Site in Raleigh, North Carolina (Site). PCS Phosphate has agreed to participate, on a non joint and several basis, with the Settling Parties in the performance of the removal action and the payment of other costs associated with the Site, including reimbursement of USEPA s past costs. The cost of performing the removal at the Site is estimated at $20.0. The removal activities commenced at the Site in August 2007. We anticipate recovering some portion of our expenditures in this matter from other liable parties. USEPA is evaluating response actions for PCB impacted sediments downstream of the Site but has not issued a final remedy for those sediments.

The USEPA announced an initiative to evaluate implementation within the phosphate industry of a particular exemption for mineral processing wastes under the hazardous waste program. In connection with this industry-wide initiative, the USEPA conducted hazardous waste compliance evaluation inspections at numerous phosphate operations, including the company s plants in Aurora, North Carolina; Geismar, Louisiana; and White Springs, Florida. In September 2005 and December 2005, respectively, the USEPA notified the company of various alleged violations of the US Resource Conservation and Recovery Act at its Aurora and White Springs plants. The company and other industry members have met with representatives of the US Department of Justice, the USEPA and various state environmental agencies regarding potential resolutions of these matters. During these meetings, the company was informed that the USEPA also believes the Geismar plant is in violation of these requirements. 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 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.

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 management s belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on the company s 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. Some of

these facilities are being dismantled which includes the appropriate abatement and disposal of asbestos. Certain other shutdown-related costs may be incurred. Such costs would not be 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 were incurred.

Certain of the company s facilities have asbestos-containing materials which the company will be obligated to remove and dispose should the asbestos become friable (i.e., readily crumbled or powdered) or should the property be demolished. As of September 30, 2007, the company has not recognized a conditional asset retirement obligation in its interim condensed consolidated financial statements for certain locations where asbestos exists, because it does not have sufficient information to estimate the fair value of the obligation. As a result of the longevity of these facilities (due in part to maintenance procedures) and the fact that the company does not have plans for major changes that would require the removal of this asbestos, the timing of the removal is indeterminable and the time over which the company may settle the obligation cannot be reasonably estimated as at September 30, 2007. The company would recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value.

18. 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 condensed consolidated financial statements with respect to these 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, 2007, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $414.4. As many of these guarantees will not 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, 2007, 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, which are reflected in other long-term debt, and cash margins held of approximately $25.0 to maintain derivatives, which are included in accounts payable and accrued charges.

The company has guaranteed the gypsum stack capping, closure and post-closure obligations of White Springs Agricultural Chemicals, Inc. and PCS Nitrogen in Florida and Louisiana, respectively, pursuant to the financial assurance regulatory requirements in those states. The company has met its financial assurance responsibilities as of September 30, 2007. Costs associated with the retirement of long-lived tangible assets have been accrued in the accompanying interim condensed consolidated financial statements to the extent that a legal liability to retire such

assets exists.

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 approval of these plans by the responsible provincial minister. The Minister of Environment for

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Saskatchewan provisionally approved the plans in July 2000. In July 2001, a Cdn $2.0 irrevocable letter of credit was posted. We submitted a revised plan when it was due in 2006 and are awaiting a response from the Province. The company is unable to predict, at the time, the outcome of the ongoing review of the plans or the timing of implementation and structure of any financial assurance requirements.

During the period, the company entered into various other commercial letters of credit in the normal course of operations.

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

19. Reconciliation of Canadian and United States Generally Accepted Accounting Principles

Canadian GAAP varies in certain significant respects from US GAAP. As required by the US Securities and Exchange Commission, the effect of these principal differences on the company s interim condensed consolidated financial statements is described and quantified below. For a complete discussion of US and Canadian GAAP differences, see Note 32 to the consolidated financial statements for the year ended December 31, 2006 in the company s 2006 financial review annual report.

(a) Long-term investments: Prior to January 1, 2007, the company s investments in ICL and Sinofert were stated at cost under Canadian GAAP. US GAAP requires that these investments be classified as available-for-sale and be stated at market value with the difference between market value and cost reported as a component of other comprehensive income. As described in Note 1, Canadian GAAP related to this matter was amended to be consistent with US GAAP on a prospective basis effective January 1, 2007.

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.

(b) 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 was determined based on discounted expected future net cash flows.

(c) 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.

(d) 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.

(e) Pre-operating costs: Operating costs incurred during the start-up phase of new projects are deferred under Canadian GAAP until commercial production levels are reached, at which time they are amortized over the estimated life of the project. US GAAP requires that these costs be expensed as incurred. As at September 30, 2007 and 2006, the start-up costs deferred for Canadian GAAP were not material.

(f) Pension and other post-retirement benefits: 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.

In addition, 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.

(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) Derivative instruments and hedging activities: Prior to January 1, 2007 under Canadian GAAP, the company s derivatives used for non-trading purposes that did not qualify for hedge accounting were carried at fair value on the Consolidated Statements of Financial Position, with changes in fair value reflected in earnings. Derivatives embedded within instruments were generally not separately accounted for except for those related to equity-linked deposit contracts, which are not applicable to the company. Gains and losses on derivative instruments held within an effective hedge relationship were recognized in earnings on the same basis and in the same period as the underlying hedged items. There was no difference in accounting between Canadian and US GAAP in respect of derivatives held by the company that did not qualify for hedge accounting. Unlike Canadian GAAP, however, the company recognized all of its derivative instruments (whether designated in hedging relationships or not, or embedded within hybrid instruments) at fair value on the Consolidated Statements of Financial Position for US GAAP purposes. Under US GAAP, the accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depended on whether it has been designated and qualified as part of a hedging relationship. For strategies designated as fair value hedges, the effective portion of the change in the fair value of the derivative was offset in income against the change in fair value, attributed to the risk being hedged, of the underlying hedged asset, liability or firm commitment. For cash flow hedges, the effective portion of the changes in the fair value of the derivative was accumulated in OCI until the variability in cash flows being hedged is recognized in earnings in future accounting periods. For both fair value and cash flow hedges, if a derivative instrument was designated as a hedge and met the criteria for hedge effectiveness, earnings offset was available, but only to the extent that the hedge was effective. Ineffective portions of fair value or cash flow hedges are recorded in earnings in the current period.

As described in Note 1, Canadian GAAP related to this matter was amended to be consistent with US GAAP on a prospective basis effective January 1, 2007.

(i) Comprehensive income: Comprehensive income is recognized and measured under US GAAP pursuant to SFAS No. 130, Reporting Comprehensive Income . This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of two components, net income and OCI. OCI refers to amounts that are recorded as an element of shareholders equity but are excluded from net income because these transactions or events were attributed to changes from non-owner sources. As described in Note 1, Canadian standards relating to comprehensive income are effective January 1, 2007 on a prospective basis.

(j) 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. Effective January 1, 2006, US GAAP requires that these liability awards be measured at fair value at each reporting period. As at September 30, 2007, the difference between Canadian and US GAAP was not significant. 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. For options granted under the PotashCorp 2006 Performance Option Plan, the service period commenced January 1, 2006 under Canadian GAAP and May 4, 2006

under US GAAP and for options granted under the PotashCorp 2007 Performance Option Plan, the service period commenced January 1, 2007 under Canadian GAAP and May 3, 2007 under US GAAP. This difference impacts the stock-based compensation cost recorded and may impact diluted earnings per share.