POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
August 05, 2011

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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 June 30, 2011

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 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 (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 July 31, 2011, Potash Corporation of Saskatchewan Inc. had 855,851,141 Common Shares outstanding.

Part I. Financial Information

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Item 1. Financial Statements

Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Financial Position
(in millions of US dollars)
(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 408	$ 412
Receivables	1,268	1,059
Inventories (Note 2)	597	570
Prepaid expenses and other current assets	43	54
	2,316	2,095
Non-current assets		
Property, plant and equipment	8,909	8,141
Investments in equity-accounted investees	1,100	1,051
Available-for-sale investments	3,474	3,842
Other assets	304	303
Intangible assets	114	115
Total Assets	$ 16,217	$ 15,547
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt (Note 3)	$ 1,117	$ 1,871
Payables and accrued charges	1,291	1,198
Current portion of derivative instrument liabilities	54	75
	2,462	3,144
Non-current liabilities		
Long-term debt (Note 3)	3,704	3,707
Derivative instrument liabilities	184	204
Deferred income tax liabilities	901	737
Accrued pension and other post-retirement benefits	483	468
Asset retirement obligations and accrued environmental costs	520	455
Other non-current liabilities and deferred credits	108	147
Total Liabilities	8,362	8,862
Shareholders Equity		
Share capital (Note 4)	1,455	1,431

Contributed surplus	342	308
Accumulated other comprehensive income	2,054	2,394
Retained earnings	4,004	2,552
Total Shareholders Equity	7,855	6,685
Total Liabilities and Shareholders Equity	$ 16,217	$ 15,547

Contingencies (Note 10)

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Income
(in millions of US dollars except per-share amounts)
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Sales (Note 5)	$ 2,325	$ 1,437	$ 4,529	$ 3,151
Freight, transportation and distribution	(132)	(99)	(281)	(254)
Cost of goods sold	(1,025)	(753)	(1,984)	(1,583)
Gross Margin	1,168	585	2,264	1,314
Selling and administrative expenses	(55)	(33)	(130)	(93)
Provincial mining and other taxes	(60)	(17)	(94)	(40)
Share of earnings of equity-accounted investees	66	45	117	71
Dividend income	53	114	53	114
Other income (expenses)	3	(15)	(10)	(21)
Operating Income	1,175	679	2,200	1,345
Finance Costs	(38)	(34)	(88)	(65)
Income Before Income Taxes	1,137	645	2,112	1,280
Income Taxes (Note 7)	(297)	(165)	(540)	(356)
Net Income	$ 840	$ 480	$ 1,572	$ 924
Net Income Attributable to Common Shareholders	$ 840	$ 480	$ 1,572	$ 924
Net Income per Share (Note 8)				
Basic	$ 0.98	$ 0.54	$ 1.84	$ 1.04
Diluted	$ 0.96	$ 0.53	$ 1.79	$ 1.01
Dividends per Share	$ 0.07	$ 0.03	$ 0.14	$ 0.07

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.

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

	Three Months Ended June 30		Six Months Ended June 30	
(Net of related income taxes)	**2011**	**2010**	**2011**	**2010**
Net Income	$ 840	$ 480	$ 1,572	$ 924
Other comprehensive loss				
Net decrease in unrealized gains on available-for-sale investments(1)	(97)	(848)	(368)	(722)
Net losses on derivatives designated as cash flow hedges(2)	(13)	(11)		(64)
Reclassification to income of net losses on cash flow hedges(3)	14	15	28	24
Other	2	(3)		(4)
Other Comprehensive Loss	(94)	(847)	(340)	(766)
Comprehensive Income (Loss)	$ 746	$ (367)	$ 1,232	$ 158
Comprehensive Income (Loss) Attributable to Common Shareholders	$ 746	$ (367)	$ 1,232	$ 158

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

(2) Cash flow hedges are comprised of natural gas derivative instruments, and are net of income taxes of $(8) (2010 $(7)) for the three months ended June 30, 2011 and $NIL (2010 $(39)) for the six months ended June 30, 2011.

(3) Net of income taxes of $8 (2010 $8) for the three months ended June 30, 2011 and $16 (2010 $14) for the six months ended June 30, 2011.

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Changes in Equity
(in millions of US dollars)
(unaudited)

	Equity Attributable to Common Shareholders									
			Accumulated Other Comprehensive Income							
	Share Capital	**Contributed Surplus**	Unrealized gains on available-for-sale investments	Net unrealized losses on derivatives designated as cash flow hedges	Actuarial gains (losses) on defined benefit plans	Other	**Total Accumulated Other Comprehensive Income**	**Retained Earnings**	**Total Equity**
Balance January 1, 2011	$ 1,431	$ 308	$ 2,563	$ (177)	$ (1)	$ 8	$ 2,394	$ 2,552	$ 6,685
Net income								1,572	1,572
Other comprehensive (loss) income			(368)	28			(340)		(340)
Effect of share-based compensation		34							34
Dividends declared								(120)	(120)
Issuance of common shares	24								24
Balance June 30, 2011	$ 1,455	$ 342	$ 2,195	$ (149)	$ (1)	$ 8	$ 2,054	$ 4,004	$ 7,855

(1) Any amounts incurred during a period are cleared out to retained earnings at each period end. Therefore, no balance exists in the reserve at beginning or end of period.

Equity Attributable to Common Shareholders				
Accumulated Other Comprehensive Income				
	Net unrealized losses	Actuarial		
Unrealized	on	gains		**Total**
gains on	derivatives			**Accumulated**

	Share Capital	Contributed Surplus	available-for-sale investments	(losses) on designated as cash flow hedges	defined benefit plans	Other	Other Comprehensive Income	Retained Earnings	Total Equity
Balance January 1, 2010	$ 1,430	$ 273	$ 1,900	$ (111)	$ (1)	$ 9	$ 1,798	$ 2,804	$ 6,305
Net income								924	924
Other comprehensive loss			(722)	(40)		(4)	(766)		(766)
Effect of share-based compensation		(21)							(21)
Dividends declared								(59)	(59)
Issuance of common shares	19								19
Balance June 30, 2010	$ 1,449	$ 252	$ 1,178	$ (151)	$ (1)	$ 5	$ 1,032	$ 3,669	$ 6,402

[1] Any amounts incurred during a period are cleared out to retained earnings at each period end. Therefore, no balance exists in the reserve at beginning or end of period.

(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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Operating Activities				
Net income	$ 840	$ 480	$ 1,572	$ 924
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	128	109	252	219
Share-based compensation	5	4	19	19
Realized excess tax benefit related to share-based compensation	11	1	23	8
Provision for deferred income tax	78	17	153	75
Undistributed earnings of equity-accounted investees	1	(2)	(50)	(28)
Asset retirement obligations and accrued environmental costs	15	83	18	78
Other	(8)	48	(18)	78
Subtotal of adjustments	230	260	397	449
Changes in non-cash operating working capital				
Receivables	24	296	(189)	390
Inventories	6	(72)	(21)	(30)
Prepaid expenses and other current assets	12	(17)	12	(11)
Payables and accrued charges	(48)	49	(17)	85
Subtotal of changes in non-cash operating working capital	(6)	256	(215)	434
Cash provided by operating activities	1,064	996	1,754	1,807
Investing Activities				
Additions to property, plant and equipment	(492)	(498)	(933)	(955)
Purchase of long-term investments				(422)
Other assets and intangible assets	(3)	(37)	(3)	(71)
Cash used in investing activities	(495)	(535)	(936)	(1,448)
Cash before financing activities	569	461	818	359
Financing Activities				
Proceeds from long-term debt obligations				400

Repayment of long-term debt obligations		(600)		(250)		(600)		(400)
Proceeds from (repayments of) short-term debt obligations		94		(118)		(159)		(333)
Dividends		(60)		(30)		(88)		(59)
Issuance of common shares		7		5		25		15
Cash used in financing activities		(559)		(393)		(822)		(377)
Increase (Decrease) in Cash and Cash Equivalents		10		68		(4)		(18)
Cash and Cash Equivalents, Beginning of Period		398		299		412		385
Cash and Cash Equivalents, End of Period	$	408	$	367	$	408	$	367
Cash and cash equivalents comprised of:								
Cash	$	56	$	55	$	56	$	55
Short-term investments		352		312		352		312
	$	408	$	367	$	408	$	367
Supplemental cash flow disclosure								
Interest paid	$	92	$	63	$	133	$	105
Income taxes paid (recovered)	$	149	$	(162)	$	324	$	(140)

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Notes to the Condensed Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2011
(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 previously prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011, with early adoption permitted. Accordingly, these unaudited interim condensed consolidated financial statements are based on IFRS, as issued by the International Accounting Standards Board (IASB). In these unaudited interim condensed consolidated financial statements, the term Canadian GAAP refers to Canadian GAAP before the company s adoption of IFRS.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting , and IFRS 1, First-Time Adoption of International Financial Reporting Standards (IFRS 1). Subject to certain transition elections disclosed in Note 13 to the financial statements included in Part I Item 1 of the company s 2011 First Quarter Quarterly Report on Form 10-Q, the company has consistently applied the same accounting policies throughout all periods presented. Note 13 to the financial statements included in Part I Item 1 of the company s 2011 First Quarter Quarterly Report on Form 10-Q describes the impact of the transition to IFRS on the company s reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in its Canadian GAAP consolidated financial statements as at January 1, 2010 and December 31, 2010, and for the year ended December 31, 2010. Note 13 describes the impact of the transition to IFRS on the company s reported financial position and financial performance as at and for the periods ended June 30, 2010. Except as disclosed in Note 12, these policies are consistent with accounting principles generally accepted in the United States (US GAAP) in all material respects.

These unaudited interim condensed consolidated financial statements are as of August 5, 2011. The company will ultimately prepare its opening statement of financial position and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the financial statements for 2010 and 2011 may differ from these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements include the accounts of PCS and its wholly owned subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the 2010 annual consolidated financial statements. Certain information and note disclosures which are considered material to the understanding of the company s unaudited interim condensed consolidated financial statements and which are normally included in annual consolidated financial

statements prepared in accordance with IFRS were provided in Part I Item 1, Notes 1 and 13 of the company s 2011 First Quarter Quarterly Report on Form 10-Q, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on financial performance and financial position. In management s opinion, the unaudited interim condensed consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to fairly present such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

These unaudited interim condensed consolidated financial statements were prepared under the historical cost convention, except for certain items not carried at historical cost as discussed in Note 1 to the financial statements included in Part I Item 1 of the company s 2011 First Quarter Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

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:

IFRS 9, Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement of financial assets. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to 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 (OCI), rather than within profit or loss. The standard is to 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, if any, 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 has applied these amendments, which had no effect on these unaudited interim condensed consolidated financial statements.

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 and are effective for annual periods commencing on or after January 1, 2011.

Amendments to IFRS 7, Disclosures Transfers of Financial Assets

In October 2010, the IASB issued amendments to IFRS 7, Financial Instruments: Disclosures . The amendments require entities to provide additional disclosures to assist users of financial statements in evaluating the risk exposures relating to transfers of financial assets that are not derecognized or for which the entity has a continuing involvement in the transferred asset. As the company does not typically retain any continuing involvement in financial assets once transferred, these amendments are not expected to have a significant impact. The amendments are effective for annual periods beginning on or after July 1, 2011.

IFRS 10, Consolidated Financial Statements

In May 2011, the IASB issued guidance establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 (which supersedes IAS 27 and Standing Interpretations Committee (SIC) 12) builds on existing principles by identifying the concept of control as the

determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is to be applied retrospectively, in most circumstances, and is effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is currently reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 11, Joint Arrangements

In May 2011, the IASB issued guidance establishing principles for financial reporting by parties to a joint arrangement. IFRS 11 (which supersedes IAS 31 and SIC 13) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved, either a joint operation or a joint venture, by assessing its rights and obligations arising from the arrangement. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated and under IFRS 11, equity accounting is mandatory for participants in joint ventures. The standard is to be applied prospectively and is effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is currently reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 12, Disclosure of Interest in Other Entities

In May 2011, the IASB issued guidance relating to the disclosure requirements of interests in other entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is to be applied prospectively and is effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is currently reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 13, Fair Value Measurement

In May 2011, the IASB issued guidance establishing a single source for fair value measurement. IFRS 13 defines fair value, sets out a framework for measuring fair value and introduces consistent requirements for disclosures on fair value measurements. It does not determine when an asset, a liability or an entity s own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value, with limited exceptions. The standard is to be applied prospectively and is effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is currently reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 requiring items within OCI that may be reclassified to the profit or loss section of the income statement to be grouped together. The amendments are to be applied retrospectively and are effective for annual periods commencing on or after July 1, 2012, with earlier application permitted. The company is currently reviewing these amendments to determine the potential impact, if any, on its consolidated financial statements.

Amendments to IAS 19, Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 relating to the recognition and measurement of post-employment defined benefit expense and termination benefits, and to the disclosures for all employee benefits. The amendments are to be applied retrospectively, except for changes to the carrying value of assets that include capitalized employee benefit costs, which are to be applied prospectively. The amendments are effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is currently reviewing these amendments to determine the potential impact, if any, on its consolidated financial statements.

2. Inventories

	June 30, 2011	**December 31, 2010**
Finished products	$ 267	$ 255
Intermediate products	117	127
Raw materials	83	65
Materials and supplies	130	123
	$ 597	$ 570

3. Long-Term Debt

On May 31, 2011, the company fully repaid $600 of 7.750 percent 10-year senior notes.

4. Share Capital

Authorized

The company is authorized to issue an unlimited number of common shares without par value and an unlimited number of first preferred shares. The common shares are not redeemable or convertible. The first preferred shares may be issued in one or more series with rights and conditions to be determined by the Board of Directors. No first preferred shares have been issued.

Issued

	Number of Common Shares		Consideration
Balance December 31, 2010	853,122,693	$	1,431
Issued under option plans	2,397,153		23
Issued for dividend reinvestment plan	19,065		1
Balance June 30, 2011	855,538,911	$	1,455

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5. Segment Information

The company s operating segments have been determined based on reports reviewed by the Chief Executive Officer, the company s chief operating decision maker, that are used to make strategic decisions. The company has three reportable operating segments: potash, phosphate and nitrogen. These operating 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 June 30, 2011				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 1,121	$ 633	$ 571	$	$ 2,325
Freight, transportation and distribution	(70)	(40)	(22)		(132)
Net sales third party	1,051	593	549		
Cost of goods sold	(258)	(427)	(340)		(1,025)
Gross margin	793	166	209		1,168
Depreciation and amortization	(37)	(57)	(32)	(2)	(128)
Inter-segment sales			39		

	Three Months Ended June 30, 2010				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 641	$ 364	$ 432	$	$ 1,437
Freight, transportation and distribution	(51)	(28)	(20)		(99)
Net sales third party	590	336	412		
Cost of goods sold	(179)	(287)	(287)		(753)
Gross margin	411	49	125		585
Depreciation and amortization	(29)	(48)	(30)	(2)	(109)
Inter-segment sales			28		

	Six Months Ended June 30, 2011				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 2,230	$ 1,182	$ 1,117	$	$ 4,529
Freight, transportation and distribution	(153)	(83)	(45)		(281)
Net sales third party	2,077	1,099	1,072		
Cost of goods sold	(541)	(783)	(660)		(1,984)
Gross margin	1,536	316	412		2,264
Depreciation and amortization	(79)	(104)	(65)	(4)	(252)
Inter-segment sales			77		

	Six Months Ended June 30, 2010				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 1,533	$ 765	$ 853	$	$ 3,151
Freight, transportation and distribution	(147)	(63)	(44)		(254)
Net sales third party	1,386	702	809		
Cost of goods sold	(445)	(589)	(549)		(1,583)
Gross margin	941	113	260		1,314
Depreciation and amortization	(59)	(96)	(60)	(4)	(219)
Inter-segment sales			54		

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Assets	**Potash**	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Assets at June 30, 2011	$ 6,675	$ 2,583	$ 1,847	$ 5,112	$ 16,217
Assets at December 31, 2010	$ 5,773	$ 2,395	$ 1,808	$ 5,571	$ 15,547
Change in assets	$ 902	$ 188	$ 39	$ (459)	$ 670
Additions to property, plant and equipment (six months ended June 30, 2011)	$ 745	$ 92	$ 64	$ 32	$ 933

6. Share-Based Compensation

On May 12, 2011, the company s shareholders approved the 2011 Performance Option Plan under which the company may, after February 22, 2011 and before January 1, 2012, 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 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 June 30, 2011, options to purchase a total of 1,144,100 common shares had been granted under the plan. The weighted average fair value of options granted was $23.64 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	$ 0.28
Expected volatility	52%
Risk-free interest rate	2.29%
Expected life of options	5.5 years

7. Income Taxes

A separate estimated average annual effective tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction.

For the three months ended June 30, 2011, the company s income tax expense was $297 (2010 $165). For the six months ended June 30, 2011, its income tax expense was $540 (2010 $356). The actual effective tax rate including discrete items for the three and six months ended June 30, 2011 was 26 percent (2010 26 percent and 28 percent, respectively). Total discrete tax adjustments that impacted the rate in the three months ended June 30, 2011 resulted in an income tax recovery of $1 compared to an income tax expense of $14 in the same period last year. Total discrete tax adjustments that impacted the rate in the six months ended June 30, 2011 resulted in an income tax recovery of $24 compared to an income tax expense of $25 in the same period last year. Significant items recorded included the following:

In first-quarter 2011, a current tax recovery of $21 for previously paid withholding taxes;

To adjust the 2009 income tax provision to the income tax return filed, a current income tax expense of $18 was recorded in first-quarter 2010 along with a current income tax expense of $20 and a deferred income tax recovery of $11 in second-quarter 2010;

In first-quarter 2010, a current tax recovery of $10 for an anticipated refund of taxes paid related to forward exchange contracts.

Income tax balances within the consolidated statements of financial position were comprised of the following:

Income tax assets (liabilities)	Statements of Financial Position Location	June 30, 2011	December 31, 2010
Current income tax assets:			
Current	Receivables	$ 50	$ 46
Non-current	Other assets	123	122
Deferred income tax assets	Other assets	29	38
Total income tax assets		$ 202	$ 206
Current income tax liabilities:			
Current	Payables and accrued charges	$ (226)	$ (167)
Non-current	Other non-current liabilities and deferred credits	(102)	(142)
Deferred income tax liabilities	Deferred income tax liabilities	(901)	(737)
Total income tax liabilities		$ (1,229)	$ (1,046)

8. Net Income per Share

Basic net income per share for the quarter is calculated on the weighted average number of shares issued and outstanding for the three months ended June 30, 2011 of 854,997,000 (2010 889,128,000). Basic net income per share for the six months ended June 30, 2011 is calculated based on the weighted average number of shares issued and outstanding for the period of 854,518,000 (2010 888,744,000).

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, if any, that would be issuable if the end of the reporting period were the end of the performance period and the effect is dilutive. The weighted average number of shares outstanding for the diluted net income per share calculation for the three months ended June 30, 2011 was 876,527,000 (2010 913,387,000) and for the six months ended June 30, 2011 was 876,612,000 (2010 913,785,000).

Excluded from the calculation of diluted net income per share were weighted average options outstanding of 1,417,350 relating to the 2008 Performance Option Plan, as the options exercise prices were greater than the average market price of common shares for the period.

9. 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.

10. Contingencies

Canpotex

PCS is a shareholder in Canpotex Limited (Canpotex), which markets potash offshore. Should any operating losses or other liabilities be incurred by Canpotex, the shareholders have contractually agreed to reimburse it for such losses or liabilities in proportion to their productive capacity. Through June 30, 2011, there were no such operating losses or other liabilities.

Mining Risk

As is typical 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 site in Lakeland, Florida that includes a former PCS Joint Venture fertilizer blending facility and certain surrounding properties. A Record of Decision (ROD) was issued in September 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 $9. In September 2010, the USEPA approved the Remedial Design Report to address the soil contamination. While subject to final construction inspection by the USEPA, the soil remediation has been performed.

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 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 Nitrogen and other responsible parties filed motions for amendment of the decision, and the Court ruled on those motions in May 2011. The Court s amended judgment did not alter the 30 percent allocation of liability to PCS but did award relief to PCS under a contractual indemnification claim. PCS and another responsible party have since submitted post-judgment motions to the Court, which are pending, and PCS filed a notice of appeal to the United States Court of Appeals for the Fourth Circuit. The notice of appeal was subsequently stayed by the Fourth Circuit pending resolution of the post-judgment motions. The ultimate amount of liability for PCS Nitrogen, if any, depends upon the amount needed for remedial activities, the ability of other parties to pay and 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 $75. The Settling Parties have initiated CERCLA contribution 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. 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 from the entity from which PCS Nitrogen Fertilizer previously leased such property, PCS Nitrogen Fertilizer agreed to perform certain activities to investigate and, if necessary, perform a corrective action for substances in soil and groundwater. The investigation has proceeded and various corrective measures for substances in groundwater have been proposed to GEPD. PCS Nitrogen Fertilizer expects that it will implement corrective measures for substances in groundwater, but until GEPD approves the investigation results and a final corrective action plan, PCS Nitrogen Fertilizer is unable to estimate with reasonable certainty the total cost of its corrective action obligations under the Order.

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 82 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 $17 to address the sinkhole between the time of discovery and June 30, 2011. In December 2010, the company entered into a consent order with the Florida Department of Environmental Protection pursuant to which the company agreed to, among other things, remediate the sinkhole and perform additional monitoring of the groundwater quality and hydrogeologic conditions related to the sinkhole collapse. The company also entered into an order on consent with the USEPA. In May 2011, the USEPA and the Board of Directors approved the company s proposal to implement certain mitigation measures to meet the goals of the USEPA order on consent. The company remeasured the asset retirement obligation (ARO) for the White Springs gypsum stacks to account for the measures identified in the proposal. This remeasurement resulted in a $39 adjustment to the ARO, of which $33 was capitalized as an addition to the related long-lived asset and $6 was expensed in the first quarter of 2011.

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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 an ongoing 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 inspections at numerous phosphate operations and notified the company of various alleged violations of the US Resource Conservation and Recovery Act (RCRA) at its plants in Aurora, North Carolina; Geismar, Louisiana; and White Springs, Florida. The company has entered into RCRA 3013 Administrative Orders on Consent and has performed certain site assessment activities at all three plants. At this time, the company does not know the scope of corrective action, if any, that may be required. The company continues to participate in settlement discussions with the USEPA but 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 also begun an initiative to evaluate compliance with the Clean Air Act at sulfuric acid and nitric acid plants. In connection with this industry-wide initiative, the USEPA has sent requests for information to numerous facilities, including the company s plants in Augusta, Georgia; Aurora, North Carolina; Geismar, Louisiana; Lima, Ohio; and White Springs, Florida. 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, but the company denies that it has any liability for the Geismar, Louisiana 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 USEPA requested that the company meet and demonstrate compliance with the Clean Air Act for specified projects undertaken at the White Springs, Florida 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. In January 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 30 years from lands owned or controlled by the company, including some wetlands, would not degrade water quality. Thereafter, in June 2009, the Corps issued the company a permit that will allow the company to mine the phosphate deposits identified in the Section 401 certification. The USEPA decided not to seek additional review of the permit. In March 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 Section 401 certification. The company has intervened in this proceeding. Cross motions for summary judgment by the Petitioners and the company have been filed, briefed and argued. The OAH has not issued a decision on them. 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. The Province of Saskatchewan is considering the

adoption of greenhouse gas emission control requirements. Regulations pursuant to the Management and Reduction of Greenhouse Gases Act in Saskatchewan, which impose a type of carbon tax to achieve a goal of a 20 percent reduction in greenhouse gas emissions by 2020 compared to 2006 levels, may become effective in 2012. There is no certainty as to the scope or timing of any final, effective provincial requirements. Although the US Congress has not passed any greenhouse gas emission control laws, the USEPA has adopted several rules to control greenhouse gas emissions using authority under existing environmental laws. In January 2011, the USEPA began phasing in requirements for all stationary sources, such as the company s plants, to obtain permits incorporating the best available control technology for greenhouse gas emissions at a source if it is a new source that could emit 100,000 tons of greenhouse gases per year or if it is a modified source that increases such emissions by 75,000 tons per year. The company is not currently aware of any projects at its facilities that would be subject to these requirements. The company is monitoring these developments, and, except as indicated above, their effect on its operations cannot be determined with certainty at this time.

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In December 2010, the USEPA issued a final rule to restrict nutrient concentrations in surface waters in Florida to levels below those currently permitted at the company s White Springs, Florida plant. The revised nutrient criteria will become part of Florida s water quality standards in March 2012. Projected capital costs resulting from the rule could be in excess of $100 for the company s White Springs, Florida plant, and there is no guarantee that controls can be implemented that are capable of achieving compliance with the revised nutrient standards under all flow conditions. This estimate assumes that the rule survives court challenges and that none of the site-specific mechanisms for relief from the revised nutrient criteria are available to the White Springs, Florida plant. Various judicial challenges to the rule have been filed, including one lawsuit by The Fertilizer Institute (TFI) and White Springs. On June 15, 2011, TFI, White Springs and additional parties filed a Motion for Summary Judgment seeking, among other things, to vacate the USEPA rule. The prospects for a rule to be implemented as issued by the USEPA and the availability of the site-specific mechanisms are uncertain.

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 (Court) against Mosaic on May 27, 2009 and the claim was amended on January 19, 2010. In the Amended 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 potentially much later, 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, 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 would terminate August 30, 2010.

In addition, at the time of filing its Statement of Defence, 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.

The company was notified on May 2, 2011 that Mosaic believes that it has satisfied its obligation to produce potash at the Esterhazy mine for the company under the mining and processing agreement and as such it has no further obligation to deliver potash to the company from the Esterhazy mine, other than the company s remaining inventory. The company disagreed and sought relief from the Court. On June 30, 2011, an injunction order was issued by the Court requiring delivery pursuant to the terms of the mining and processing agreement pending trial or a further order of the Court (Injunction Order). The trial is currently scheduled to commence in January 2012. Like every applicant for injunctive relief, the company was required to provide an undertaking to pay any damages that may be occasioned to Mosaic as a result of the granting of the injunction should it later be shown that Mosaic had, by reason of the injunction, sustained any damages which the company ought to pay. The company does not believe that Mosaic will be entitled to any damages arising from the issuance of the Injunction Order. On July 18, 2011, Mosaic filed a Notice of Appeal with the Court of Appeal for Saskatchewan appealing the Injunction Order and seeking to set it aside.

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

Between September and October 2008, the company and PCS Sales (USA), Inc. were named as defendants in eight similar antitrust complaints filed in US 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 lawsuits is without merit and intend to defend them vigorously.

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 inherent uncertainties exist 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 that 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.

11. 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 in the Province of Saskatchewan. Sales to Canpotex for the three months ended June 30, 2011 were $559 (2010 $323) and six months ended June 30, 2011 were $1,040 (2010 $591). At June 30, 2011, $358 (December 31, 2010 $298) was owing from Canpotex. Sales to Canpotex are at prevailing market prices and account balances resulting from the Canpotex transactions are settled on normal trade terms.

12. Reconciliation of IFRS and US GAAP

IFRS vary 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.

(a) Inventories: Under IFRS, 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 writedown 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.

Under IFRS, interim price, efficiency, spending and volume variances of a manufacturing entity are recognized in income at interim reporting dates to the same extent that those variances are recognized in income at year-end. Deferral of variances that are expected to be absorbed by year-end is not appropriate because such deferrals could result in reporting inventory at the interim date at more or less than its portion of the actual cost of manufacture. Under US GAAP, variances that are planned and expected to be absorbed by the end of the year are ordinarily deferred at the end of an interim period.

(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 respects from US GAAP. The company s share of earnings of these equity-accounted investees under IFRS has been adjusted for the significant effects of conforming to US GAAP.

(c) Property, plant and equipment: The net book value of property, plant and equipment under IFRS differs from that under US GAAP in certain respects, including the following:

Major repairs and maintenance, including turnarounds, are capitalized under IFRS and expensed under US GAAP unless costs represent a betterment, in which case capitalization under US GAAP is appropriate.

Borrowing costs under IFRS are capitalized to property, plant and equipment based on the weighted average interest rate on all of the company s outstanding third-party debt; under US GAAP, only the weighted average interest rate on third-party long-term debt is used to determine the capitalized amount.

(d) Impairment of assets: Upon adopting IFRS, the company elected not to restate past business combinations, which resulted in the carrying amount of goodwill under IFRS being the same amount as it had been under previous Canadian GAAP at the date of transition to IFRS. Because past provisions for asset impairment were based on undiscounted cash flows from use under Canadian GAAP and on fair value under US GAAP, the carrying amount of

goodwill is lower under US GAAP.

In respect of oil and gas assets, US GAAP requires that writedowns be based on discounted cash flows, a prescribed discount rate and the unweighted average first-day-of-the-month resource prices for the prior 12 months; IFRS requires discounted cash flows using estimated future resource prices based on the best information available to the company.

Assets, except goodwill, that were previously impaired can be reversed in subsequent periods, under IFRS, if the conditions that led to the original impairment reversed. Reversals of asset impairments are prohibited under US GAAP.

(e) Depreciation and amortization: Depreciation and amortization under IFRS differ from that under US GAAP, as a result of differences in the carrying amounts of property, plant and equipment under IFRS and US GAAP, as described above.

(f) Exploration costs: Under IFRS, capitalized exploration costs are classified as exploration and evaluation assets. 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.

(g) Pension and other post-retirement benefits: Under US GAAP, the company recognizes 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. Amounts in OCI are amortized to net income. Under IFRS, actuarial gains and losses are recognized directly in OCI without ever being amortized to net income. Unrecognized prior service costs are not recognized in OCI, but are amortized to net income over the average remaining vesting period.

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(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 IFRS, offsetting of the margin deposits is not permitted.

(i) Share-based compensation: Under IFRS, stock options are recognized over the service period, which for PotashCorp is established by the option performance period. 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.

Performance	Service Period Commenced	
Option Plan Year	IFRS	US GAAP
2008	January 1, 2008	May 8, 2008
2009	January 1, 2009	May 7, 2009
2010	January 1, 2010	May 6, 2010
2011	January 1, 2011	May 12, 2011

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

Further, under IFRS the company recognized an estimate of compensation cost in relation to performance options for which service commenced but which had not yet been granted. Specifically, an estimate of compensation cost was recognized at the end of the first quarter of 2011 in relation to the 2011 Performance Option Plan, which was approved by the company s shareholders at the company s annual meeting held on May 12, 2011, for which service commenced but for which performance options had not yet been granted. The compensation cost recognized was reconciled in the second quarter once options were granted. Under US GAAP, no compensation cost is recognized until the option plans are approved.

(j) Stripping costs: Under IFRS, 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) Provisions: Asset retirement obligations under IFRS are measured and remeasured each reporting period using a current risk-free discount rate. Under US GAAP, the obligation is initially measured using a credit-adjusted risk-free discount rate. Subsequent upward revisions are measured using the current discount rate while downward revisions are valued using the historical discount rate. Under IFRS, obligations incurred through the production of inventory are included in the cost of that inventory. Under US GAAP, obligations incurred through the production of inventory are added to the carrying amount of the related long-lived asset or charged to expense as incurred. Under IFRS, provisions for asset retirement obligations include constructive obligations. Under US GAAP, only legal obligations are recognized.

Under IFRS, a provision is recognized for either a legal or constructive obligation when the applicable criteria are otherwise met. Under US GAAP, constructive obligations are recognized only when required under a specific standard.

(l) 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 IFRS and US GAAP is similar, except that income tax rates of enacted or substantively enacted tax law must be used to calculate deferred income tax assets and liabilities under IFRS, whereas only income tax rates of enacted tax law can be used under US GAAP.

(m) Income taxes related to US GAAP effective income tax rate: As it relates to interim periods, under IFRS a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction, whereas under US GAAP a weighted average of the annual rates expected across all jurisdictions is applied.

(n) Income tax consequences of share-based employee compensation: Under IFRS, the income tax benefit attributable to share-based compensation that is deductible in computing taxable income but is not recorded in the consolidated financial statements as an expense of any period includes the amount realized in the period (the realized excess benefit), as well as the amount of future tax deductions that the company expects to receive based on the current market price of the shares (the unrealized excess benefit). The unrealized excess benefit is recognized as a deferred income tax asset with the offset recorded in contributed surplus. Under US GAAP, only the realized excess benefit is recorded, in additional paid-in capital.

Under IFRS, the income tax benefit associated with share-based compensation that is recorded in the consolidated financial statements as an expense in the current or previous period is reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized. Under US GAAP, this income tax benefit is calculated without estimating the income tax effects of anticipated share-based payment transactions.

(o) 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). IFRS have no similar requirements related to uncertain income tax positions. The company accounts for uncertain income tax positions under IFRS using the standards applicable to current income tax assets and liabilities, i.e., both liabilities and assets are recorded when probable at the company s best estimate of the amount.

(p) Income taxes related to intragroup transactions: Under IFRS, 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 US GAAP, where the current tax payable in relation to such profits is recorded as a current asset until the transaction is realized by the group.

(q) Classification of deferred income taxes: Under IFRS, deferred income taxes are classified as long-term. Under US GAAP, deferred income taxes are separated between current and long-term on the consolidated statements of financial position.

(r) Cash flow statements: US GAAP requires the disclosure of income taxes paid. IFRS require the disclosure of income tax cash flows, which would include any income taxes recovered during the period. For the three months ended June 30, 2011, income taxes paid under US GAAP were $163 (2010 $49) and for the six months ended June 30, 2011, income taxes paid under US GAAP were $358 (2010 $71). Under IFRS, interest paid is not reduced for the effects of capitalized interest whereas under US GAAP this amount is net of capitalized interest. Interest paid under US GAAP for the three months ended June 30, 2011 was $69 (2010 $30) and for the six months ended June 30, 2011, interest paid under US GAAP was $91 (2010 $54).

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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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income as reported IFRS	$ 840	$ 480	$ 1,572	$ 924
Items increasing (decreasing) reported net income				
Inventory valuation[a]		1		1
Manufacturing cost variances[a]	7	(6)	(14)	(15)
Share of earnings of equity-accounted investees[b]	(1)	1	(1)	
Major repairs and maintenance[c]	2	(8)	(12)	(8)
Borrowing costs[c]	3	3	7	6
Asset impairment, writedowns and recoveries[d]		(31)	(1)	(32)
Depreciation and amortization[e]	3	2	5	4
Exploration costs[f]	(1)	(1)	(1)	(1)
Pension and other post-retirement benefits[g]	(5)	(6)	(10)	(12)
Share-based compensation[i]	(11)	(11)	2	1
Stripping costs[j]	1	(6)	5	(15)
Asset retirement obligations[k]	4	24	11	25
Deferred income taxes relating to the above adjustments[l]	(1)	7	2	10
Income taxes related to US GAAP effective income tax rate[m]	(6)	6	2	2
Uncertain income tax positions[o]	1	(23)	6	(9)
Income taxes related to intragroup transactions[p]	(8)	9	(3)	18
Net income US GAAP	$ 828	$ 441	$ 1,570	$ 899
Basic weighted average shares outstanding US GAAP	854,997,000	889,128,000	854,518,000	888,744,000
Diluted weighted average shares outstanding US GAAP[i]	876,516,000	913,377,000	876,600,000	913,768,000
Basic net income per share US GAAP	$ 0.97	$ 0.50	$ 1.84	$ 1.01
Diluted net income per share US GAAP	$ 0.94	$ 0.48	$ 1.79	$ 0.98

References relate to differences between IFRS and US GAAP described above.

	June 30, 2011	December 31, 2010
Total assets as reported IFRS	$ 16,217	$ 15,547
Items increasing (decreasing) reported total assets		
Investment in equity-accounted investees[b]	43	40
Property, plant and equipment[d, e]	(104)	(109)
Major repairs and maintenance[c]	(64)	(52)
Borrowing costs[c]	32	25
Goodwill[d]	(47)	(47)
Asset impairment, writedowns and recoveries[d]	(6)	(5)
Exploration costs[f]	(15)	(14)
Margin deposits associated with derivative instruments[h]	(162)	(198)
Stripping costs[j]	(57)	(62)
Asset retirement obligations[k]	(46)	(46)
Uncertain income tax positions[o]	(122)	(122)
Income taxes related to intragroup transactions[p]	27	15
Deferred income tax asset due to US GAAP adjustments	(13)	(13)
Reclassification of deferred income taxes[q]	18	28
Total assets US GAAP	$ 15,701	$ 14,987

References relate to differences between IFRS and US GAAP described above.

	June 30, 2011	December 31, 2010
Total shareholders equity as reported IFRS	$ 7,855	$ 6,685
Items increasing (decreasing) reported shareholders equity		
Manufacturing cost variances[a]	(14)	
Share of earnings of equity-accounted investees[b]	41	42
Major repairs and maintenance[c]	(64)	(52)
Borrowing costs[c]	32	25
Asset impairment, writedowns and recoveries[d]	(257)	(256)
Depreciation and amortization[e]	100	95
Exploration costs[f]	(15)	(14)
Pension and other post-retirement benefits[g]	13	13
Stripping costs[j]	(57)	(62)
Asset retirement obligations[k]	90	79
Constructive obligations[k]	5	5
Deferred income taxes relating to the above adjustments[l]	14	12
Income taxes related to US GAAP effective income tax rate[m]	(45)	(47)
Deferred income taxes on share-based compensation[n]	(143)	(148)
Uncertain income tax positions[o]	39	33
Income taxes related to intragroup transactions[p]	3	6
Shareholders equity US GAAP	$ 7,597	$ 6,416

References relate to differences between IFRS and US GAAP described above.

Supplemental US GAAP Disclosures

Disclosures About Derivative Instruments and Hedging Activities

Derivative financial instruments are used by the company to manage its exposure to commodity price, exchange rate and interest rate fluctuations. Further information, including strategies, is provided in Note 12 to the consolidated financial statements in the company s 2010 Financial Review Annual Report.

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

Derivative Instrument Assets (Liabilities)[1]	Statements of Financial Position Location	June 30, 2011	December 31, 2010
Derivatives designated as hedging instruments:			
Natural gas derivatives	Prepaid expenses and other current assets	$ 1	$
Natural gas derivatives	Other assets	1	
Natural gas derivatives	Current portion of derivative instrument liabilities	(54)	(75)
Natural gas derivatives	Derivative instrument liabilities	(184)	(204)

Total derivatives designated as hedging instruments		(236)	(279)
Derivatives not designated as hedging instruments:			
Foreign currency derivatives	Prepaid expenses and other current assets	5	5
Total derivatives not designated as hedging instruments		$ 5	$ 5

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

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The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income for the Three Months Ended June 30

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI (Effective Portion) 2011	2010	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) 2011	2010	Location of Loss Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2011	2010
Natural gas derivatives	$ (21)	$ (18)	Cost of goods sold	$ (22)	$ (23)	Cost of goods sold	$	$

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income 2011	2010
Foreign currency derivatives	Other income (expenses)	$ 8	$ (7)

The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income for the Six Months Ended June 30

	Amount of Loss Recognized in	Location of	Amount of Loss Reclassified from Accumulated OCI	Location of Loss Recognized in Income	Amount of Loss Recognized in Income (Ineffective Portion and Amount

Derivatives in Cash Flow Hedging Relationships	**OCI (Effective Portion)**		**Loss Reclassified from Accumulated OCI into Income (Effective Portion)**	**into Income (Effective Portion)**		**(Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Excluded from Effectiveness Testing)**	
	2011	**2010**		**2011**	**2010**		**2011**	**2010**
Natural gas derivatives	$	$ (103)	Cost of goods sold	$ (44)	$ (38)	Cost of goods sold	$	$

Derivatives Not Designated as Hedging Instruments	**Location of Gain (Loss) Recognized in Income**	**Amount of Gain (Loss) Recognized in Income**	
		2011	**2010**
Foreign currency derivatives	Other income (expenses)	$ 11	$ (9)

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 25 to the consolidated financial statements in the company s 2010 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 is represented by the carrying amount of the financial assets.

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.

Liquidity Risk

Liquidity risk arises from the company s general funding needs and in the management of its assets, liabilities and optimal 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.

Certain derivative instruments of the company contain provisions that require its debt to maintain specified credit ratings from two 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 June 30, 2011 was $238, for which the company has posted collateral of $162 in the normal course of business. If the credit risk-related contingent features underlying these agreements had been triggered on June 30, 2011, the company would have been required to post an additional $73 of collateral to its counterparties.

Market Risk

Market risk is the risk that financial instrument fair values will fluctuate due to changes in market prices. The significant market risks to which the company is exposed are foreign exchange risk and price risk (related to natural gas used in operations).

Foreign Exchange Risk

At June 30, 2011, the company had entered into foreign currency forward contracts to sell US dollars and receive Canadian dollars in the notional amount of $270 (December 31, 2010 $170) at an average exchange rate of 0.9832 (December 31, 2010 1.0170) per US dollar with maturities in 2011. At June 30, 2011, the company had foreign currency swaps to sell US dollars and receive Canadian dollars in the notional amount of $NIL (December 31, 2010 $69) at an average exchange rate of NIL (December 31, 2010 1.0174) per US dollar.

Price Risk

At June 30, 2011, the company had natural gas derivatives qualifying for hedge accounting in the form of swaps for which it has price risk exposure; derivatives represented a notional amount of 56 million MMBtu with maturities in 2011 through 2019. At December 31, 2010, the notional amount of swaps was 103 million MMBtu with maturities in 2011 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.

	June 30, 2011		December 31, 2010	
	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	$ 2	$ 2	$	$
Foreign currency derivatives	5	5	5	5
Investments in ICL and Sinofert	3,474	3,474	3,842	3,842
Derivative instrument liabilities				
Natural gas derivatives	(238)	(238)	(279)	(279)
Long-term debt				
Senior notes	(3,750)	(3,983)	(4,350)	(4,525)
Other	(7)	(7)	(8)	(8)

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 June 30, 2011 reflected the yield valuation based on observed market prices. Yield on senior notes ranged from 0.98 percent to 5.62 percent (December 31, 2010 1.08 percent to 5.66 percent). The fair value of the company s other long-term debt instruments approximated carrying value.

Interest rates used to discount estimated cash flows related to derivative instruments that were not traded in an active market at June 30, 2011 were between 0.35 percent and 4.98 percent (December 31, 2010 between 0.47 percent and 4.31 percent) depending on the settlement date.

The following table presents the company s fair value hierarchy for those financial assets and financial liabilities carried at fair value at June 30, 2011.

		Fair Value Measurements at Reporting Date Using:		
	Carrying Amount of	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**

Description	Asset (Liability)	(Level 1)	(Level 2)	(Level 3)
June 30, 2011				
Derivative instrument assets				
Natural gas derivatives	$ 2	$	$	$ 2[1]
Foreign currency derivatives	5		5[1]	
Investments in ICL and Sinofert	3,474	3,474[1]		
Derivative instrument liabilities				
Natural gas derivatives	(238)		(33)[1]	(205)[1]
December 31, 2010				
Derivative instrument assets				
Foreign currency derivatives	$ 5	$	$ 5	$
Investments in ICL and Sinofert	3,842	3,842		
Derivative instrument liabilities				
Natural gas derivatives	(279)		(55)	(224)

[1] During the period ending June 30, 2011, there were no transfers between Level 1 and Level 2, or into or out of Level 3. Company policy is to recognize transfers at the end of the reporting period.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Natural Gas Hedging Derivatives	
	Six Months Ended June 30, 2011	Twelve Months Ended December 31, 2010
Balance, beginning of period	$ (224)	$ (119)
Total losses (realized and unrealized) before income taxes		
Included in earnings (cost of goods sold)	(13)	(36)
Included in other comprehensive income	17	(126)
Settlements	17	46
Transfers out of Level 3		11
Balance, end of period	$ (203)	$ (224)

Pension and Other Post-Retirement Expenses

	Three Months Ended June 30		Six Months Ended June 30	
Defined Benefit Pension Plans	**2011**	**2010**	**2011**	**2010**
Service cost	$ 6	$ 5	$ 12	$ 10
Interest cost	12	11	24	23
Expected return on plan assets	(13)	(11)	(26)	(23)
Net amortization	6	6	12	13
Net expense	$ 11	$ 11	$ 22	$ 23

	Three Months Ended June 30		Six Months Ended June 30	
Other Post-Retirement Plans	**2011**	**2010**	**2011**	**2010**
Service cost	$ 2	$ 2	$ 4	$ 4
Interest cost	4	4	8	8
Net amortization			(1)	(1)
Net expense	$ 6	$ 6	$ 11	$ 11

For the three months ended June 30, 2011, the company contributed $3 to its defined benefit pension plans, $6 to its defined contribution pension plans and $3 to its other post-retirement plans. Contributions for the six months ended

June 30, 2011 were $5 to its defined benefit pension plans, $16 to its defined contribution pension plans and $5 to its other post-retirement plans. Total 2011 contributions to these plans are not expected to differ significantly from the amounts previously disclosed in Note 14 to the consolidated financial statements in the company s 2010 Financial Review Annual Report.

Uncertainty in Income Taxes

During the three and six months ended June 30, 2011, unrecognized income tax adjustments decreased $34 and $35, respectively. It is reasonably possible that a reduction in the range of $31 to $33 of unrecognized income tax adjustments may occur within 12 months as a result of projected resolutions of worldwide income tax disputes.

Guarantees

In the normal course of operations, the company provides indemnifications, which 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 which 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 June 30, 2011, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $558. It is unlikely that these guarantees will be drawn upon, and since 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 June 30, 2011, 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 $6.

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, it 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, along with financial assurances for these plans, approved by the responsible provincial minister. The Minister of the Environment for Saskatchewan (MOE) has approved the plans previously submitted by the company. The company had previously provided a CDN $2 irrevocable letter of credit and a payment of CDN $3 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 as required by the MOE. The next scheduled review for the decommissioning and reclamation plans and financial assurances was to be completed by June 30, 2011. The company submitted its decommissioning and reclamation plans and its financial assurances proposal in May 2011 and is awaiting a response. The MOE has advised that it considers the company in compliance with the regulations until the review is finalized and a response is provided. The MOE had previously indicated that it would be seeking an increase of the amount paid into the trust fund by the company for this submission. 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 June 30, 2011. 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 or constructive 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 June 30, 2011, $52 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.

Recent Accounting Pronouncements

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board (FASB) issued amendments to its fair value measurement standard to substantially converge the guidance in US GAAP and IFRS on fair value measurements and disclosures. The amendments will be effective for interim and annual periods beginning after December 15, 2011. The company is currently reviewing the impact, if any, on its consolidated financial statements.

Comprehensive Income

In June 2011, the FASB amended the standard for Comprehensive Income whereby total comprehensive income, the components of net income and the components of other comprehensive income can either be presented in a single continuous statement or in two separate but consecutive statements. Regardless of which option is chosen, items that are reclassified from other comprehensive income to net income should be presented on the face of the financial statements. The amendments will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The company is currently reviewing the impact, if any, on its consolidated financial statements.

13. Transition to IFRS

The company adopted IFRS on January 1, 2011 with effect from January 1, 2010. Its financial statements for the year ending December 31, 2011 will be the first annual consolidated financial statements that comply with IFRS. These unaudited interim condensed consolidated financial statements were prepared as described in Note 1, including the application of IFRS 1. Accordingly, the company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual consolidated financial statements.

Changes in Accounting Policies

The key areas where the company has identified that accounting policies will differ or where accounting policy decisions were necessary that may impact its consolidated financial statements and the impact of transition policy choices made under IFRS 1 are described in Note 13 to financial statements in Part I Item 1 of the company s 2011 First Quarter Quarterly Report on Form 10-Q. The following table outlines some of these key areas related to the reconciliations from Canadian GAAP to IFRS. Since accounting policies and standards may change in the period between these unaudited interim condensed consolidated financial statements and our first annual consolidated financial statements that comply with IFRS, the table below reflects the differences between IFRS and previous Canadian GAAP we expect to apply. See Note 13 to financial statements in Part I Item 1 of the company s 2011 First Quarter Quarterly Report on Form 10-Q for further details.

Accounting Policy Area	**Differences from Previous Canadian GAAP**
(a) Employee Benefits	Actuarial gains and losses will be recognized directly in other comprehensive income rather than through profit or loss. IAS 19 requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, past service costs were generally amortized on a straight-line basis over the average remaining service period of active employees expected under the plan.

Under Canadian GAAP, certain gains and losses which were unrecognized at the time of adopting the current Canadian accounting standard were permitted to be amortized over a period under transitional provisions of the current standards. Those amounts must be recognized on transition to IFRS.

Accounting Policy Area	Differences from Previous Canadian GAAP
(b) Provisions (including Asset Retirement Obligations)	IAS 37, Provisions, Contingent Liabilities and Contingent Assets , requires a provision to be recognized when: there is a present obligation (legal or constructive) as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. Probable in this context means more likely than not. Under Canadian GAAP, constructive obligations were recognized only if required by a specific standard, and the criterion for recognition in the financial statements was likely , which is a higher threshold than probable . Therefore, it is possible that there may be some contingent liabilities not recognized under Canadian GAAP which would require a provision under IFRS. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range whereas Canadian GAAP used the low end), and the requirement under IFRS for provisions to be discounted where material. In relation to asset retirement obligations, measurement under IFRS will be based on management s best estimate, while measurement under Canadian GAAP was based on the fair value of the obligation (which takes market assumptions into account). Under IFRS, the full asset retirement obligation will be remeasured each period using the current discount rate. Under Canadian GAAP, cash flow estimates associated with asset retirement obligations were discounted using historical discount rates. Changes in the discount rate alone did not result in a remeasurement of the liability. Changes in estimates that decreased the liability were discounted using the discount rate applied upon initial recognition of the liability. When changes in estimates increased the liability, the additional liability was discounted using the current discount rate. IFRS require the company s asset retirement obligations to be discounted using a risk-free rate. Under Canadian GAAP, asset retirement obligations were discounted using a credit-adjusted risk-free rate. Under IFRS, the increase in the measurement of an asset retirement obligation due to the passage of time (unwinding of the discount) will be classified as a finance expense. Under Canadian GAAP, this amount was classified as an operating expense.
(c) Investments	Under IFRS, jointly controlled entities will be accounted for using the equity method. Under Canadian GAAP, joint ventures were accounted for using proportionate consolidation. Certain of the company s equity-accounted investees adopted IFRS earlier than PotashCorp, resulting in certain IFRS 1 elections being made, particularly related to use of fair value as deemed cost on certain items of property, plant and equipment and related to the use of the business combinations exemption. As a result, the company will recognize its share of such elections as an adjustment to its opening retained earnings and its investments in equity-accounted investees.
(d) Property, Plant and Equipment	Under IFRS, where part of an item of property, plant and equipment has a cost that is significant in relation to the cost of the item as a whole, it must be depreciated separately from the remainder of the item. Canadian GAAP was similar in this respect; however, the componentization concept was not often applied to the same extent due to practicality and/or materiality.

Under IFRS, the cost of major overhauls on items of property, plant and equipment will be capitalized as a component of the related item of property, plant and equipment and amortized over the period until the next major overhaul. Under Canadian GAAP, these costs were expensed in the year incurred.

(e) Borrowing Costs	Under IFRS, borrowing costs will be capitalized to assets which take a substantial time to develop or construct using a capitalization rate based on the weighted average interest rate on all of the company s outstanding third-party debt. Under the company s Canadian GAAP policy, the interest capitalization rate was based only on the weighted average interest rate on third-party long-term debt.
(f) Inventories	Under IFRS, at interim periods, price, efficiency, spending and volume variances of a manufacturing entity will be recognized in income to the same extent that those variances will be recognized in income at financial year-end. Under IFRS, deferral of variances that are expected to be absorbed by year-end is not appropriate because it could result in reporting inventory at the interim date at more or less than its portion of the actual cost of manufacture. Under Canadian GAAP, variances that were planned and expected to be absorbed by the end of the year were ordinarily deferred at the end of an interim period. Net income and equity for annual periods will not be affected.

Accounting Policy Area	Differences from Previous Canadian GAAP
(g) Impairment of Assets	IAS 36, Impairment of Assets , uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). Canadian GAAP generally used a two-step approach to impairment testing, first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring any impairment by comparing asset carrying values with fair values. This difference may potentially result in more impairments where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. In addition, IAS 36 requires the reversal of any previous impairment losses (to the amounts the assets would now be carried at had depreciation continued) where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibited reversal of impairment losses.
(h) Share-Based Payments	IFRS 2, Share-Based Payments , requires that cash-settled share-based payments to employees be measured (both initially and at each reporting date) based on fair value of the awards. Canadian GAAP required that such payments be measured based on intrinsic value of the awards. This difference is expected to impact the accounting measurement of some of the company s cash-settled employee incentive plans, such as its performance unit incentive plan. IFRS 2 requires an estimate of compensation cost to be recognized in relation to performance options for which service has commenced but which have not yet been granted. The compensation cost recognized would then be trued up once options have been granted. Under Canadian GAAP, compensation cost was first recognized when the options were granted. This will create a timing difference between IFRS and Canadian GAAP in terms of when compensation cost relating to employee service provided in the first quarter of the year is recognized. In relation to stock option costs in 2010, net income will decrease in the first quarter and increase in the second quarter by $13. Net income and equity for annual periods will not be affected.
(i) Income Taxes	Under IFRS, the guidance in IAS 12, Income Taxes , will be used to determine the benefit to be received in relation to uncertain tax positions. This differs from the methodology used under Canadian GAAP. Under IFRS, deferred tax assets recognized in relation to share-based payment arrangements (for example, the company s employee stock option plan in the US) will be adjusted each period to reflect the amount of future tax deductions that the company expects to receive in excess of stock-based compensation recorded in the consolidated financial statements based on the current market price of the shares. The benefit of such amounts will be recognized in contributed surplus and never impacts net income. Under the company s Canadian GAAP policy, tax deductions for its employee stock option plan in the US were recognized as reductions to tax expense, within net income, in the period that the deduction was allowed. Under IFRS, deferred tax assets associated with share-based compensation recorded in the consolidated financial statements as an expense in the current or previous period

should be reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized. Under Canadian GAAP, this income tax benefit was calculated without estimating the income tax effects of anticipated share-based payment transactions.

Under IFRS, adjustments relating to a change in tax rates will be recognized in the same category of comprehensive income in which the original amounts were recognized. Under Canadian GAAP, such adjustments were recognized in net income, regardless of the category in which the original amounts were recognized. In addition, foreign exchange gains on deferred income tax liabilities would be recorded in other comprehensive income under IFRS, but were recorded in net income under Canadian GAAP.

Under IFRS, deferred income taxes will be classified as long-term. Under Canadian GAAP, future income taxes were separated between current and long-term on the statement of financial position.

Under IFRS, unrealized profits resulting from intragroup transactions will be eliminated from the carrying amount of assets, but no equivalent adjustment will be made for tax purposes. The difference between the tax rates of the two entities will impact net income. This differs from Canadian GAAP, where the current tax payable in relation to such profits was recorded as a current asset until the transaction was realized by the group.

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Reconciliations from Canadian GAAP to IFRS

Reconciliation of Net Income

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Net Income Canadian GAAP	$ 472	$ 921
IFRS adjustments to net income:		
Policy choices		
Employee benefits Actuarial gains and losses[(a)]	7	13
Other		
Provisions Changes in asset retirement obligations[(b)]	(24)	(25)
Property, plant and equipment[(d)]	8	8
Borrowing costs[(e)]	(4)	(6)
Manufacturing cost variances at interim periods[(f)]	6	15
Employee benefits Past service costs[(a)]	(1)	(1)
Impairment of assets[(g)]	(2)	(1)
Share-based payments[(h)]	14	(1)
Income taxes Tax effect of above differences	1	1
Income tax-related differences[(i)]	3	
Net Income IFRS	$ 480	$ 924

References relate to items described in the Changes in Accounting Policies table above.

Reconciliation of Shareholders Equity

	June 30, 2010
Shareholders Equity Canadian GAAP	$ 6,569
IFRS adjustments to shareholders equity:	
Policy choices	
Employee benefits Actuarial gains and losses[(a)]	(352)
Other	
Provisions Changes in asset retirement obligations[(b)]	(90)
Investments[(c)]	(45)
Property, plant and equipment[(d)]	27
Borrowing costs[(e)]	(20)
Manufacturing cost variances at interim periods[(f)]	15
Employee benefits Past service costs and Canadian GAAP transition amounts[(a)]	12
Impairment of assets[(g)]	6
Constructive obligations[(b)]	(2)

Share-based payments[h]	1
Income taxes Tax effect of above differences	153
Income tax-related differences[i]	128
Shareholders Equity IFRS	$ 6,402

References relate to items described in the Changes in Accounting Policies table above.

Reconciliation of Comprehensive Income

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Comprehensive Income Canadian GAAP	$ (375)	$ 155
IFRS adjustments to comprehensive income:		
Differences in net income	8	3
Comprehensive Income IFRS	$ (367)	$ 158

References relate to items described in the Changes in Accounting Policies table above.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis are the responsibility of management and are as of August 5, 2011. 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 this disclosure, pursuant to the authority delegated to it by the Board of Directors. 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. The company is a foreign private issuer under the rules and regulations of the US Securities and Exchange Commission (the SEC); however, the company currently files voluntarily on the SEC s domestic forms.

Adoption of International Financial Reporting Standards (IFRS)

The unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q reflect the adoption of IFRS, with effect from January 1, 2010. Periods prior to January 1, 2010 have not been restated and were in accordance with Canadian GAAP which, as discussed in Item 1 of this Quarterly Report on Form 10-Q, was applied during the periods prior to the effective date of the company s adoption of IFRS. As a foreign private issuer under the rules and regulations of the SEC, the company is permitted to use IFRS.

Our unaudited interim condensed consolidated financial statements included in Part I Item 1 of our 2011 First Quarter Quarterly Report on Form 10-Q contain a detailed description of our conversion to IFRS, including a reconciliation of key components of our financial statements previously prepared under Canadian GAAP to those under IFRS as at January 1 and December 31, 2010, and for the year ended December 31, 2010. Note 13 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q contains a reconciliation of key components of our financial statements previously prepared under Canadian GAAP to those under IFRS as at and for the three months and six months ended June 30, 2010.

Although the adoption of IFRS resulted in adjustments to our financial statements, it did not materially impact the underlying cash flows or profitability trends of our operating performance, debt covenants or compensation arrangements.

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. Our offshore customers are government agencies and private importers that buy under contract and on the spot market; spot market 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 directly to a specified location.

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.

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. 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 on our world-class potash assets to meet the rising global demand for this vital nutrient. By investing in potash capacity while producing to meet market demand, we seek to 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 enhance 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 to our success that our customers recognize our ability to create value for them based on the price they pay for our products.

As we plan for our future, we carefully weigh our choices for use of our cash flow. We base investment decisions on cash flow return materially exceeding cost of capital, evaluating the best prospects for return on investment that match 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 related to this nutrient. We also consider share repurchases and increased dividends as ways to maximize shareholder value over the long term.

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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 2011 targets are set out on pages 41 and 42 of our 2010 Financial Review Annual Report. A summary of our progress against selected goals and representative annual targets is set out below.

Goal	Representative 2011 Annual Target	Performance to June 30, 2011
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 40 percent below the 2008 annual level for the first six months of 2011. It was 58 percent below the 2008 annual level for the first six months of 2010 and 62 percent below the 2008 annual level by the end of 2010.
Achieve no damage to the environment.	Reduce total reportable releases, permit excursions and spills by 10 percent from 2010 levels.	Annualized total reportable releases, permit excursions and spills were down 20 percent during the first six months of 2011 compared to 2010 annual levels. Compared to the first six months of 2010, total reportable releases, permit excursions and spills during the same period of 2011 were down 33 percent.
Create superior long-term shareholder value.	Exceed total shareholder return performance for our sector and the DAXglobal Agribusiness Index for 2011.	PotashCorp s total shareholder return was 11 percent in the first six months of 2011 compared to our sector s weighted average return (based on market capitalization) of 1 percent and the DAXglobal Agribusiness Index weighted average return (based on market capitalization) of NIL percent.

Financial Overview

This discussion and analysis are based on the company s unaudited interim condensed consolidated financial statements reported under IFRS, unless otherwise stated. These principles differ in certain significant respects from accounting principles generally accepted in the United States. These differences are described and quantified in Note 12 to the unaudited interim condensed consolidated financial 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 2010 Financial Review Annual Report and our 2011 First Quarter Quarterly Report on Form 10-Q.

Earnings Guidance Second Quarter 2011

	Company Guidance	Actual Results
Earnings per share	$0.70 $0.90	$0.96

Overview of Actual Results

Dollars (millions) except per-share amounts	Three Months Ended June 30 2011	2010	Change	% Change	Six Months Ended June 30 2011	2010	Change	% Change
Sales	$ 2,325	$ 1,437	$ 888	62	$ 4,529	$ 3,151	$ 1,378	44
Gross Margin	1,168	585	583	100	2,264	1,314	950	72
Operating Income	1,175	679	496	73	2,200	1,345	855	64
Net Income	840	480	360	75	1,572	924	648	70
Net Income per Share								
Diluted	0.96	0.53	0.43	81	1.79	1.01	0.78	77
Other Comprehensive Loss	(94)	(847)	753	(89)	(340)	(766)	426	(56)

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Record earnings in the second quarter and first half of 2011 were higher than the same periods of 2010 due to higher sales prices for all nutrients and increased demand for potash, phosphate and ammonia. Attractive economics for goods that use our products continued to increase our customers consumption of our products. Strong demand coupled with our low inventories put upward pressure on pricing for most products. Second-quarter potash gross margin represented 68 percent of total second-quarter gross margin (70 percent in 2010) and 68 percent of first six months gross margin (72 percent in 2010). Sales prices for phosphate fertilizer products and all nitrogen products increased significantly during the second quarter and first six months of 2011 compared to the same periods in 2010.

Despite volatility in commodity markets, crop economics remained attractive throughout the second quarter, giving farmers the incentive to improve nutrient applications, which resulted in rising fertilizer demand and pricing. During the quarter, key spot-market potash buyers moved aggressively to secure sufficient volumes to fill immediate needs. With demand putting pressure on global supply capabilities, producers operated at or near record production levels in an attempt to keep pace.

Offshore potash shipments from North American producers for the second quarter were 23 percent higher than in the same period in 2010 and reached a record 5.9 million tonnes for the first half of 2011. This was achieved on the strength of demand in Latin America and spot markets in Asia, which more than offset the absence of India, where there has been no contract since the end of the first quarter of 2011. Despite a late planting season, domestic shipments from North American producers during the quarter rose 39 percent from the same period last year. Combined with a strong first quarter, first-half domestic shipments reached 4.6 million tonnes, similar to totals for the same period last year. By the end of the second quarter, North American producer inventories were reduced to their lowest levels of the year 26 percent below the average of the last five years. Tightening supply/demand conditions continued to push prices higher in most major markets, including China, which signed new supply commitments late in the second quarter.

In phosphate, second-quarter solid fertilizer shipments from US producers climbed 9 percent from the same quarter last year, buoyed by strong export demand. Following the settlement of six-month commitments with India in late March, exports from US producers rose 19 percent compared to the second quarter of 2010. By the end of June, US solid phosphate producer inventories were 28 percent below the previous five-year average. The combination of strong demand, higher raw material costs and the expectation of lower phosphate exports from China exerted upward pressure on pricing. In nitrogen, demand remained robust, with second-quarter US domestic shipments of ammonia and urea comparable to 2010 levels. US producer inventories for both products tightened in the quarter, pushing up prices for all nitrogen products. After lagging ammonia through the first quarter of 2011, prices for urea moved sharply higher on strong agricultural demand and an expectation of lower urea exports from China. Competitive US gas prices continued to support healthy margins for domestic nitrogen producers.

Other significant factors that affected earnings in the second quarter and first half of 2011 compared to the same periods in 2010 were: (1) higher income taxes due to increased earnings; (2) lower dividend income from Israel Chemicals Ltd. (ICL); (3) more earnings from equity-accounted investees; (4) higher selling and administrative expenses due to certain compensation arrangements (quarter over quarter, 2010 results were impacted by a lower share price, while year over year, our share price rose in 2011 but fell in 2010); and (5) increased provincial mining and other taxes as a result of escalating potash sales revenue and profits. Other comprehensive loss for the second quarter of 2011 was due to a decline in the fair value of our investment in ICL. The fair value decline of our investments in ICL and Sinofert Holdings Limited (Sinofert) during the first half of 2011 led to other comprehensive loss for that period. In 2010, other comprehensive loss for the second quarter and first half were the result of even larger declines in the fair values of both ICL and Sinofert.

Balance Sheet

Property, plant and equipment increased primarily (80 percent) due to our previously announced potash capacity expansions and other potash projects. Available-for-sale investments declined due to the fair value of our investments in ICL and Sinofert falling. Receivables were mainly impacted by higher trade receivables (consistent with higher sales) and partially offset by declines in hedge margin deposits on our natural gas derivatives. As at June 30, 2011, $321 million of our cash and cash equivalents were held in certain foreign subsidiaries. There are no current plans to repatriate these funds in a taxable manner.

Short-term debt decreased in the first half of 2011 as a result of repaying 10-year senior notes in the second quarter and commercial paper repayments exceeding advances. Deferred income tax liabilities increased primarily due to tax depreciation exceeding accounting depreciation.

Significant changes in equity were primarily the result of net income being partially offset by other comprehensive losses for the first six months of 2011, as discussed in more detail above.

Operating Segment Review

Note 5 to the unaudited interim condensed consolidated financial statements provides information pertaining to our operating segments. Management includes net sales in segment disclosures in the unaudited interim condensed consolidated financial statements pursuant to IFRS, 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.

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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 June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne[1]		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Sales	$ 1,121	$ 641	75						
Freight, transportation and distribution	(70)	(51)	37						
Net sales	$ 1,051	$ 590	78						
Manufactured product									
Net sales									
North America	$ 409	$ 213	92	831	575	45	$ 492	$ 370	33
Offshore	640	375	71	1,690	1,329	27	$ 379	$ 282	34
	1,049	588	78	2,521	1,904	32	$ 416	$ 309	35
Cost of goods sold	(256)	(185)	38				$ (101)	$ (97)	4
Gross margin	793	403	97				$ 315	$ 212	49
Other miscellaneous and purchased product									
Net sales	2	2							
Cost of goods sold	(2)	6	n/m						