

MOSAIC CO
Form 10-K
July 23, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2010

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

For the transition period from ___ to ___

Commission file number 001-32327

The Mosaic Company

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

20-0891589
(I.R.S. Employer
Identification No.)

3033 Campus Drive

Suite E490

Plymouth, Minnesota 55441

(800) 918-8270

(Address and zip code of principal executive offices and registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 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 No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 30, 2009, the aggregate market value of the registrant s voting common stock held by non-affiliates was approximately \$8.64 billion based upon the closing price of these shares on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant s classes of common stock: 445,486,732 shares of Common Stock, par value \$0.01 per share, as of July 16, 2010.

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DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Annual Report to Stockholders for the fiscal year ended May 31, 2010 (Part I and Part II)
2. Portions of the registrant's definitive proxy statement to be delivered in conjunction with the 2010 Annual Meeting of Stockholders (Part III)

Table of Contents**2010 FORM 10-K CONTENTS**

Part I:	Page
Item 1. <u>Business</u>	1
<u>Overview</u>	1
<u>Business Segment Information</u>	3
<u>Sales and Distribution Activities</u>	19
<u>Competition</u>	20
<u>Factors Affecting Demand</u>	22
<u>Other Matters</u>	22
<u>Executive Officers</u>	23
Item 1A. <u>Risk Factors</u>	25
Item 1B. <u>Unresolved Staff Comments</u>	43
Item 2. <u>Properties</u>	43
Item 3. <u>Legal Proceedings</u>	43
Part II:	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	45
Item 6. <u>Selected Financial Data</u>	45
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
Item 8. <u>Financial Statements and Supplementary Data</u>	46
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	46
Item 9A. <u>Controls and Procedures</u>	46
Item 9B. <u>Other Information</u>	46
Part III:	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	47
Item 11. <u>Executive Compensation</u>	47
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	47
Item 14. <u>Principal Accounting Fees and Services</u>	47
Part IV:	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	48
<u>Signatures</u>	S-1
<u>Exhibit Index</u>	E-1

Table of Contents

PART I.

Item 1. Business.

OVERVIEW

The Mosaic Company is one of the world's leading producers and marketers of concentrated phosphate and potash crop nutrients for the global agriculture industry. Through our broad product offering, we are a single source supplier of phosphate- and potash-based crop nutrients and animal feed ingredients. We serve customers in more than 40 countries. We mine phosphate rock in Florida and process rock into finished phosphate products at facilities in Florida and Louisiana. We mine potash in Saskatchewan, New Mexico and Michigan. We have other production, blending or distribution operations and equity investments in Brazil, China, India, Argentina, and Chile, and recently made a strategic equity investment in a new phosphate rock mine in Peru. Our operations include the top four nutrient-consuming countries in the world.

The Mosaic Company is a Delaware corporation that was incorporated in January 2004 to serve as the parent company of the business that was formed through the business combination of IMC Global Inc. and the fertilizer businesses of Cargill, Incorporated.

As of May 31, 2010, Cargill owned approximately 64.2% of our outstanding common stock. We are publicly traded on the New York Stock Exchange under the ticker symbol "MOS" and are headquartered in Plymouth, Minnesota.

We conduct our business through wholly and majority-owned subsidiaries as well as businesses in which we own less than a majority or a non-controlling interest. We are organized into two reportable business segments: Phosphates and Potash. The following chart shows the respective contributions to fiscal 2010 net sales and operating earnings for each of these business segments and Corporate, Eliminations and Other:

Phosphates Segment We are the largest integrated phosphate producer in the world and the largest producer of phosphate-based animal feed ingredients in the United States. We sell phosphate-based crop nutrients and animal feed ingredients throughout North America and internationally. Our Phosphates segment also includes our North American and international distribution activities. Our distribution activities include sales offices, port terminals and warehouses in the United States, Canada, and several other key international countries. In addition, the international distribution activities include blending, bagging and production facilities in Brazil and a number of other countries. We accounted for approximately 13% of estimated global production and 56% of estimated North American production of phosphate crop nutrients during fiscal 2010.

Table of Contents

Potash Segment We are the third-largest producer of potash in the world. We sell potash throughout North America and internationally, principally as fertilizer, but also for use in industrial applications and, to a lesser degree, as animal feed ingredients. We accounted for approximately 12% of estimated global potash production and 38% of estimated North American potash production during fiscal 2010.

Corporate, Eliminations and Other Other net sales and operating earnings in the charts above include sales of nitrogen products and the results of our corporate operations.

As used in this report:

Mosaic means The Mosaic Company;

we , *us* , and *our* refer to Mosaic and its direct and indirect subsidiaries, individually or in any combination;

IMC means IMC Global Inc.;

Cargill means Cargill, Incorporated and its direct and indirect subsidiaries other than us, individually or in any combination;

Cargill Crop Nutrition or *CCN* means the crop nutrient business we acquired from Cargill in the Combination;

Combination means the October 22, 2004 combination of IMC and Cargill Crop Nutrition;

references in this report to a particular fiscal year are to the twelve months ended May 31 of that year; and

tonne or *tonnes* means a metric tonne or tonnes of 2,205 pounds each unless we specifically state that we mean short or long tons.

Business Developments during Fiscal 2010

During fiscal 2010, a period of significant market uncertainty, we continued to execute against our strategic priorities. At the core of our strategy is a plan to extend our resource base and invest in the growth of both phosphates and potash. In the Potash segment, we are growing by investing in brownfield expansions. In the Phosphates segment, we are focusing on growing the value of our business and maintaining our position as one of the lowest cost phosphate producers in the world. Our global distribution network improves the access of our North American production assets to the global markets for our products and helps balance the seasonality of our business. In fiscal 2010 the steps we took to execute our strategic priorities including the following:

We continued the expansion of capacity in our Potash segment, in line with our view of the long-term fundamentals of that business. The planned expansions over the next several years are expected to increase our annual capacity for finished product by more than five million tonnes. We are positioning our expansion projects so that we are able to bring the additional capacity on line when market demand warrants.

We diversified our phosphate rock sources in alignment with our strategy. In the latter half of fiscal 2010, we entered into an agreement that we consummated on July 7, 2010 to acquire a 35% economic interest in a joint venture (the ***Miski Mayo Joint Venture***), with subsidiaries of Vale S.A. and Mitsui & Co., Ltd., that owns a recently completed phosphate rock mine (the ***Miski Mayo Mine***) in the Bayovar region of Peru for \$385 million. We also entered into a commercial offtake supply agreement to purchase phosphate rock from the Miski Mayo Mine in a volume proportionate to our economic interest in the joint venture. Phosphate rock production at the Miski Mayo Mine and deliveries to us are expected to begin in the first half of fiscal 2011. The Miski Mayo Mine's expected production capacity is 3.9 million tonnes per year, once full capacity is reached.

Table of Contents

On February 11, 2010, we entered into agreements with Vale S.A. and its subsidiaries (*Vale*) under which Vale has call options to purchase from us, and we have put options to sell to Vale, our minority stake in Fertifos Administração e Participação S.A. (*Fertifos*) and Fertilizantes Fosfatados S.A. (*Fosfertil*), and our Cubatão facility in Brazil. These assets are part of our Phosphates segment. The aggregate sales price for these assets, if the options are exercised, is in excess of \$1 billion. The sale is subject to a number of conditions. We have included additional information about this transaction under *Sale of Fosfertil and Cubatão Facility* .

We generated operating cash flow of \$1.4 billion in fiscal 2010 and maintained cash and cash equivalents of \$2.5 billion as of May 31, 2010. We were successful in investing in our business, divesting non-strategic assets and providing a significant cash return to our stockholders. Our strong cash flows allowed us to pay a special dividend of \$578.5 million, or \$1.30 per share, on December 3, 2009 in addition to quarterly dividends of \$0.05 per share of common stock for each quarter of fiscal 2010.

We entered into a new unsecured three-year revolving credit facility of up to \$500 million. This facility is available for revolving credit loans, swing line loans of up to \$20 million and letters of credit of up to \$200 million. Replacement of our prior credit facility with this new facility reflects the culmination of our efforts to achieve the goal we established at the time of formation of Mosaic to achieve investment grade credit ratings¹ and eliminate a non-investment grade financing and debt covenant structure.

We have included additional information about these and other developments in our business during fiscal 2010 in our Management's Discussion and Analysis of Financial Condition and Results of Operations (*Management's Analysis*) that is incorporated by reference in this report in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations .

After the end of fiscal 2010, on June 30 2010, certain environmental groups filed a lawsuit against the U.S. Army Corps of Engineers (the *Corps*) contesting its issuance of a federal wetlands permit for the extension of our South Fort Meade, Florida, phosphate rock mine into Hardee County (the *Hardee County Extension*). On July 1, 2010, the court issued a temporary restraining order (*TRO*) prohibiting the Corps and us from conducting activities in jurisdictional waters of the United States in reliance on the federal wetlands permit issued by the Corps. The TRO remains in effect through July 28, 2010 unless modified or extended by the court. The court also held a hearing on plaintiffs' motion for a preliminary injunction on July 22, 2010. If a preliminary injunction is entered by the court and mining of the Hardee County Extension is not permitted, we expect that we will need to shut down, in whole or in part, mining activities at the South Fort Meade mine for an indefinite period of time, resulting in layoffs of employees, significant costs to suspend operations, idle plant costs and possible other impacts on our Phosphates operations. We have included additional information about this lawsuit in our Management's Analysis and in Note 21 of our Consolidated Financial Statements.

BUSINESS SEGMENT INFORMATION

The discussion below of our business segment operations should be read in conjunction with the following information that we have included in this report:

The risk factors discussed in this report in Part I, Item 1A, Risk Factors.

Our Management's Analysis.

The financial statements and supplementary financial information in our Consolidated Financial Statements (*Consolidated Financial Statements*). This information is incorporated by reference in this report in Part II, Item 8, Financial Statements and Supplementary Data.

¹ A security rating is not a recommendation to buy, sell or hold securities. A security rating may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated separately from any other rating.

Table of Contents

Phosphates Segment

Our **Phosphates** business segment has historically owned and operated mines and production facilities in Florida which produce concentrated phosphate crop nutrients and phosphate-based animal feed ingredients, and processing plants in Louisiana which produce concentrated phosphate crop nutrients. Our Phosphates segment's results have also historically included our North American distribution activities and the results of Phosphate Chemicals Export Association, Inc. (**PhosChem**), a U.S. Webb-Pomerene Act association of phosphate producers which exports concentrated phosphate crop nutrient products around the world for us and PhosChem's other member.

In the second quarter of fiscal 2010, we implemented an international distribution strategy that realigned our business segments (the **Realignment**) to more clearly reflect our evolving business model. The Realignment consisted of moving from three to two business segments by combining our Offshore segment with our Phosphates segment. Our former Offshore business was principally an international distributor of crop nutrients. Our Phosphates business segment now includes our North American concentrated phosphate crop nutrient and animal feed ingredients operations, North American distribution activities, the results of PhosChem, and international distribution activities. The Realignment is intended to further align our strong global distribution resources with our North American production assets.

U.S. Phosphate Crop Nutrients and Animal Feed Ingredients

We are the largest producer of concentrated phosphate crop nutrients and animal feed ingredients in the world. Our U.S. phosphates operations have capacity to produce approximately 4.4 million tonnes of phosphoric acid (P_2O_5) per year, or about 9% of world capacity and about 45% of North American capacity. Phosphoric acid is produced by reacting finely ground phosphate rock with sulfuric acid. Phosphoric acid is the key building block for the production of high analysis or concentrated phosphate crop nutrients and animal feed products, and is the most comprehensive measure of phosphate capacity and production and a commonly used benchmark in our industry. Our U.S. phosphoric acid production totaled approximately 3.6 million tonnes during fiscal 2010 and accounted for approximately 11% of estimated global production and 46% of estimated North American output during fiscal 2010.

Our phosphate crop nutrient products are marketed worldwide to crop nutrient manufacturers, distributors and retailers. Our principal phosphate crop nutrient products are:

Diammonium Phosphate (**DAP**). DAP is the most widely used high-analysis phosphate crop nutrient worldwide. DAP is produced by combining phosphoric acid with anhydrous ammonia. This initial reaction creates a slurry that is then pumped into a granulation plant where it is reacted with additional ammonia to produce DAP. DAP is a solid granular product.

Monoammonium Phosphate (**MAP**). MAP is the second most widely used high-analysis phosphate crop nutrient and the fastest growing phosphate product worldwide. MAP is also produced by first combining phosphoric acid with anhydrous ammonia. The resulting slurry is then pumped into the granulation plant where it is reacted with additional phosphoric acid to produce MAP. MAP is a solid granular product, but requires less ammonia and more sulfur than DAP.

MicroEssentials[®] is a value-added ammoniated phosphate product that is enhanced through a patented process that creates very thin platelets of sulfur and other micronutrients, such as zinc, on the granulated product. The patented process incorporates both the sulfate and elemental forms of sulfur, providing season long availability to crops.

In addition, our Phosphates segment is one of the largest producers and marketers of phosphate-based animal feed ingredients in the world. Production of our animal feed ingredients products is located at our New Wales, Florida facility. We market our feed phosphate primarily under the leading brand names of Biofos[®] and Multifos[®].

Table of Contents

Our primary phosphate crop nutrient and feed phosphate production facilities are located in central Florida and Louisiana. The following map shows the locations of each of our phosphate concentrates plants in the United States and the locations of each of our active and planned future phosphate mines in Florida:

Annual capacity by plant at May 31, 2010 and production volumes by plant for fiscal 2010 are listed below:

<i>(tonnes in millions)</i>	Facility	Phosphoric Acid		Processed Phosphate ^(a) /DAP/MAP MicroEssentials®/Feed Phosphate	
		Annual Operational Capacity ^(b)	Production	Annual Operational Capacity ^(b)	Production
Florida:					
	Bartow	1.0	0.8	2.1	1.8
	New Wales	1.7	1.5	4.2	3.3
	Riverview	0.9	0.7	1.7	1.5
		3.6	3.0	8.0	6.6
Louisiana:					
	Faustina	-	-	1.7	1.3
	Uncle Sam	0.8	0.6	-	-
		0.8	0.6	1.7	1.3
	Total	4.4	3.6	9.7	7.9

^(a) Our effective capacity to produce processed phosphates has been less than our nominal capacity except to the extent we purchase phosphoric acid.

Table of Contents

(b) Actual operating rates vary from those shown in the above table due to factors that include among others the level of demand for our products, maintenance and turnaround time, accidents, mechanical failure, product mix, and other operating conditions. The phosphoric acid produced at Uncle Sam is shipped to Faustina, where it is used to produce DAP and MAP. Our Faustina plant also manufactures ammonia that is mostly consumed in our concentrate plants.

We produced approximately 7.3 million tonnes of phosphate crop nutrients for fiscal 2010 and accounted for roughly 13% of estimated world output and 56% of estimated North American production.

Phosphate Rock

Phosphate rock is the key mineral used to produce phosphate crop nutrients and feed phosphate. Our phosphate rock production totaled approximately 13.3 million tonnes in fiscal 2010 and accounted for approximately 8% of estimated world production and 48% of estimated North American production. We are the world's second largest miner of phosphate rock and currently operate five mines with a combined annual capacity of approximately 16.4 million tonnes. Production of one tonne of DAP requires between 1.6 and 1.7 tonnes of phosphate rock.

All of our phosphate mines and related mining operations are located in central Florida. During fiscal 2010, we operated five active mines: Four Corners, South Fort Meade, Hookers Prairie, Hopewell and Wingate. We plan to develop two large mines at Ona and at Pine Level to replace mines that will be depleted, as we continue to operate, at various times during the next decade.

The phosphate deposits of Florida are of sedimentary origin and are part of a phosphate-bearing province that extends from southern Florida north along the Atlantic coast into southern Virginia. Our active phosphate mines are primarily located in what is known as the Bone Valley Member of the Peace River Formation in the Central Florida Phosphate District. The southern portions of the Four Corners and Wingate mines are in what is referred to as the Undifferentiated Peace River Formation, in which our future Ona and Pine Level mines would also be located. Phosphate mining has been conducted in the Central Florida Phosphate District since the late 1800's. The potentially mineable portion of the district encompasses an area approximately 80 miles in length in a north-south direction and approximately 40 miles in width.

We extract phosphate ore using large surface mining machines that we own called draglines. Prior to extracting the ore, the draglines must first remove a 10 to 50 foot layer of sandy overburden. At our Wingate mine, we also utilize dredges to strip the overburden and mine the ore. We then process the ore at beneficiation plants that we own at each active mine where the ore goes through washing, screening, sizing and flotation processes designed to separate the phosphate rock from sands, clays and other foreign materials. Prior to commencing operations at any of our planned future mines, we would need to acquire new draglines or move existing draglines to the mines and, unless the beneficiation plant at an existing mine were used, construct a beneficiation plant.

Table of Contents

The following table shows, for each of our phosphate mines, annual capacity at May 31, 2010 and rock production volume and grade for the past three fiscal years:

<i>(tonnes in millions)</i>	2010					2009			2008		
	Annual Operational Capacity (a)	Production	Average BPL (b)	% P ₂ O ₅ (c)	Production	Average BPL (b)	% P ₂ O ₅ (c)	Production	Average BPL (b)	% P ₂ O ₅ (c)	
Four Corners	6.5	5.6	66.4	30.4	5.1	64.9	29.7	5.6	65.0	29.7	
South Fort Meade	6.0	4.3	63.0	28.8	5.1	61.9	28.3	6.4	62.1	28.4	
Hookers Prairie	2.0	1.8	64.8	29.7	1.6	64.8	29.7	2.3	64.6	29.6	
Wingate	1.4	1.1	65.0	29.7	0.9	65.5	30.0	1.0	62.9	28.8	
Hopewell ^(d)	0.5	0.5	68.7	31.4	0.5	70.9	32.4	0.5	68.8	31.5	
Total	16.4	13.3	65.0	29.8	13.2	64.0	29.3	15.8	63.8	29.2	

(a) Actual operating rates vary from those shown in the above table due to factors that include among others the level of demand for our products, the quality of the reserves and the nature of the geologic formations we are mining at any particular time, maintenance and turnaround time, accidents, mechanical failure, weather conditions, and other operating conditions.

(b) Bone Phosphate of Lime (*BPL*) is a traditional reference to the amount (by weight percentage) of calcium phosphate contained in phosphate rock or a phosphate ore body. A higher BPL corresponds to a higher percentage of calcium phosphate.

(c) The percent of P₂O₅ in the above table represents a measure of the phosphate content in phosphate rock or a phosphate ore body. A higher percentage corresponds to a higher percentage of phosphate content in phosphate rock or a phosphate ore body.

(d) We expect to exhaust the Hopewell mine's reserves in fiscal 2011.

We also purchase phosphate rock from time to time. The level of our purchases of phosphate rock in the future will depend upon, among other factors, our phosphate rock mining plans, the status of our permits, our need for additional phosphate rock to allow us to operate our concentrates plants at or near full capacity, the quality and level of impurities in the phosphate rock that we mine, and our development or acquisition of additional phosphate rock deposits and mines. Depending on product mix and tonnage requirements, our need for purchased phosphate rock could increase in the future in order to meet product specifications, particularly as we develop our proposed Ona and Pine Level mines. Our recent investment in the Miski Mayo Joint Venture and related commercial offtake supply agreement to purchase a share of the phosphate rock from the Miski Mayo Mine will allow us to reduce our purchases of phosphate rock from other suppliers, after production begins at the mine.

Reserves

We estimate our phosphate rock reserves based upon exploration core drilling as well as technical and economic analyses to determine that reserves can be economically mined. Proven (measured) reserves are those resources of sufficient concentration to meet minimum physical, chemical and economic criteria related to our current product standards and mining and production practices. Our estimates of probable (indicated) reserves are based on information similar to that used for proven reserves, but sites for drilling are farther apart or are otherwise less adequately spaced than for proven reserves, although the degree of assurance is high enough to assume continuity between such sites. Proven reserves are determined using a minimum drill hole spacing of two sites per 40 acre block. Probable reserves have less than two drill holes per 40 acre block, but geological data provides a high degree of assurance that continuity exists between sites.

Table of Contents

The following table sets forth our proven and probable phosphate reserves as of May 31, 2010:

<i>(tonnes in millions)</i>	Reserve Tonnes ^{(a) (b) (c)}	Average BPL ^(d)	% P ₂ O ₅
Active Mines			
Four Corners	57.5 ^(e)	65.5	30.0
South Fort Meade	48.3	62.7	28.7
Hookers Prairie	22.8 ^(f)	65.8	30.1
Hopewell	0.2 ^(g)	68.8	31.5
Wingate	35.9 ^(h)	63.2	28.9
Total Active Mines	164.7	64.2	29.4
Future Mining			
Ona	245.5 ^(e)	63.4	29.0
Pine Level	148.0 ⁽ⁱ⁾	64.8	29.6
Total Future Mines	393.5	63.9	29.3
Total Mines	558.2	64.0	29.3

- (a) Reserves are in areas that are fully accessible for mining; free of surface or subsurface encumbrance, legal setbacks, wetland preserves and other legal restrictions that preclude permissible access for mining; believed by us to be permissible; and meet specified minimum physical, economic and chemical criteria related to current mining and production practices.
- (b) Reserve estimates are generally established by our personnel without a third party review. There has been no third party review of reserve estimates within the last five years, except that in fiscal 2008, we engaged a third party to review the recoverable reserves at our Wingate mine's Tract 2 pursuant to contractual requirements related to our acquisition of these reserves. The reserve estimates have been prepared in accordance with the standards set forth in Industry Guide 7 promulgated by the United States Securities and Exchange Commission (*SEC*).
- (c) Of the reserves shown, 530.4 million tonnes are proven reserves, while approximately 1.6 million tonnes at Ona and 26.2 million tonnes at Pine Level are probable reserves.
- (d) Average product BPL ranges from approximately 63% to 69%.
- (e) The reserves shown above reflect a reclassification from the Four Corners mine to the Ona mine of 60.8 million tonnes previously assigned to Four Corners based on an engineering study completed late in fiscal year 2010.
- (f) Of the tonnes shown at Hookers Prairie, our lease of 1.2 million tonnes requires us to pay royalties of \$2.00 per short ton of the reserves that we mine. In addition, our lease of 1.9 million tonnes requires us to pay royalties of \$1.25 per short ton that are generally credited against \$250,000 advance royalties that we paid when we entered into the lease.
- (g) We expect to exhaust the Hopewell mine's reserves in fiscal 2011.
- (h) We acquired Wingate Tract 2, relating to 30.4 million tonnes of the reserves shown for the Wingate mine, in March 2004 pursuant to an agreement under which we paid the seller approximately \$3.4 million in March 2010.
- (i) In connection with the sale in 1994 of certain of the surface rights related to approximately 48.9 million tonnes of the reported Pine Level reserves, we agreed not to mine such reserves until at least 2014. Our current mining plans do not contemplate mining these reserves until at least that time. In addition, in connection with the purchase in 1996 of approximately 99.1 million tonnes of the reported Pine Level reserves, we agreed to (i) pay royalties of between \$0.50 and \$0.90 per ton of rock mined based on future levels of DAP margins, (ii) pay to the seller lost income from the loss of surface use to the extent we use the property for mining related purposes before January 1, 2015 and (iii) re-convey to the seller the lands which are not scheduled to be mined upon completion of the permitting process and the approval of the Development Order for the mine.

Table of Contents

We generally own the reserves shown for active mines in the table above, with the only significant exceptions being further described below:

Of the tonnes shown for the Wingate mine, 1.9 million tonnes are under a lease that we have the right to extend through 2014 and for which we have prepaid substantially all royalties.

We hold the reserves referred to in Note (e) to the above table under leases that we have rights to extend to 2015 and 2022, respectively.

We own the above-ground assets of the South Fort Meade mine, including the beneficiation plant, rail track and clay settling areas. A limited partnership, South Ft. Meade Partnership, L.P. (*SFMP*), owns all of the mineable acres shown in the table for the South Fort Meade mine.

We own 35% of SFMP and financial investors own the remaining 65%. SFMP is included as a consolidated subsidiary in our financial statements.

We have a long-term mineral lease with SFMP. This lease expires on December 31, 2025 or on the date that we have completed mining and reclamation obligations associated with the leased property. Lease provisions include royalty payments and a commitment to give mining priority to the South Fort Meade phosphate reserves. We pay the partnership a royalty on each tonne mined and shipped from the areas that we lease from it. Royalty payments to SFMP total approximately \$13 million annually at current shipment rates.

Through its arrangements with us, SFMP also earns income from mineral lease payments, agricultural lease payments and interest income, and uses those proceeds to service debt and pay dividends to its equity owners.

The surface rights to approximately 619 acres shown in the table above for the South Fort Meade Mine are owned by SFMP, while the U.S. government owns the mineral rights beneath. We control the rights to mine these reserves under a mining lease agreement and pay royalties on the tonnage extracted. Royalties on the approved leases equal approximately 5% of the six-month rolling average mining cost of production when mining these reserves. Under the lease, we paid \$0.1 million in royalties to the U.S. government in fiscal 2010.

In light of the long-term nature of our rights to our reserves, we expect to be able to mine all reported reserves that are not currently owned prior to termination or expiration of our rights. Additional information regarding permitting is included in Part I, Item 1A, *Risk Factors*, under *Environmental, Health and Safety Matters Operating Requirements and Permitting* in our *Management's Analysis*, and under *Phosphate Mine Permitting in Florida* in Note 21 of our Consolidated Financial Statements.

Sulfur

We use molten sulfur at our phosphates concentrates plants to produce sulfuric acid primarily for use in our production of phosphoric acid. We purchased approximately 3.2 million long tons of sulfur during fiscal 2010. We purchase most of this sulfur from North American oil and natural gas refiners who are required to remove or recover sulfur during the refining process. Production of one tonne of DAP requires approximately 0.4 long tons of sulfur. We procure our sulfur from multiple sources and receive it by truck or rail either direct to our phosphate plants or have it sent to terminals for gathering that are located on the US gulf coast.

We own and operate sulfur terminals in Houston, Texas and in Tampa, Florida. We own two ocean-going barges and contract for operation of another ocean-going vessel that transport molten sulfur from the Texas terminals to Tampa and then onward by truck to our Florida phosphate plants. We also own a 50% equity interest in Gulf Sulphur Services Ltd., LLLP (*Gulf Sulphur Services*), which is operated by our joint venture partner. Gulf

Table of Contents

Sulphur Services has a large sulfur transportation and terminaling business in the Gulf of Mexico, and handles these functions for a substantial portion of our Florida sulfur volume. Gulf Sulphur Services' capabilities include melting solid sulfur into the molten form that we use, which permits us to access sources of solid as well as molten sulfur. We further round out our sulfur logistic assets with a large fleet of leased railcars that supplement our marine sulfur logistic system. Our Louisiana operations are served by truck, rail and barge from nearby refineries.

Although sulfur is readily available from many different suppliers and can be transported to our phosphate facilities by a variety of means, sulfur is an important raw material used in our business that has in the past been and may in the future be the subject of volatile pricing and availability. Alternative transportation and terminaling facilities might not have sufficient capacity to fully serve all of our facilities in the event of a disruption to current transportation or terminaling facilities. Changes in the price of sulfur or disruptions to sulfur transportation or terminaling facilities could have a material impact on our business. We have included a discussion of sulfur prices in our Management's Analysis.

Ammonia

We use ammonia together with phosphoric acid to produce both DAP and MAP. We used approximately 1.4 million tonnes of ammonia during fiscal 2010. Production of one tonne of DAP requires approximately 0.2 tonnes of ammonia.

Our Florida ammonia needs are supplied by offshore producers, under multi-year and annual contracts. Ammonia for our New Wales and Riverview plants is terminalled through an ammonia facility at Port Sutton, Florida that we lease for a term expiring in 2013, which we may extend for up to five additional years. A third party operates the Port Sutton ammonia facility pursuant to an agreement that expires in 2013, which we may extend for an unlimited number of additional five year terms, as long as we or the other party is entitled to operate the ammonia facility. Ammonia for our Bartow plant is terminalled through another ammonia facility owned and operated by a third party at Port Sutton, Florida pursuant to an agreement that expires in calendar 2010. Ammonia is transported by pipeline from the terminals to our production facilities. We have a service agreement with the pipeline provider for Bartow that will expire at the end of calendar 2010.

We produce ammonia at Faustina, Louisiana primarily for our own consumption. Our annual capacity is 500,000 tonnes. From time to time we may sell surplus ammonia to unrelated parties.

Although ammonia is readily available from many different suppliers and can be transported to our phosphates facilities by a variety of means, ammonia is an important raw material used in our business that has in the past been and may in the future be the subject of volatile pricing, and alternative transportation and terminaling facilities might not have sufficient capacity to fully serve all of our facilities in the event of a disruption to existing transportation or terminaling facilities. Changes in the price of ammonia or disruptions to ammonia transportation or terminaling could have a material impact on our business. We have included a discussion of ammonia prices in our Management's Analysis.

Natural Gas

Natural gas is the primary raw material used to manufacture ammonia. At our Faustina facility, ammonia is manufactured on site. The majority of natural gas is purchased through firm delivery contracts based on published index-based prices and is sourced from Texas and Louisiana via pipeline interconnected to the Henry Hub. We use over-the-counter swap and option contracts to forward price portions of future gas purchases. The portions of gas purchases not forward priced are purchased at the index based prices or at domestic spot market prices under short-term contracts. We purchase approximately 17 million MMBtu of natural gas per year for use in ammonia production at Faustina.

Because our ammonia requirements for our Florida operations are purchased rather than manufactured on site, we purchase approximately two million MMBtu of natural gas per year in Florida only as a thermal fuel for various production processes.

Table of Contents

Florida Land Holdings

We are a significant landowner in the State of Florida, which in the future is expected to return to its historical status as one of the fastest areas of population growth in the United States. We own land comprising approximately 250,000 acres held in fee simple title in central Florida, and have the right to mine additional properties which contain phosphate rock reserves. Some of our land holdings are needed to operate our Phosphates business, while a portion of our land assets, such as reclaimed properties, are not related to our operations. As a general matter, more of our reclaimed property becomes available for uses other than for phosphate operations each year. Our land assets are generally comprised of concentrates plants, port facilities, phosphate mines and other property which we have acquired through our presence in Florida. We are currently taking initial steps as part of a long-term future land use strategy to optimize the value of our land assets.

International Production

Our international operations include production in several key international countries. Our production facilities include plants that produce up to one million tonnes per year of single superphosphate (*SSP*) and granulated SSP crop nutrients by mixing sulfuric acid with phosphate rock. We have agreed to sell one of the SSP production facilities as described under *Sale of Fosfertil and Cubatão Facility* below.

Sale of Fosfertil and Cubatão Facility

Phosphates operations in Brazil include a 20.1% interest in Fosfertil through a 1.3% direct equity interest in Fosfertil and approximately a 33% equity interest in Fertifos. Fosfertil is a Brazilian publicly traded company and the largest phosphate-based crop nutrient producer in Brazil. Its subsidiary Ultrafertil, S.A., is a significant nitrogen company in Brazil. Fertifos is a holding company through which several fertilizer companies in Brazil own a 56.7% equity interest in Fosfertil. Our equity in net losses of Fosfertil and Fertifos for fiscal 2010 was \$12.1 million.

Phosphates operations in Brazil also include a facility at Cubatão that produces SSP and animal feed ingredients and engages in bagging, blending, storage and warehouse operations.

On February 10, 2010, we entered into a Share Purchase Agreement and Other Covenants (the *Share Agreement*) with Vale. In connection with the Share Agreement:

- (i) We and Vale entered into an Option Agreement (the *Fosfertil Option Agreement*) pursuant to which we granted Vale a call option to purchase, and Vale granted us a put option to sell, (such call and put options being collectively referred to as the *Fosfertil Options*) the equity interests in a subsidiary of ours that has been formed to hold our minority equity interests in Fosfertil and Fertifos; and
- (ii) We and Vale entered into an Option Agreement (the *Holdings Option Agreement*, and together with the Share Agreement and the Fosfertil Option Agreement, the *Transaction Agreements*) pursuant to which we granted Vale a call option to purchase, and Vale granted us a put option to sell, (such put and call options being collectively referred to as the *Holdings Options* and together with the Fosfertil Options as the *Options*) our equity interests in subsidiaries that we formed to hold our Cubatão facility.

Exercise of the Options is subject to our entering into a definitive stock purchase agreement (the *Stock Purchase Agreement*) with Vale with respect to the transactions contemplated by the Holdings Option Agreement on terms substantially consistent with those set forth in the Holdings Option Agreement and certain other conditions. If either Vale or we exercise their respective Options, the sale of the Cubatão facility is expected to follow the closing of the sale of our interests in Fosfertil and Fertifos.

Following the exercise of the Options, our Brazilian operations are expected to continue their fertilizer and animal feed ingredient blending and distribution operations in Brazil, as well as their production of SSP and port activities at the Paranagua, Brazil complex of Fospar S.A., a 62.1% owned subsidiary (*Fospar*). Accordingly,

Table of Contents

in order to facilitate the transactions contemplated by the Transaction Agreements, we have segregated our ownership of the Fosfertil and Fertifos stock and the Cubatão facility into separate subsidiaries. We anticipate that securing the necessary permits and completing other steps that we intend to take prior to the sale of our interests in Fosfertil and Fertifos and the Cubatão facility will be completed in the latter half of calendar 2010.

Under the Transaction Agreements, in general and subject to certain exceptions:

- (i) Vale has agreed to a standstill agreement under which neither it nor its subsidiaries will purchase any phosphate rock, phosphoric acid or phosphate fertilizer or animal feed ingredient mining or production assets in North America for a period of eighteen months;
- (ii) Vale has agreed that neither it nor its subsidiaries will engage in production/distribution or sale in Brazil of physically blended mineral fertilizers for a period of three years after the closing (the *Fosfertil Option Closing*) of the transactions contemplated by the Fosfertil Option Agreement;
- (iii) We have agreed that we will not engage in the phosphate mining business in Brazil for a period of three years after the Fosfertil Option Closing;
- (iv) The parties have entered into certain agreements providing, as a condition precedent to the Fosfertil Option Closing, for the termination of certain ongoing legal proceedings brought by Mosaic Brazil against Fosfertil, Fertifos and certain members of Bunge Group. These legal proceedings are described further under Fosfertil Merger Proceedings in Part I, Item 3, *Legal Proceedings* in this report;
- (v) Mosaic and Vale S.A. have guaranteed the obligations of their respective subsidiaries; and
- (vi) The parties have also entered into certain other commercial arrangements with respect to Fosfertil's and the Cubatão facility's potential continued supply of certain products and services to us.

The aggregate purchase price for Mosaic's stakes in Fosfertil and Fertifos and the Cubatão facility is in excess of \$1 billion.

Potash Segment

We are one of the leading potash producers in the world. We mine and process potash in Canada and the United States and sell potash in North America and internationally. The term potash applies generally to the common salts of potassium. Muriate of potash (*MOP*) is the primary source of potassium for the crop nutrient industry. Red MOP has traces of iron oxide. The granular and standard grade Red MOP products are well suited for direct fertilizer application and bulk blending. White MOP has a higher percent K₂O. White MOP, besides being well suited for the agricultural market, is used in many industrial applications.

Our potash products are marketed worldwide to crop nutrient manufacturers, distributors and retailers and are also used in the manufacture of mixed crop nutrients and, to a lesser extent, in animal feed ingredients. We also sell potash to customers for industrial use. In addition, our potash products are used for de-icing and as a water softener regenerant.

We operate three potash mines in Canada, including two shaft mines with a total of three production shafts and one solution mine, as well as two potash mines in the United States, including one shaft mine and one solution mine. We also own related refineries at each of the mines.

Table of Contents

The map below shows the location of each of our potash mines.

Our current potash annualized proven peaking capacity, excluding tonnage produced at Esterhazy for a third party pursuant to a contract described below, totals 10.4 million tonnes of product per year and accounted for approximately 14% of world capacity and 37% of North American capacity. Production during fiscal 2010, excluding tonnage produced for a third party at Esterhazy, totaled 5.2 million tonnes and accounted for approximately 12% of estimated world production and 38% of estimated North American production.

Table of Contents

The following table shows, for each of our potash mines, capacity at May 31, 2010 and volume of mined ore, average grade and finished product output for the past three fiscal years:

<i>(tonnes in millions)</i>		2010					2009			2008		
		Annualized Proven Peaking Capacity ^{(a)(b)(c)}	Annual Operational Capacity ^{(a)(b)(d)}	Ore Mined	Grade % K ₂ O ^(e)	Finished Product	Ore Mined	Grade % K ₂ O ^(e)	Finished Product	Ore Mined	Grade % K ₂ O ^(e)	Finished Product
Facility												
Canada												
Belle Plaine MOP		2.8	2.3	5.7	18.0	1.5	6.9	18.0	1.8	8.1	18.0	2.1
Colonsay MOP		1.8	1.5	2.2	24.9	0.8	2.6	26.6	1.0	3.6	27.2	1.4
Esterhazy MOP		5.3	4.8	6.7	24.1	2.3	8.3	25.1	3.0	11.3	25.5	4.1
Canadian Total		9.9	8.6	14.6	21.8	4.6	17.8	22.6	5.8	23.0	23.1	7.6
United States												
Carlsbad MOP		0.6	0.5	3.0	11.2	0.4	2.5	10.2	0.2	3.3	11.5	0.4
Carlsbad K-Mag ^(f)		1.1	1.0	2.7	6.7	0.6	2.7	6.4	0.6	3.1	7.2	0.8
Carlsbad Total		1.7	1.5	5.7	9.1	1.0	5.2	8.2	0.8	6.4	9.4	1.2
Hersey MOP ^(g)		0.1	0.1	0.1	26.7	-	0.2	26.7	0.1	0.2	26.7	0.1
United States Total		1.8	1.6	5.8		1.0	5.4		0.9	6.6		1.3
Totals		11.7	10.2	20.4	18.3	5.6	23.2	19.4	6.7	29.6	20.2	8.9
Total excluding toll production ^(h)		10.4		19.3		5.2	20.9		5.9	26.8		7.9

(a) Finished product.

(b) Actual operating rates may vary from those shown in the above table due to factors that include among others the level of demand for our products, maintenance and turnaround time, the quality of the reserves and the nature of the geologic formations we are mining at any particular time, accidents, mechanical failure, product mix, and other operating conditions.

(c) Represents full capacity assuming no turnaround or maintenance time.

(d) Annual operational capacity is our estimated annual achievable production level.

(e) Grade % K₂O is a traditional reference to the percentage (by weight) of potassium oxide contained in the ore. A higher percentage corresponds to a higher percentage of potassium oxide in the ore.

(f) K-Mag is a specialty product that we produce at our Carlsbad facility.

(g) The Hersey facility also mines, processes and sells salt.

(h) We toll produce MOP at our Esterhazy mine for a third party under a contract discussed below under Canadian Mines.

Canadian Mines

We operate three Canadian potash facilities all located in the southern half of the Province of Saskatchewan, including our solution mine at Belle Plaine, two interconnected mine shafts at our Esterhazy shaft mine and our shaft mine at Colonsay.

Extensive potash deposits are found in the southern half of the Province of Saskatchewan. The potash ore is contained in a predominantly rock salt formation known as the Prairie Evaporites. The Prairie Evaporites deposits are bounded by limestone formations and contain the potash beds. Three potash deposits of economic importance occur in Saskatchewan: the Esterhazy, Belle Plaine and Patience Lake members. The Patience Lake member is mined at Colonsay, and the Esterhazy member at Esterhazy. At Belle Plaine all three members are mined. Each of the major potash members contains several potash beds of different thicknesses and grades. The particular beds mined at Colonsay and Esterhazy have a mining height of 11 and 8 feet, respectively. At Belle Plaine several beds of different thicknesses are mined.

Table of Contents

Our potash mines in Canada produce MOP exclusively. Esterhazy and Colonsay utilize shaft mining while Belle Plaine utilizes solution mining technology. Traditional potash shaft mining takes place underground at depths of over 3,000 feet where continuous mining machines cut out the ore face and load it onto conveyor belts. The ore is then crushed, moved to storage bins and hoisted to refineries above ground. In contrast, our solution mining process involves heated water, which is pumped through a cluster to dissolve the potash in the ore beds at a depth of approximately 5,400 feet. A cluster consists of a series of boreholes drilled into the potash ore by a portable, all-weather, electric drilling rig. A separate distribution center at each cluster controls the brine flow. The solution containing dissolved potash and salt is pumped to a refinery where sodium chloride, a co-product of this process, is separated from the potash through the use of evaporation and crystallization techniques. Concurrently, the solution is pumped into a 150 acre cooling pond where additional crystallization occurs and the resulting product is recovered via a floating dredge. Refined potash is dewatered, dried and sized. Our Canadian operations produce 15 different MOP products, including industrial grades, many through proprietary processes.

Under a contract (the *PCS Tolling Contract*) with Potash Corporation of Saskatchewan Inc. (*PCS*), we mine and refine the customer's potash reserves at our Esterhazy mine for a fee plus a pro rata share of operating and capital costs. The contract provides that PCS may elect to receive between 0.45 million and 1.3 million tonnes of potash per year. The contract provides for a term through December 31, 2011 as well as certain renewal terms at the option of PCS, but only to the extent PCS has not received all of its available reserves under the contract. Based on our then-current calculations, in May 2009, we informed PCS that we believed that approximately 1.5 million tonnes of potash remained to be delivered to PCS under the contract after April 30, 2009. PCS has filed a lawsuit against us contesting our basis and timing for termination of the contract and alleging damages based on our historical mining practices. We subsequently counterclaimed, alleging that PCS breached the PCS Tolling Contract by refusing to take delivery of approximately 0.9 million tonnes of potash that it ordered under the contract, primarily for delivery after April 30, 2009, due to the global financial and credit crisis. We believe the allegations in PCS's lawsuit are without merit. We have included a further description of the lawsuit under Esterhazy Potash Mine Tolling Contract Disputes in Note 21 of our Consolidated Financial Statements. After expiration of the contract or during other periods to the extent we are not fully utilizing the capacity to satisfy our obligations under the contract, the productive capacity at our Esterhazy mine otherwise used to satisfy our obligations under the contract is available to us for sales to any of our customers at then-current market prices.

Our potash mineral rights in the Province of Saskatchewan consist of the following:

	Belle Plaine	Colonsay	Esterhazy	Total
Acres under control				
Owned in fee	13,213	10,039	109,196	132,448
Leased from Province	51,568	65,429	137,735	254,732
Leased from others	-	320	22,837	23,157
Total under control	64,781	75,788	269,768	410,337

We believe that our mineral rights in Saskatchewan are sufficient to support current operations for more than a century. Leases are generally renewable at our option for successive terms, generally 21 years each, except that certain of the acres shown above as Leased from others are leased under long-term leases with terms (including renewals at our option) that expire from 2094 to 2142.

We pay Canadian resource taxes consisting of the Potash Production Tax and capital taxes. The Potash Production Tax is a Saskatchewan provincial tax on potash production and consists of a base payment and a profits tax. We also pay the greater of (i) a capital tax on the paid-up capital of our subsidiaries that own and operate our Saskatchewan potash mines or (ii) a percentage of the value of resource sales from our Saskatchewan mines and we pay capital tax in other Canadian provinces. In addition to the Canadian resource taxes, royalties are payable to the mineral owners in respect of potash reserves or production of potash. We have included a further discussion of the Canadian resource taxes and royalties in our Management's Analysis.

Table of Contents

Since December 1985, we have experienced an inflow of salt saturated brine into our Esterhazy mine. At various times since then, we have experienced new or substantially increased brine inflows at the Esterhazy mine. As a result of these brine inflows, we incur expenditures, certain of which have been capitalized while others have been charged to expense, in accordance with accounting principles generally accepted in the United States of America (*U.S. GAAP*), to control the inflow. It is possible that the costs of remedial efforts at Esterhazy may further increase in the future and that such an increase could be material, or, in the extreme scenario, that the brine inflows, risk to employees or remediation costs may increase to a level which would cause us to change our mining process or abandon the mine. See *Potash Net Sales and Gross Margin* in our *Management's Analysis and Accidents occurring in the course of our operating activities could result in significant liabilities, interruptions or shutdowns of facilities or the need for significant safety or other expenditures* in Part I, Item 1A, *Risk Factors* in this report, both of which are incorporated herein by reference, for a discussion of costs, risks and other information relating to the brine inflows.

Due to the ongoing brine inflow problem at Esterhazy, underground operations at this facility are currently not insurable for water incursion problems. Like other potash producers' shaft mines, our Colonsay, Saskatchewan, and Carlsbad, New Mexico, mines are also subject to the risks of inflow of water as a result of their shaft mining operations, but water inflow risks at these mines are included in our insurance coverage subject to deductibles, retentions and limits negotiated with our insurers.

We have a long term potash capacity expansion plan in Saskatchewan, Canada in response to expected growth in global potash demand. We expect the total planned expansions to increase our annualized proven peaking capacity for finished product by more than five million tonnes. The expansions are projected to occur over the next decade, with the first expansion production expected to come on line in calendar 2010. We have included a further discussion of our potash capacity expansion plan in our *Management's Analysis*.

United States Mines

In the United States, we have two potash facilities, including a shaft mine located in Carlsbad, New Mexico and a solution mine located in Hersey, Michigan.

Our potash mineral rights in the United States consist of the following:

	Carlsbad	Hersey	Total
Acres under control			
Owned in fee	-	581	581
Long-term leases	73,781	1,799	75,580
Total under control	73,781	2,380	76,161

The Carlsbad ore reserves are of two types: (1) sylvinitic, a mixture of potassium chloride and sodium chloride that is the same as the ore mined in Saskatchewan, and (2) langbeinitic, a double sulfate of potassium and magnesium. These two types of potash reserves occur in a predominantly rock salt formation known as the Salado Formation. The McNutt Member of this formation consists of eleven units of economic importance, of which we currently mine two. The McNutt Member's evaporite deposits are interlayered with anhydrite, polyhalite, potassium salts, clay, and minor amounts of sandstone and siltstone.

Continuous underground mining methods are utilized to extract the ore. Drum type mining machines are used to cut the sylvinitic and langbeinitic ores from the face. Mined ore is then loaded onto conveyors, transported to storage areas, and then hoisted to the surface for further processing at our refinery.

Two types of potash are produced at the Carlsbad refinery. MOP is the primary source of potassium for the crop nutrient industry. Double sulfate of potash magnesia is the second type of potash, which we market under our brand name K-Mag[®], and contains sulfur, potassium and magnesium, with low levels of chloride.

Table of Contents

At the Carlsbad facility, we mine and refine potash from 73,781 acres of mineral rights. We control these reserves pursuant to either (i) leases from the U.S. government that, in general, continue in effect at our option (subject to readjustment by the U.S. government every 20 years) or (ii) leases from the State of New Mexico that continue as long as we continue to produce from them. These reserves contain an estimated total of 294 million tonnes of potash mineralization (calculated after estimated extraction losses) in two mining beds evaluated at thicknesses ranging from 4.5 feet to in excess of 11 feet. At average refinery rates, these ore reserves are estimated to be sufficient to yield 16 million tonnes of concentrates from sylvinites with an average grade of approximately 60% K_2O and 28 million tonnes of langbeinite concentrates with an average grade of approximately 22% K_2O . At projected rates of production, we estimate that Carlsbad's reserves of sylvinites and langbeinite are sufficient to support operations for more than 32 years and 25 years, respectively. During fiscal 2010, we increased the reserves at our Carlsbad facility by 180 million tonnes because we entered into leases that provided access to mineral rights that were previously not economical to mine, and because increased potash selling prices made areas of lower grade ore economical to mine.

At Hersey, Michigan, we operate a solution mining facility which produces salt and potash. Mining occurs in the Michigan Basin in a predominantly rock salt formation called the Salina Group Evaporite. This formation is a clean salt deposit with interlayered beds of sylvinites and carbonate. At the Hersey facility, our mineral rights consist of 581 acres owned in fee and 1,799 acres controlled under leases that, in general, continue in effect at our option as long as we continue our operations at Hersey. These lands contain an estimated 40 million tonnes of potash mineralization contained in two beds ranging in thickness from 14 to 30 feet.

Royalties for the U.S. operations amounted to approximately \$9.6 million for fiscal 2010. These royalties are established by the U.S. Department of the Interior, Bureau of Land Management, in the case of the Carlsbad leases from the U.S. government, and pursuant to provisions set forth in the leases, in the case of the Carlsbad state leases and the Hersey leases.

Reserves

Our estimates below of our potash reserves and non-reserve potash mineralization are based on exploration drill hole data, seismic data and actual mining results over more than 35 years. Proven reserves are estimated by identifying material in place that is delineated on at least two sides and material in place within a half-mile radius or distance from an existing sampled mine entry or exploration core hole. Probable reserves are estimated by identifying material in place within a one mile radius from an existing sampled mine entry or exploration core hole. Historical extraction ratios from the many years of mining results are then applied to both types of material to estimate the proven and probable reserves. We believe that all reserves and non-reserve potash mineralization reported below are potentially recoverable using existing production shaft and refinery locations.

Table of Contents

Our estimated recoverable potash reserves and non-reserve potash mineralization as of May 31, 2010 for each of our mines is as follows:

<i>(tonnes in millions)</i>	Facility	Reserves ^{(a)(b)}		Potash Mineralization ^{(a)(c)}
		Recoverable Tonnes	Average Grade (% K ₂ O)	Potentially Recoverable Tonnes
Canada				
	Belle Plaine	687.2	18.0	2,160.7
	Colonsay	232.9	26.4	224.0
	Esterhazy	593.5	24.5	409.4
	sub-totals	1,513.6	21.8	2,794.1
United States				
	Carlsbad	294.3	7.4	-
	Hersey	39.7	26.7	-
	sub-totals	334.0	9.7	-
	Totals	1,847.6	19.6	2,794.1

(a) There has been no third party review of reserve estimates within the last four years. The reserve estimates have been prepared in accordance with the standards set forth in Industry Guide 7 promulgated by the SEC.

(b) Includes both proven and probable reserves.

(c) The non-reserve potash mineralization reported in the table in some cases extends to the boundaries of the mineral rights we own or lease. Such boundaries are up to 16 miles from the closest existing sampled mine entry or exploration core hole. Based on available geologic data, the non-reserve potash mineralization represents potash that we expect to mine in the future, but it may not meet all of the technical requirements for categorization as proven or probable reserves under Industry Guide 7.

As discussed more fully above, we either own the reserves and mineralization shown above or lease them pursuant to mineral leases that generally remain in effect or are renewable at our option, or are long-term leases. Accordingly, we expect to be able to mine all reported reserves that are leased prior to termination or expiration of the existing leases.

Natural Gas

Natural gas is used at our potash solution mines as a fuel to produce steam and to dry potash products. The steam is used to generate electricity, in evaporation and crystallization processes and to provide thermal heat to the solution mining process. Our two solution mines accounted for approximately 76% of our Potash segment's total natural gas requirements for potash production in fiscal 2010. At our shaft mines, natural gas is used as a fuel to heat fresh air supplied to the shaft mines and for drying potash products. Combined natural gas usage for both the solution and shaft mines approximated 12 million MMBtu for fiscal 2010. We purchase our natural gas requirements on firm delivery index price-based physical contracts and on short term spot-priced physical contracts. Our Canadian operations purchase all of their physical gas in Saskatchewan via the TransGas pipeline system using AECO price indices as pricing references. The U.S. potash operations in Michigan and New Mexico purchase physical gas in their respective regional markets via the MichCon and El Paso Permian Basin market hubs as pricing references, respectively. We use financial derivative contracts to manage the price of portions of our future purchases.

Table of Contents

SALES AND DISTRIBUTION ACTIVITIES

United States and Canada

We have a United States and Canada sales and marketing team that serves our business segments. We sell to wholesale distributors, retail chains, cooperatives, independent retailers and national accounts.

Customer service and the ability to effectively minimize the overall supply chain costs are key competitive factors in the crop nutrient and animal feed ingredients businesses. In addition to our production facilities, to service the needs of our customers, we own, lease or have contractual throughput or other arrangements at strategically located distribution warehouses along or near the Mississippi and Ohio Rivers as well as in other key agricultural regions of the United States and Canada. From these facilities, we market Mosaic produced phosphate and potash products for customers who in turn resell the product into the distribution channel or directly to farmers in the United States and Canada.

We own port facilities in Savage, Minnesota as well as warehouse distribution facilities in Pekin, Illinois, Louisville, Kentucky, Hendersonville, Kentucky, Melbourne, Kentucky and Houston, Texas which has a deep water berth providing access to the Gulf of Mexico.

In addition to the geographically situated facilities that we own, our U.S. distribution operations also include leased distribution space or contractual throughput agreements in other key geographical areas such as California, Florida, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Minnesota, Nebraska, New York, North Dakota, Pennsylvania and Texas.

Our Canadian customers include independent dealers and national accounts. We also lease and own warehouse facilities in Saskatchewan, Canada.

International

Outside of the United States and Canada, we market our Phosphates segment's products through PhosChem, as well as our Phosphates segment's own international distribution activities. During fiscal 2010, PhosChem marketed approximately 77% of our phosphate export sales volume. We administer PhosChem on behalf of PhosChem's member companies. We estimate that PhosChem's sales represent approximately 66% of total U.S. export volume of concentrated phosphates. The countries that account for the largest amount of PhosChem's sales of concentrated phosphates include India, Australia, Japan, Brazil and Colombia. During fiscal 2010, PhosChem's dry concentrated phosphates exports to Asia were 64% of total dry shipments by volume, with India representing 51% of PhosChem's total dry concentrated phosphates export shipments.

Our sales outside of the United States and Canada of Saskatchewan potash products are made through Canpotex Limited (*Canpotex*). Canpotex is an export association of certain Canadian potash producers. Canpotex sales are generally allocated among the producer members based on production capacity. We currently supply approximately 37.1%, by volume, of Canpotex's requirements. Our potash exports from Carlsbad are sold through our own sales force. We also market our Potash segment's products through our Phosphates segment, which acquires its potash primarily through Canpotex. The largest amount of international potash sales are to China, India, Japan, Korea, Taiwan, Southeast Asia, Australia and Latin America.

Our Phosphates segment also purchases phosphates, potash and nitrogen products from, or markets these products for, unrelated third parties.

To service the needs of our customers, our international distribution activities include a network of strategically located sales offices, crop nutrient blending and bagging facilities, port terminals and warehouse distribution facilities that we own and operate in key geographic areas throughout several countries. The blending and bagging facilities primarily produce blended crop nutrients (*Blends*) from phosphate, potash and nitrogen. The

Table of Contents

average product mix in our Blends (by volume) contains approximately 50% phosphate, 25% potash and 25% nitrogen, although this mix differs based on seasonal and other factors. Our international operations serve primarily as a sales outlet for our North American Phosphates production, both for resale and as an input for Blends, and we expect to expand this role in the future. Our Potash segment also has historically furnished a portion of the raw materials needs for the production of Blends, and is expected to continue to do so in the future.

The following maps show the locations of our primary distribution operations in South America and Asia:

Other Products

With a strong brand position in a multi-billion dollar animal feed ingredients global market, our Phosphates segment supplies animal feed ingredients for poultry and livestock to customers in North America, Latin America and Asia. Our potash sales to non-agricultural users are primarily to large industrial accounts and the animal feed industry. Additionally, we sell potash for de-icing and as a water softener regenerant.

COMPETITION

Because crop nutrients are global commodities available from numerous sources, crop nutrition companies compete primarily on the basis of delivered price. Other competitive factors include product quality, cost and availability of raw materials, customer service, plant efficiency and availability of product. As a result, markets for our products are highly competitive. We compete with a broad range of domestic and international producers, including farmer cooperatives, subsidiaries of larger companies, and independent crop nutrient companies. Foreign competitors often have access to cheaper raw materials, are required to comply with less stringent regulatory requirements or are owned or subsidized by governments and, as a result, may have cost advantages over North American companies. We believe that our extensive North American and international production and distribution system provides us with a competitive advantage by allowing us to achieve economies of scale and transportation and storage efficiencies and obtain market intelligence.

Unlike many of our competitors, we have our own distribution system to sell phosphate- and potash-based crop nutrients and animal feed ingredients, whether produced by us or by other third parties, around the globe. In North America, we have one of the largest and most strategically located distribution systems for crop nutrients,

Table of Contents

including warehouse facilities in key agricultural regions. We also have an extensive network of distribution facilities internationally, including in the key growth markets of Latin America and Asia, with port terminals, warehouses, and blending plants in Brazil, Argentina, Chile, China, and India. Our global presence allows us to efficiently serve customers in more than 40 countries.

Phosphates Segment

Our Phosphates segment operates in a highly competitive global market. Among the competitors in the global phosphate industry are domestic and foreign companies, as well as foreign government-supported producers in Asia and North Africa. Phosphate producers compete primarily based on price and, to a lesser extent, product quality, service and innovation, such as our MicroEssentials® product. Major integrated producers of feed phosphates are located in the United States, Europe and China. Many smaller producers are located in emerging markets around the world. Many of these smaller producers are not miners of phosphate rock or manufacturers of phosphoric acid and are required to purchase this material on the open market.

We believe that we are a low cost producer of phosphate-based crop nutrients, due in part to our scale, vertical integration and strategic network of production and distribution facilities. As the world's largest producer of concentrated phosphates, as well as the second largest miner of phosphate rock in the world and the largest in the United States, we maintain an advantage over some competitors as the scale of operations effectively reduces production costs per unit. We are also vertically integrated to captively supply one of our key inputs, phosphate rock, to our phosphate production facilities. We believe that our position as an integrated producer of phosphate rock provides us with a significant cost advantage over competitors that are non-integrated phosphate producers. We produce ammonia at our Faustina concentrates plant in quantities sufficient to meet approximately one quarter of our total ammonia needs. With no captive ammonia production in Florida, we are subject to significant volatility in our purchase price of ammonia from world markets. With our own sulfur transportation barges and our 50% ownership interest in Gulf Sulphur Services, we are also well-positioned to source an adequate, flexible and cost-effective supply of sulfur, our third key input. We believe that our investments in sulfur infrastructure provide us with a significant competitive advantage in both cost and access to sulfur.

With production facilities in both central Florida near the Port of Tampa and in Louisiana on the Mississippi River, we are logistically positioned to supply both domestic and international customers as well as transport rock, sulfur and ammonia easily. In addition, those multiple production points afford us the flexibility to optimally balance supply and demand.

We have a strong brand in several of the countries in which we have international distribution activities. In addition to having access to our own production, our international distribution activities have the capability to supply all three types of crop nutrients to our dealer/farmer customer base. Our presence in Latin America and Asia allows us to capitalize on the growth in nutrient demand in these large and growing international regions. In addition, our relationships with Cargill's agricultural operations provide our international distribution activities with additional sales opportunities.

We are subject to many environmental laws and regulations in Florida and Louisiana that are often more stringent than those to which producers in other countries are subject.

Potash Segment

Potash is a commodity available from several geographical regions around the world and, consequently, the market is highly competitive. Through our participation in Canpotex, we compete outside of North America with various independent potash producers and consortia as well as other export organizations, including state-owned organizations. We also ship product from Carlsbad, New Mexico, potash facility to our South American distribution centers. Our principal methods of competition with respect to the sale of potash include product pricing, and offering consistent, high-quality products and superior service. We believe that our potash cost structure is competitive in the industry and should improve as we achieve the expected increases in production from our planned expansions.

Table of Contents

FACTORS AFFECTING DEMAND

Our results of operations historically have reflected the effects of several external factors which are beyond our control and have in the past produced significant downward and upward swings in operating results. Revenues are highly dependent upon conditions in the agriculture industry and can be affected by, among other factors: crop failure; changes in agricultural production practices; worldwide economic conditions, including the increasing world population, household incomes, and demand for more protein rich food, particularly in developing regions such as China, India, and Latin America, increasing demand for biofuels, and variability in commodity pricing; governmental policies; the level of inventories in the crop nutrient distribution channels; customer expectations about farmer economics, future crop nutrient prices and availability and transportation costs, among other matters; market trends in raw material costs; market prices for crop nutrients; and weather. Furthermore, our crop nutrients business is seasonal to the extent farmers and agricultural enterprises in the markets in which we compete purchase more crop nutrient products during the spring and fall. The international scope of our business, spanning the northern and southern hemispheres, reduces to some extent the seasonal impact on our business. The degree of seasonality of our business can change significantly from year to year due to conditions in the agricultural industry and other factors. The seasonal nature of our businesses requires significant working capital for inventory in advance of the planting seasons.

We sell products throughout the world. Unfavorable changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade; unexpected changes in tax and trade treaties; strengthening or weakening of foreign economies as well as political relations with the United States may cause sales trends to customers in one or more foreign countries to differ from sales trends in the United States.

Our international operations are subject to risks from changes in foreign currencies, which can affect farmer economics.

OTHER MATTERS

Employees

We had approximately 7,500 employees as of May 31, 2010, consisting of approximately 3,000 salaried and 4,500 hourly employees.

Labor Relations

As of May 31, 2010:

We had nine collective bargaining agreements with unions covering approximately 72% of our hourly employees in the U.S. and Canada. Of these employees, approximately 35% are covered under collective bargaining agreements scheduled to expire in fiscal 2011.

Agreements with eight unions covered all employees in Brazil, representing 68% of our international employees. More than one agreement may govern our relations with each of these unions. In general, the agreements are renewable on an annual basis.

We also had collective bargaining agreements with unions covering employees in several other countries. Failure to renew any of our union agreements could result in a strike or labor stoppage that could have a material adverse affect on our operations. However, we have not experienced a significant work stoppage in many years and consider our labor relations to be good.

Table of Contents***Financial Information about our Business Segments and Operations by Geographic Areas***

We have included financial information about our business segments, our operations by geographic area and our revenues by class of similar products in Note 23 of our Consolidated Financial Statements.

Information Available on our Website

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto, filed with the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder are made available free of charge on our website, (www.mosaicco.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our website is not being incorporated in this report.

EXECUTIVE OFFICERS

Information regarding our executive officers as of July 22, 2010 is set forth below. Each of our executive officers has served in the positions listed in the table below since the Combination, except as expressly indicated below:

Name	Age	Position
Norman B. Beug	58	Senior Vice President Potash Operations
Anthony T. Brausen	51	Vice President Finance and Chief Accounting Officer
Gary Bo N. Davis	58	Vice President Phosphate Operations
Richard L. Mack	42	Executive Vice President, General Counsel and Corporate Secretary
Richard N. McLellan	53	Senior Vice President Commercial
James Joc C. O Rourke	49	Executive Vice President Operations
James T. Prokopanko	57	Chief Executive Officer, President and Director
Cindy C. Redding	51	Vice President Human Resources
Lawrence W. Stranghoener	56	Executive Vice President and Chief Financial Officer
Linda Thrasher	44	Vice President Public Affairs

Norman B. Beug. Mr. Beug was elected as Senior Vice President Potash Operations in October 2006. Prior to the Combination, Mr. Beug was the Vice President and General Manager of IMC's Potash Business Segment from February 2003 through October 2004. In addition, Mr. Beug became Vice President Potash Operations of Mosaic in June 2004. Mr. Beug joined a predecessor of IMC in 1977. Mr. Beug's prior service for IMC and its predecessor companies included a variety of supervisory and management positions in the potash business.

Anthony T. Brausen. Mr. Brausen became Vice President Finance and Chief Accounting Officer of Mosaic in April 2006. Prior to joining Mosaic as an employee in February 2006, Mr. Brausen had been Vice President and Chief Financial Officer of Tennant Company, a designer, manufacturer and marketer of floor maintenance and outdoor cleaning equipment, chemical-free cleaning technologies, specialty surface coatings and related products, since March 2000. From 1989-2000, Mr. Brausen held several financial management positions, including Vice President and Treasurer, Assistant Controller and Director of Investor Relations, with International Multifoods Corporation, a diversified publicly-traded food processor and distributor. From 1981-1989, Mr. Brausen held various positions with KPMG LLP.

Gary Bo N. Davis. Mr. Davis was elected Vice President Phosphate Operations of Mosaic in June 2010. Previously, Mr. Davis had served as Vice-President Phosphate Operations for all of Mosaic's Florida and

Table of Contents

Louisiana operations since 2007 and Vice President of Mining since Mosaic's formation in 2004. Prior to the Combination, Mr. Davis held several positions at Cargill, including Vice President, Operations for the fertilizer division from 1999 to 2004. Mr. Davis has worked in the crop nutrient industry for over 30 years.

Richard L. Mack. Effective January 1, 2009, Mr. Mack was elected Executive Vice President, General Counsel and Corporate Secretary. Mr. Mack served as Senior Vice President, General Counsel and Corporate Secretary of Mosaic since its formation in 2004. Mr. Mack also provides executive oversight for Mosaic's land development and permitting organizations. Prior to the formation of Mosaic in 2004, Mr. Mack was a Senior Attorney in Cargill's worldwide law department and a co-founder of Cargill's venture capital business unit.

Richard N. McLellan. Mr. McLellan was elected as Senior Vice President - Commercial in April 2007. Previously, Mr. McLellan had served us as our Vice President - North American Sales since December 2005 and as Country Manager for our (and, prior to the Combination, Cargill's) Brazilian crop nutrient business since November, 2002. Mr. McLellan joined Cargill in 1989 and held various roles in its Canadian and U.S. operations, including grain, retail and wholesale crop nutrient distribution.

James J. C. O'Rourke. Mr. O'Rourke became Executive Vice President - Operations of Mosaic in January 2009. Prior to joining Mosaic, Mr. O'Rourke was President, Australia Pacific for Barrick Gold Corporation, the largest gold producer in Australia, since May 2006, where he was responsible for the Australia Pacific Business Unit consisting of ten gold and copper mines in Australia and Papua New Guinea. Before that, Mr. O'Rourke was Executive General Manager Australia and Managing Director of Placer Dome Asia Pacific Ltd., the second largest gold producer in Australia, from December 2004, where he was responsible for the Australia Business Unit consisting of five gold and copper mines; and General Manager Western Australia Operations for Iluka Resources Ltd., the world's largest zircon and second largest titanium producer, from September 2003, where he was responsible for six mining and concentrating operations and two mineral separation/synthetic rutile refineries. Mr. O'Rourke had previously held various management, engineering and other roles in the mining industry in Canada and Australia since 1984.

James T. Prokopanko. Mr. Prokopanko became our President and Chief Executive Officer on January 1, 2007. Until joining us as Executive Vice President and Chief Operating Officer on July 31, 2006, Mr. Prokopanko was a Corporate Vice President of Cargill since 2004. He was Cargill's Corporate Vice President with executive responsibility for procurement from 2002 to 2006 and a platform leader responsible for Cargill's Ag Producer Services Platform from 1999 to July 2006. After joining Cargill in 1978, Mr. Prokopanko served in a wide range of leadership positions, including being named Vice President of North American crop inputs business in 1995. During his Cargill career, Mr. Prokopanko was engaged in retail agriculture businesses in the United States, Canada, Brazil, Argentina and the United Kingdom. Mr. Prokopanko resigned from all of his current positions with Cargill and its subsidiaries (other than Mosaic) in connection with his election as Executive Vice President and Chief Operating Officer of Mosaic. Mr. Prokopanko has served as a director of Mosaic since October 2004 and served as a member of the Corporate Governance and Nominating Committee and the Environmental, Health and Safety Committee of the Company's Board of Directors since his election to the Board through July 31, 2006.

Cindy C. Redding. Ms. Redding was elected as Vice President-Human Resources effective July 30, 2007. Ms. Redding was previously Vice President-Human Resources of MDU Resources Group, Inc., a provider of value-added natural resource products and related services for energy and transportation infrastructure, since July 2003, and its Director of Human Resources from December 2002 to July 2003. Before that, Ms. Redding served from July 1998 until December 2002 in the positions of Director, Human Resources, Molded Plastics Division, as Corporate Benefits Planning & Delivery Manager, and as Manager, Strategic Staffing Services, for Sonoco Products Company, a global packaging company. Prior to that, Ms. Redding worked for Abbott Laboratories, a global health care company, as Manager, Human Resources, Abbott International Division, from 1997 to 1998. From 1980 to 1997, Ms. Redding worked in various business administration and human resource roles, domestic and international, for Amoco Corporation, a world-wide integrated energy company.

Table of Contents

Lawrence W. Stranghoener. Mr. Stranghoener joined us as Executive Vice President and Chief Financial Officer in October 2004. He previously served as Executive Vice President and Chief Financial Officer of Thrivent Financial for Lutherans and its predecessor organization from January 1, 2001 until October 2004, where he had responsibility over the organization's investments, finance and related functions. Prior to that, from 1983 through December 1999, Mr. Stranghoener worked in various senior management positions with Honeywell, Inc. in the United States and Europe, including Vice President and Chief Financial Officer, Vice President of Business Development, Vice President of Finance, Director of Corporate Financial Planning and Analysis and Director of Investor Relations. In December 1999, following the Honeywell-AlliedSignal merger, Mr. Stranghoener joined Techies.com of Edina, Minnesota, as Executive Vice President and Chief Financial Officer.

Linda Thrasher. Prior to the Combination, Ms. Thrasher was the Director of Public Policy for Cargill's Washington, D.C. office since joining Cargill in 1994. In addition, Ms. Thrasher became Vice President - Public Affairs of Mosaic on June 14, 2004. Ms. Thrasher handled extensive legislative and regulatory issues for Cargill's crop nutrient, salt and steel businesses and spent significant time working on environmental and trade issues.

Pursuant to the Investor Rights Agreement dated as of January 26, 2004, as amended, between Cargill and Mosaic, during the four year period that commenced on the October 22, 2004 effective date of the Combination and has now expired, Cargill and Mosaic had agreed to, among other things, take (and cause to be taken, including, without limitation, in the case of Cargill, to the extent permitted by applicable law, causing its representatives or designees on the Board of Directors to take) all commercially reasonable actions and agree to exercise all authority under applicable law to cause such individual as designated by Cargill for such purpose to be elected as our Chief Executive Officer and President. Pursuant to such provisions, Mr. Prokopanko was elected as our Chief Executive Officer and President.

Our executive officers are generally elected to serve until their respective successors are elected and qualified or until their earlier death, resignation or removal. No family relationships, as that term is defined in Item 401(d) of Regulation S-K, exist among any of the listed officers.

Item 1A. Risk Factors

Our business, financial condition or results of operations could be materially adversely affected by any of the risks and uncertainties described below. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business, financial condition or results of operations.

Our operating results are highly dependent upon and fluctuate based upon business and economic conditions and governmental policies affecting the agricultural industry where we or our customers operate. These factors are outside of our control and may significantly affect our profitability.

Our operating results are highly dependent upon business and economic conditions and governmental policies affecting the agricultural industry, which we cannot control. The agricultural products business can be affected by a number of factors. The most important of these factors, for U.S. markets, are:

weather patterns and field conditions (particularly during periods of traditionally high crop nutrients consumption);

quantities of crop nutrients imported to and exported from North America;

current and projected grain inventories and prices, which are heavily influenced by U.S. exports and world-wide grain markets; and

U.S. governmental policies, including farm and biofuel policies, which may directly or indirectly influence the number of acres planted, the level of grain inventories, the mix of crops planted or crop prices.

Table of Contents

International market conditions, which are also outside of our control, may also significantly influence our operating results. The international market for crop nutrients is influenced by such factors as the relative value of the U.S. dollar and its impact upon the cost of importing crop nutrients, foreign agricultural policies, the existence of, or changes in, import or foreign currency exchange barriers in certain foreign markets, changes in the hard currency demands of certain countries and other regulatory policies of foreign governments, as well as the laws and policies of the United States affecting foreign trade and investment.

Our most important products are global commodities, and we face intense global competition from other crop nutrient producers that can affect our prices and volumes.

Our most important products are concentrated phosphate crop nutrients, including diammonium phosphate, or DAP, and monoammonium phosphate, or MAP, and muriate of potash, or MOP. We sell most of our DAP, MAP and MOP in the form of global commodities. Our sales of these products face intense global competition from other crop nutrient producers.

Changes in competitors' production or shifts in their marketing focus have in the past significantly affected both the prices at which we sell our products and the volumes that we sell, and are likely to continue to do so in the future.

Competitors are more likely to increase their production at times when world agricultural and crop nutrient markets are strong, and to focus on sales into regions where their returns are highest. Increases in the global supply of DAP, MAP and MOP or competitors' increased sales into regions in which we have significant sales could adversely affect our prices and volumes.

Competitors and potential new entrants in the markets for both concentrated phosphate crop nutrients and potash have announced plans to expand capacity over the next several years. The extent to which current global or local economic and financial conditions, changes in global or local economic and financial conditions, or other factors may cause delays or cancellation of some of these projects, or result in the acceleration of existing or new projects, is unclear. In addition, the level of exports by producers of concentrated phosphate crop nutrients in China depends to a significant extent on Chinese government actions to curb exports through, among other measures, prohibitive export taxes at times when the government believes it desirable to assure ample domestic supplies of concentrated phosphate crop nutrients to stimulate grain and oilseed production.

We cannot accurately predict when or whether competitors' capacity expansions will be completed, the impact of future decisions by the Chinese government on the level of Chinese exports of concentrated phosphate crop nutrients, or the effects of these or other actions by our competitors on the prices for our products or the volumes that we are able to sell.

Our crop nutrients and other products are subject to price and demand volatility resulting from periodic imbalances of supply and demand, which may cause our results of operations to fluctuate.

Historically, the market for crop nutrients has been cyclical, and prices and demand for our products have fluctuated to a significant extent, particularly for phosphates and, to a lesser extent, potash. Periods of high demand, increasing profits and high capacity utilization tend to lead to new plant investment and increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilization until the cycle repeats.

As a result, crop nutrient prices and volumes have been volatile. This price and volume volatility may cause our results of operations to fluctuate and potentially deteriorate. The price at which we sell our crop nutrient products and our sales volumes could fall in the event of industry oversupply conditions, which could have a material adverse effect on our business, financial condition and results of operations. In contrast, high prices may lead our customers and farmers to delay purchasing decisions in anticipation of future lower prices, thus impacting our sales volumes.

Table of Contents

Due to reduced market demand, depressed agricultural economic conditions and other factors, we and our predecessors have at various times suspended or reduced production at some of our facilities. The extent to which we utilize available capacity at our facilities will cause fluctuations in our results of operations, as we will incur costs for any temporary or indefinite shutdowns of our facilities and lower sales tends to lead to higher fixed costs as a percentage of sales.

Variations in crop nutrient application rates may exacerbate the cyclical nature of the crop nutrient markets.

Farmers are able to maximize their economic return by applying optimum amounts of crop nutrients. Farmers' decisions about the application rate for each crop nutrient, or to forego application of a crop nutrient, particularly phosphate and potash, vary from year to year depending on a number of factors, including among others, crop prices, crop nutrient and other crop input costs or the level of the crop nutrient remaining in the soil following the previous harvest. Farmers are more likely to increase application rates when crop prices are relatively high, crop nutrient and other crop input costs are relatively low and the level of the crop nutrient remaining in the soil is relatively low. Conversely, farmers are likely to reduce or forego application when farm economics are weak or declining or the level of the crop nutrients remaining in the soil is relatively high. This variability in application rates can materially accentuate the cyclical nature of prices for our products and our sales volumes.

Our crop nutrient business is seasonal, which may result in carrying significant amounts of inventory and seasonal variations in working capital, and our inability to predict future seasonal crop nutrient demand accurately may result in excess inventory or product shortages.

The crop nutrient business is seasonal. Farmers tend to apply crop nutrients during two short application periods, the strongest one in the Spring before planting and the other in the Fall after harvest. As a result, the strongest demand for our products typically occurs during the Spring planting season, with a second period of strong demand following the Fall harvest. In contrast, we and other crop nutrient producers generally produce our products throughout the year. As a result, we and/or our customers generally build inventories during the low demand periods of the year in order to ensure timely product availability during the peak sales seasons. The seasonality of crop nutrient demand results in our sales volumes and net sales typically being the highest during the North American Spring season and our working capital requirements typically being the highest just prior to the start of the Spring season. Our quarterly financial results can vary significantly from one year to the next due to weather-related shifts in planting schedules and purchasing patterns.

If seasonal demand exceeds our projections, we will not have enough product and our customers may acquire products from our competitors, which would negatively impact our profitability. If seasonal demand is less than we expect, we will be left with excess inventory and higher working capital and liquidity requirements.

The degree of seasonality of our business can change significantly from year to year due to conditions in the agricultural industry and other factors.

The distribution channels for crop nutrients have capacity to build significant levels of inventories. Significant levels of inventories in the distribution channels for crop nutrients can adversely affect our sales volumes and selling prices.

In order to balance the production needs of crop nutrient producers with farmers' seasonal use of crop nutrients, crop nutrient distribution channels need to have the capacity to build significant inventories. The build-up of inventories in the distribution channels can become excessive, particularly during the cyclical periods of low demand that have been typical in the crop nutrient industry. When there are excessive inventories in the distribution channel, our sales volumes and selling prices can be adversely impacted, even during periods in which farmers' use of crop nutrients may remain strong.

For example, a build-up of concentrated phosphates and potash in the distribution channels was one of several significant factors that led to softening selling prices for concentrated phosphate crop nutrients and weakened sales volumes for both concentrated phosphate crop nutrients and potash in our fiscal year ended May 31, 2009.

Table of Contents

Changes in transportation costs can affect our sales volumes and selling prices.

The cost of delivery is a significant factor in the total cost to customers and farmers of crop nutrients. As a result, changes in transportation costs or in customer expectations about them can affect our sales volumes and prices.

Customer expectations about future events can have a significant effect on the demand for our products. These expectations can significantly affect our sales volumes and selling prices.

Customer expectations about future events has had and is expected to continue to have an effect on the demand and prices for crop nutrients. The future events that may be affected by customer expectations include, among others:

Customer expectations about future crop nutrient prices and availability.

Customer expectations about selling prices and availability of crop nutrients has had and is expected to continue to have an effect on the demand for crop nutrients. When customers anticipate increasing crop nutrient selling prices, customers tend to accumulate inventories before the anticipated price increases. This can result in a lag in our realization of rising market prices for our products. Conversely, customers tend to delay their purchases when they anticipate future selling prices for crop nutrients will stabilize or decrease, adversely affecting our sales volumes and selling prices. Customer expectations about availability of crop nutrients can have similar effects on sales volumes and prices.

For example, during portions of fiscal 2009, our customers anticipated a decline in the market price of concentrated phosphate crop nutrients because of falling global prices for sulfur and ammonia, two of the key raw materials used in the production of concentrated phosphates. Our customers' expectation of falling prices was one of several significant factors that led to weak sales volumes and softening selling prices for concentrated phosphate crop nutrients during portions of fiscal 2009.

Customer expectations about future farmer economics.

Similarly, customer expectations about future farmer economics has had and is expected to continue to have an effect on the demand for crop nutrients. When customers anticipate improving farmer economics, customers tend to accumulate crop nutrient inventories in anticipation of increasing sales volumes and selling prices. This can result in a lag in our realization of rising market prices for our products. Conversely, when customers anticipate declining farmer economics, customers tend to reduce the level of their purchases of crop nutrients, adversely affecting our sales volumes and selling prices.

For example, a plunge in market prices for grains and oilseeds since peaks in June 2008 led customers to expect declining farmer economics. The expectation of declining farmer economics was one of several significant factors that led to softening selling prices for concentrated phosphate crop nutrients and weak sales volumes for concentrated phosphate crop nutrients and potash during portions of fiscal 2009.

Changes in customer expectations about transportation costs.

As more fully discussed above, increasing transportation costs effectively increase customers' and farmers' costs for crop nutrients and can reduce the amount we realize for our sales. Expectations of decreasing transportation costs can result in customers and farmers anticipating that they may be able to decrease their costs by delaying purchases. As a result, changes in customer expectations about transportation costs can affect our sales volumes and prices.

Table of Contents

We conduct our operations primarily through a limited number of key production and distribution facilities. Any disruption at one of these facilities could have a material adverse impact on our business. The risk of material disruption increases when demand for our products results in high operating rates at our facilities.

We conduct our operations through a limited number of key production and distribution facilities. These large facilities include our phosphate mines and concentrates plants, our potash mines and the ports and other distribution facilities through which we conduct our business. Any disruption of operations at one of these facilities has the possibility of significantly affecting our production or our ability to distribute our products. Operating these facilities at high rates during periods of high demand for our products increases the risk of mechanical or structural failures, decreases the time available for routine maintenance and increases the impact on our operating results from any disruption. We maintain property, business interruption and casualty insurance policies, but we are not fully insured against all potential hazards and risks incident to our business. We are subject to various self-retentions and deductibles under these insurance policies. As a result of market conditions, our premiums, self-retentions and deductibles for insurance policies can increase substantially and, in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. In addition, significantly increased costs could lead us to decide to reduce, or possibly eliminate, coverage. As a result, a disruption of operations at one of our key facilities could have a material adverse effect on our results of operation or financial condition.

Important raw materials and energy used in our businesses in the past have been and may in the future be the subject of volatile pricing. Changes in the price of our raw materials could have a material impact on our businesses.

Natural gas, ammonia and sulfur are key raw materials used in the manufacture of phosphate crop nutrient products. Natural gas is used as both a chemical feedstock and a fuel to produce anhydrous ammonia, which is a raw material used in the production of DAP and MAP. Natural gas is also a significant energy source used in the potash solution mining process. From time to time, our profitability has been and may in the future be impacted by the price and availability of these raw materials and other energy costs. Because our products are commodity-like, there can be no assurance that we will be able to pass through increased costs to our customers. A significant increase in the price of natural gas, ammonia, sulfur or energy costs that is not recovered through an increase in the price of our related crop nutrients products could have a material impact on our business.

During periods when the price for concentrated phosphates is falling because of falling raw material prices, we may experience a lag in realizing the benefits of the falling raw materials prices. This lag can adversely affect our gross margins and profitability.

During some periods, changes in market prices for raw materials can lead to changes in the global market prices for concentrated phosphate crop nutrients. In particular, the global market prices for concentrated phosphate crop nutrients can be affected by changes in the market prices for sulfur, ammonia, phosphate rock and/or phosphoric acid raw materials. Increasing market prices for these raw materials tend to put upward pressure on the selling prices for concentrated phosphate crop nutrients, and decreasing market prices for these raw materials tend to put downward pressure on selling prices for concentrated phosphate crop nutrients. When the market prices for these raw materials plunge rapidly, the selling prices for our concentrated phosphate crop nutrients can fall more rapidly than we are able to consume our raw material inventory that we purchased or committed to purchase in the past at higher prices. As a result, our costs may not fall as rapidly as the selling prices of our products. Until we are able to consume the higher priced raw materials, our gross margins and profitability can be adversely affected.

Table of Contents

During periods when the prices for our products are falling because of falling raw material prices, we could be required to write down the value of our inventories. Any such write-down would adversely affect our results of operations and the level of our assets.

We carry our inventories at the lower of cost or market. In periods when the market prices for our products are falling rapidly in response to falling market prices for raw materials, it is possible that we could be required to write down the value of our inventories if market prices fall below our costs. Any such write-down would adversely affect our results of operations and the level of our assets. Any such effect could be material.

For example, in our fiscal quarter ended November 30, 2008, we recorded lower of cost or market inventory write-downs principally in our Phosphates segment. These lower of cost or market inventory write-downs, which totaled \$293.5 million, were necessary because the carrying cost of certain ending inventories exceeded our estimates of future selling prices less reasonably predictable selling costs.

Our estimates of future selling prices reflect in part the purchase commitments we have from our customers. As a result, defaults on these existing purchase commitments because of the global or local economic and financial conditions or for other reasons could adversely affect our estimates of future selling prices and require additional inventory write-downs.

In the event of a disruption to existing transportation or terminaling facilities for raw materials, alternative transportation and terminaling facilities might not have sufficient capacity to fully serve all of our facilities.

In the event of a disruption of existing transportation or terminaling facilities for raw materials, alternative transportation and terminaling facilities might not have sufficient capacity to fully serve all of our facilities.

An extended interruption in the supply of natural gas, ammonia or sulfur to our production facilities could have a material adverse effect on our business, financial condition or results of operations.

We are subject to risks associated with our international sales and operations, which could negatively affect our sales to customers in foreign countries as well as our operations and assets in foreign countries. Some of these factors may also make it less attractive to distribute cash generated by our operations outside the United States to our stockholders, or to utilize cash generated by our operations in one country to fund our operations or repayments of indebtedness in another country or to support other corporate purposes.

For fiscal 2010, we derived approximately 65% of our net sales from customers located outside of the United States. As a result, we are subject to numerous risks and uncertainties relating to international sales and operations, including:

difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations;

unexpected changes in regulatory environments;

increased government ownership and regulation of the economy in the countries we serve;

political and economic instability, including the possibility for civil unrest, inflation and adverse economic conditions resulting from governmental attempts to reduce inflation, such as imposition of higher interest rates and wage and price controls;

nationalization of properties by foreign governments;

Table of Contents

the imposition of tariffs, exchange controls, trade barriers or other restrictions; and

currency exchange rate fluctuations between the U.S. dollar and foreign currencies, particularly the Brazilian real and the Canadian dollar.

The occurrence of any of the above in the countries in which we operate or elsewhere could jeopardize or limit our ability to transact business there and could adversely affect our revenues and operating results and the value of our assets located outside of the United States.

In addition, tax regulations, currency exchange controls and other restrictions may also make it economically unattractive to:

distribute cash generated by our operations outside the United States to our stockholders, or

utilize cash generated by our operations in one country to fund our operations or repayments of indebtedness in another country or to support other corporate purposes.

Our international assets are located in countries with volatile conditions, which could subject us and our assets to significant risks.

We are a global business with substantial assets located outside of the United States and Canada. Our operations in Brazil, Argentina, Chile, China and India are a fundamental part of our business. Volatile economic, political and market conditions in these and other emerging market countries may have a negative impact on our operations, operating results and financial condition.

Adverse weather conditions, including the impact of potential hurricanes and excess rainfall, have in the past, and may in the future, adversely affect our operations, particularly our Phosphates business, and result in increased costs, decreased production and potential liabilities.

Adverse weather conditions, including the impact of potential hurricanes and excess rainfall, have in the past and may in the future adversely affect our operations, particularly our Phosphates business. In the past, hurricanes have resulted in minor physical damage to our facilities in Florida and Louisiana. In addition, a release of phosphoric acid process wastewater at our Riverview, Florida facility during a hurricane resulted in a small civil fine, as well as a private class action lawsuit and claims for natural resource damages by governmental agencies.

More significantly, water treatment costs, particularly at our Florida operations, due to high water balances tend to increase significantly following excess rainfall from hurricanes and other adverse weather. Some of our Florida facilities have high water levels that may, from time to time, require treatment. The high water balances at phosphate facilities in Florida also led the Florida Department of Environmental Protection to adopt new rules requiring phosphate production facilities to meet more stringent process water management objectives for phosphogypsum management systems.

If additional excess rainfall or hurricanes continue to occur in coming years, our facilities may be required to take additional measures to manage process water to comply with existing or future requirements and these measures could potentially have a material effect on our business and financial condition.

Adverse weather may also cause a loss of production due to disruptions in our supply chain. For example, following Hurricane Katrina in Louisiana in 2005, oil refineries that supply sulfur to us were closed and incoming shipments of ammonia were delayed, disrupting production at our Louisiana facilities.

Table of Contents

Our operations are dependent on having the required permits and approvals from governmental authorities. Denial or delay by a government agency in issuing any of our permits and approvals or imposition of restrictive conditions on us with respect to these permits and approvals may impair our business and operations.

We hold numerous governmental environmental, mining and other permits and approvals authorizing operations at each of our facilities. A decision by a government agency to revoke or substantially modify an existing permit or approval could have a material adverse effect on our ability to continue operations at the affected facility.

Expansion of our operations also is predicated upon securing the necessary environmental or other permits or approvals. Over the next several years, we and our subsidiaries will be continuing our efforts to obtain permits in support of our anticipated Florida mining operations at certain of our properties.

A denial of, or delay in issuing, these permits, the issuance of permits with cost-prohibitive conditions, legal actions that prevent us from relying on permits or revocation of permits, could prevent us from mining at these properties and thereby have a material adverse effect on our business, financial condition or results of operations.

For example:

In Florida, local community participation has become an important factor in the permitting process for mining companies, and various local counties and other parties in Florida have in the past and continue to file lawsuits challenging the issuance of some of the permits we require. In fiscal 2009 environmental groups for the first time filed a lawsuit in federal court against the U.S. Army Corps of Engineers with respect to its issuance of a federal wetlands permit.

Delays in receiving a federal wetlands permit impacted the scheduled progression of mining activities for the extension of our South Fort Meade, Florida, phosphate rock mine into Hardee County. As a result, we began to experience idle time with a portion of our mining equipment at the mine in the latter part of fiscal 2010. On June 14, 2010, the U.S. Army Corps of Engineers issued the federal wetlands permit. We subsequently initiated site preparation activities to begin mining the extension property in the third quarter of calendar 2010.

On June 30, 2010, certain environmental groups filed a lawsuit contesting the issuance of the federal wetlands permit, alleging that the issuance of the permit violates several federal laws relating to the protection of the environment and was arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with law. On July 1, 2010, the court issued a temporary restraining order prohibiting the Corps and us from conducting any activities in reliance on the federal wetlands permit issued by the Corps. The temporary restraining order remains in effect through July 28, 2010 unless modified or extended by the court. The court also held a hearing on plaintiffs' motion for a preliminary injunction on July 22, 2010.

If a preliminary injunction is entered by the court and mining of the Hardee County Extension is not permitted, we expect that we will need to shut down, in whole or in part, mining activities at the South Fort Meade mine for an indefinite period of time, resulting in layoffs of employees, significant costs to suspend operations, idle plant costs and possible other adverse impacts on our Phosphates operations.

We have included additional discussion about permitting for our phosphate mines in Florida, including the lawsuit contesting the issuance of the federal wetlands permit for the extension of our South Fort Meade mine into Hardee County, under Environmental, Health and Safety Matters - Permitting in our Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 21 of our Consolidated Financial Statements. This information is incorporated herein by reference.

Table of Contents

We are subject to financial assurance requirements as part of our routine business operations. These financial assurance requirements affect our costs and increase our liquidity requirements. If we were unable to satisfy applicable financial assurance requirements, we might not be able to obtain or maintain permits we need to operate our business as we have in the past. Our need to comply with these requirements could materially affect our business, results of operations or financial condition.

In many cases, as a condition to procuring or maintaining permits and approvals or otherwise, we are required to comply with financial assurance regulatory requirements. The purpose of these requirements is to provide comfort to the government that sufficient funds will be available for the ultimate closure, post-closure care and/or reclamation of our facilities. In most cases, these financial assurance requirements can be satisfied without the need for any expenditure of corporate funds to the extent our financial statements meet certain balance sheet and income statement financial strength tests. In the event that we are unable to satisfy these financial strength tests, we must utilize alternative methods of complying with the financial assurance requirements or could be subject to enforcement proceedings brought by relevant government agencies. Potential alternative methods of compliance include negotiating a consent decree that imposes alternative financial assurance or other conditions or, alternatively, providing credit support in the form of cash escrows, surety bonds from insurance companies, letters of credit from banks, or other forms of financial instruments or collateral to satisfy the financial assurance requirements. Use of these alternative means of financial assurance imposes additional expense on us. Some of them, such as letters of credit, also use a portion of our available liquidity. Other alternative means of financial assurance, such as surety bonds, may in some cases require collateral and generally require us to obtain a discharge of the bonds or to post additional collateral (typically in the form of cash or letters of credit) at the request of the issuer of the bonds. Collateral that is required may be in many forms including letters of credit or other financial instruments that utilize a portion of our available liquidity, or in the form of assets such as real estate, which reduces our flexibility to manage or sell assets. In the past, we have not always been able to satisfy applicable financial strength tests, and in the future, it is possible that we will not be able to pass the applicable financial strength tests, negotiate consent decrees, establish escrow accounts or obtain letters of credit, surety bonds or other financial instruments on acceptable terms and conditions or at a reasonable cost, or that the form and/or cost of compliance could increase, which could materially adversely affect our business, results of operations or financial condition.

The other environmental regulations to which we are subject may also have a material adverse effect on our business, financial condition and results of operations.

In addition to permitting and financial assurance requirements, we are subject to numerous other environmental, health and safety laws and regulations in the U.S., Canada, China, Brazil and other countries where we operate. These laws and regulations govern a wide range of matters, including environmental controls, land reclamation, discharges to air and water and remediation of hazardous substance releases. They significantly affect our operating activities as well as the level of our operating costs and capital expenditures. In some international jurisdictions, environmental laws change frequently and it may be difficult for us to determine if we are in compliance with all material environmental laws at any given time.

We are, and may in the future be, involved in legal and regulatory proceedings that could be material to us. These proceedings include legacy matters arising from activities of our predecessor companies and from facilities and businesses that we have never owned or operated.

We have in the past been, are currently and may in the future be subject to legal and regulatory proceedings that could be material to our business, results of operations, liquidity or financial condition. These proceedings may be brought by the government or private parties and may arise out of a variety of matters, including:

Allegations by the government or private parties that we have violated the permitting, financial assurance or other environmental, health and safety laws and regulations discussed above. For example, the U.S. Environmental Protection Agency is engaged in an ongoing review of mineral processing

Table of Contents

industries, including us and other phosphoric acid producers, under the U.S. Resource Conservation and Recovery Act. We are also involved in other proceedings alleging that, or to review whether, we have violated environmental laws in the United States and Brazil.

Other environmental, health and safety matters, including alleged personal injury, wrongful death, property damage, subsidence from mining operations, natural resource damages and other damage to the environment, arising out of operations, including accidents. For example, several actions were initiated by the government and private parties related to releases of phosphoric acid process wastewater at our Riverview, Florida facility during the hurricanes in 2004.

Antitrust, commercial, tax and other disputes. For example, we are currently one of a number of defendants in multiple class-action lawsuits, in which the plaintiffs seek unspecified amounts of damages including treble damages, alleging that we and other defendants conspired to, among other matters, fix the price at which potash was sold in the United States, allocated market shares and customers and fraudulently concealed their anticompetitive conduct.

The legal and regulatory proceedings to which we are currently or may in the future be subject can, depending on the circumstances, result in monetary damage awards, fines, penalties, other liabilities, injunctions or other court or administrative rulings that interrupt, impede or otherwise materially affect our business operations, and/or criminal sanctions.

Among other environmental laws, the U.S. Comprehensive Environmental Response, Compensation, and Liability Act imposes liability, including for cleanup costs, without regard to fault or to the legality of a party's conduct, on certain categories of persons, including current and former owners and operators of a site and parties who are considered to have contributed to the release of hazardous substances into the environment. Under CERCLA, or various U.S. state analogs, one party may, under certain circumstances, be required to bear more than its proportional share of cleanup costs at a site where it has liability if payments cannot be obtained from other responsible parties. As a crop nutrient company working with chemicals and other hazardous substances, we will periodically incur liabilities and cleanup costs, under CERCLA and other environmental laws, with regard to our current or former facilities, adjacent or nearby third party facilities or offsite disposal locations.

Pending and potential legal and regulatory proceedings may arise out of our present activities, including operations at current facilities. They may also arise out of past activities by us, our predecessor companies and subsidiaries that our predecessors have sold. These past activities were in some cases at facilities that we and our subsidiaries no longer own or operate and may have never owned or operated.

We have included additional information with respect to pending legal and regulatory proceedings in Note 21 of our Consolidated Financial Statements and in this report in Part I, Item 3, Legal Proceedings.

These legal and regulatory proceedings involve inherent uncertainties and could negatively impact our business, results of operations, liquidity or financial condition.

The permitting, financial assurance and other environmental, health and safety laws and regulations to which we are subject may become more stringent over time. This could increase the effects on us of these laws and regulations, and the increased effects could be material.

Continued government and public emphasis on environmental, health and safety issues in the U.S., Canada, China, Brazil and other countries where we operate can be expected to result in requirements that apply to us and our operations that are more stringent than those that are described above and elsewhere in this report. These more stringent requirements may include among other matters increased levels of future investments and expenditures for environmental controls at ongoing operations which will be charged against income from future operations, increased levels of the financial assurance requirements to which we are subject, increased efforts or

Table of Contents

costs to obtain permits or denial of permits, and other matters that could increase our expenses, capital requirements or liabilities or adversely affect our business, liquidity or financial condition. In addition, to the extent restrictions imposed in countries where our competitors operate, such as China, India, Former Soviet Union countries or Morocco, are less stringent than in the countries where we operate, our competitors could gain cost or other competitive advantages over us. These effects could be material.

Among other matters, in January 2010, the U.S. Environmental Protection Agency (*EPA*) proposed a rule that would impose numeric criteria for the discharge of nitrogen and/or phosphorous into Florida lakes and streams. The EPA's proposed criteria would limit the discharge of nitrogen and/or phosphorous into Florida lakes and streams, and these levels could require us and other entities to control or limit these discharges substantially below current levels. We are evaluating the impact of the proposed criteria on our operations. We cannot predict whether EPA will finalize a numeric nutrient criteria rule, what the final terms of such a rule would be, whether prospective compliance with such a rule would adversely affect our results of operations, liquidity or capital resources, or whether any such adverse effects could be material to us.

Regulatory restrictions on greenhouse gas emissions in the United States, Canada or elsewhere could adversely affect us, and these effects could be material.

Various governmental initiatives to limit greenhouse gas emissions are under way or under consideration around the world. These initiatives could restrict our operating activities, require us to make changes in our operating activities that would increase our operating costs, reduce our efficiency or limit our output, require us to make capital improvements to our facilities, increase our energy, raw material and transportation costs or limit their availability, or otherwise adversely affect our results of operations, liquidity or capital resources, and these effects could be material to us.

Governmental greenhouse gas emission initiatives include among others:

Initiatives in the United States:

EPA Regulations. In December 2009, the EPA finalized its previously proposed Endangerment Finding under the Clean Air Act that motor vehicles are sources of greenhouse gases that are reasonably anticipated to endanger public health and welfare. Subsequently, on May 13, 2010, the EPA issued its final Prevention of Significant Deterioration (*PSD*) and Title V Greenhouse Gas Tailoring Rule (the *Tailoring Rule*). Under the Tailoring Rule, (i) beginning in January 2011, sources that are currently subject to the PSD requirements that undergo modifications that increase their greenhouse gas emissions by 75,000 short tons per year will be subject to PSD permitting requirements for greenhouse gas emissions and (ii) beginning in July 2011, new projects that are not otherwise subject to the PSD requirements will become subject to PSD requirements if they emit greenhouse gas emissions of more than 100,000 short tons per year.

Congressional Legislation. The U.S. House of Representatives has passed legislation that would establish a comprehensive program to reduce greenhouse gas emissions. This legislation could mandate increased use of renewable energy sources, increased energy efficiency, and an economy-wide emission cap and trade program. Many other bills have been introduced both in the U.S. House of Representatives and the U.S. Senate.

State Initiatives. The Florida Department of Environmental Protection (*FDEP*) is conducting rulemaking proceedings to develop a greenhouse gas cap and trade regulatory program applicable to electric utilities. Some public documents and discussions that are part of the FDEP's rulemaking process have considered our Phosphates business segment's electricity cogeneration facilities to be includable in such a regulatory program.

Table of Contents

Initiatives in Canada Kyoto Protocol. In December 2002, the Prime Minister of Canada ratified the Kyoto Protocol, committing Canada to reduce its greenhouse gas emissions on average to six percent below 1990 levels through the first commitment period (2008-2012). Developments in Canada's efforts to reduce greenhouse gases include:

In March 2008, Canada announced a new Climate Change Plan for Canada which established a target of reducing greenhouse gases 20% from 2006 levels by 2020. In May 2009, the Minister of Environment indicated implementation may be delayed to assure sufficient alignment with the evolving approach in the U.S. to avoid trade sanctions.

In May 2009, the Province of Saskatchewan, in which our Canadian potash mines are located, began to consider legislation intended to lead to the development and administration of climate change regulation in Saskatchewan by the Province rather than the federal government. Key elements under consideration by the Province include a primary focus on achieving the 20% reduction by 2020 through technological advancements; creation of a Technology Fund to allow large final emitters of greenhouse gases to obtain required greenhouse gas emission credits by paying into the fund and using this fund for approved research and development projects targeted primarily at applied technological improvements; and creation of a Green Foundation Fund intended to be used more broadly for grass roots research and development.

International Initiatives. Although international negotiations concerning greenhouse gas emission reductions and other responses to climate change are underway, final obligations in the post-Kyoto Protocol period after 2012 remain undefined. Any new international agreements addressing climate change could adversely affect our operating activities, energy, raw material and transportation costs, results of operations, liquidity or capital resources, and these effects could be material. In addition, to the extent climate change restrictions imposed in countries where our competitors operate, such as China, India, Former Soviet Union countries or Morocco, are less stringent than in the United States or Canada, our competitors could gain cost or other competitive advantages over us.

Future climate change could adversely affect us, and these effects could be material.

The prospective impact of potential climate change on our operations and those of our customers and farmers remains uncertain. Some scientists have hypothesized that the impacts of climate change could include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperature levels and that these changes could be severe. These impacts could vary by geographic location. At the present time, we cannot predict the prospective impact of potential climate change on our results of operations, liquidity or capital resources, or whether any such effects could be material to us.

Some of our competitors and potential competitors have greater resources than we do which may place us at a competitive disadvantage and adversely affect our sales and profitability. These competitors include state-owned and government-subsidized entities in other countries.

We compete with a number of producers in North America and throughout the world, including state-owned and government-subsidized entities. Some of these entities may have greater total resources than we do, and may be less dependent on earnings from crop nutrients sales than we are. In addition, some of these entities may have access to lower cost or government-subsidized natural gas supplies, placing us at a competitive disadvantage. Furthermore, governments as owners of some of our competitors may be willing to accept lower prices and profitability on their products in order to support domestic employment or other political or social goals. To the extent other producers of crop nutrients enjoy competitive advantages or are willing to accept lower profit levels, the price of our products, our sales volumes and our profits may be adversely affected.

Table of Contents

We have substantial cash balances that we invest in what we believe to be relatively short-term, highly liquid and high credit quality investments. We intend the investment risks, including counterparty default and lack of liquidity, on these types of investments to be relatively low, but market rates of return on these types of investments are also generally relatively low. In addition, our efforts to manage the investment risks could be unsuccessful. This could result in a material adverse effect on our results of operations, liquidity or financial condition.

Our significant cash flows from operations have resulted in cash and cash-equivalents of approximately \$2.5 billion at May 31, 2010. Our cash and cash-equivalents should continue to increase when we generate cash from operations, except to the extent we reinvest in our business or make distributions to our stockholders. We generally invest these cash and cash-equivalents in what we believe to be relatively short-term, highly liquid and high credit quality instruments. Because of these characteristics of our cash and cash-equivalents, the market rates of return on them are lower than our expectations for the return on capital invested in our business operations. Moreover, our efforts to manage investment risk by focusing our investing on short-term, highly liquid and high credit quality investments could prove unsuccessful. The likelihood that our efforts to manage investment risk might prove unsuccessful is heightened during times when there is significant turmoil in the financial markets. As a result, counterparties could default on their obligations to us, or the liquidity of financial instruments that we hold could become impaired. Any such event could have a material adverse effect on our results of operations, liquidity or financial condition.

We do not own a controlling equity interest in our non-consolidated companies, some of which are foreign companies, and therefore our operating results and cash flow may be materially affected by how the governing boards and majority owners operate such businesses. There may also be limitations on monetary distributions from these companies that are outside of our control. Together, these factors may lower our equity earnings or cash flow from such businesses and negatively impact our results of operations.

We hold several minority ownership interests in crop nutrient manufacturing or distribution companies that are not controlled by us. As some of these companies are significant to us, their results of operations materially affect our equity earnings. Because we do not control these companies either at the board or stockholder levels and because local laws in foreign jurisdictions and contractual obligations may place restrictions on monetary distributions by these companies, we cannot ensure that these companies will operate efficiently, pay dividends, or generally follow the desires of our management by virtue of our board or stockholder representation. As a result, these companies may contribute significantly less than anticipated to our equity earnings and cash flow, negatively impacting our results of operations and liquidity.

Strikes or other forms of work stoppage or slowdown could disrupt our business and lead to increased costs.

Our financial performance is dependent on a reliable and productive work force. A significant portion of our workforce is covered by collective bargaining agreements with unions. Unsuccessful contract negotiations or adverse labor relations could result in strikes or slowdowns. Any disruptions may decrease our production and sales or impose additional costs to resolve disputes. The risk of adverse labor relations may increase as our profitability increases because labor unions' expectations and demands generally rise at those times.

Accidents occurring in the course of our operating activities could result in significant liabilities, interruptions or shutdowns of facilities or the need for significant safety or other expenditures.

We engage in mining and industrial activities that can result in serious accidents. Mining, in particular, can be a dangerous activity. If our safety procedures are not effective, we could be subject to liabilities arising out of personal injuries or death, our operations could be interrupted and we might have to shut down or abandon affected facilities. Accidents could cause us to expend significant amounts to remediate safety issues or to repair damaged facilities. For example:

Our Esterhazy mine has had an inflow of brine for more than 20 years. At various times, we have experienced new or increased inflows at the mine. The Esterhazy mine is not insured against the

Table of Contents

risk of floods and water inflows and the costs to control the brine inflows could increase in future years. The brine inflows, risk to employees or remediation costs could also cause us to change our mining process or abandon this mine, which in turn could significantly negatively impact our results of operations, liquidity or capital resources.

Since December 1985, we have had inflows of salt saturated brine into our Esterhazy, Saskatchewan mine. Over the past century, several potash mines experiencing water inflow problems have flooded. In order to control brine inflows at Esterhazy, we have incurred, and will continue to incur, expenditures, certain of which due to their nature have been capitalized, while others have been charged to expense.

At various times, we have experienced new or increased brine inflows at the Esterhazy mine. For example, in late 2006, we identified a new salt saturated brine inflow in a mined out area located approximately 7,500 feet from our existing brine inflow management area. Initial data suggested that the new inflow was at the rate of 20,000 to 25,000 gallons per minute, which was significantly greater than the highest inflow rates that we had successfully managed (approximately 10,000 to 15,000 gallons per minute) at the Esterhazy mine since 1985. Without abatement, and assuming our initial estimates to be accurate, we estimated that we had storage capacity to handle the new brine inflow for several months before adversely affecting production at the Esterhazy mine. Our remediation efforts included grouting that reduced the level of the inflows to approximately historical rates and pumping to reduce the level of brine in the mine. See *Potash Net Sales and Gross Margin* in our *Management's Analysis* for a discussion of costs and other information relating to the brine inflows. Inflow rate measurements reflect an estimate as of a particular point in time, and depending on when tests are conducted, rates can fluctuate up or down. There can be no assurance that:

the pumping, grouting and other measures that we use to mitigate the inflows at the Esterhazy mine will continue to be successful in mitigating the inflows;

our estimates of the volumes of the brine inflow or storage capacity for brine at the Esterhazy mine are accurate;

the volumes of the brine inflows will not fluctuate from time to time, the rate of the brine inflows will not be greater than our current assumptions and that any such fluctuations or increases would not be material; or

the expenditures to control the inflows will be consistent with our current estimates.

It is possible that the costs of remedial efforts at Esterhazy may further increase beyond our current estimates in the future and that such an increase could be material, or, in the extreme scenario, that the water inflows, risk to employees or remediation costs may increase to a level which would cause us to change our mining process or abandon the mine.

Due to the ongoing brine inflow problem at Esterhazy, underground operations at this facility are currently not insurable for water incursion problems. Our mines at Colonsay, Saskatchewan, and Carlsbad, New Mexico, are also subject to the risks of inflow of water as a result of our shaft mining operations.

Some of our mines are subject to potential damage from earthquakes.

The excavation of mines can result in potential seismic events or can increase the likelihood or potential severity of a seismic event. The rise and fall of water levels, such as those arising from the brine inflows and our remediation activities at our Esterhazy mine, can also result in or increase the likelihood or potential severity of a seismic event. Our Esterhazy mine has experienced minor seismic events from time to time. A significant seismic event at one of our mines could result in damage to or flooding of the mine or, in the extreme scenario, cause us to change our mining process or abandon the mine.

Table of Contents

Our underground potash shaft mines are subject to risk from fire. In the event of a fire, if our emergency procedures are not successful, we could have significant injuries or deaths. In addition, fire at one of our underground shaft mines could halt our operations at the affected mine while we investigate the origin of the fire or for longer periods for remedial work or otherwise.

Our underground potash shaft mines at Esterhazy, Saskatchewan, Colonsay, Saskatchewan and Carlsbad, New Mexico are subject to risk from fire. For example, in January 2006, we experienced a fire at our Esterhazy mine. At the time of the fire, there were 72 mine workers underground. These mine workers were safely evacuated the following day. We halted operations at our Esterhazy mine for over a week during our investigation of the origin of the fire. Any failure of our safety procedures in the future could result in serious injuries or death, or lengthier shutdowns, which could result in significant liabilities and/or impact on the financial performance of our Potash business, including a possible material adverse effect on our results of operations, liquidity or financial condition.

We handle significant quantities of ammonia at several of our facilities. If our safety procedures are not effective, an accident involving our ammonia operations could result in serious injuries or death, or result in the shutdown of our facilities.

We produce ammonia at our Faustina, Louisiana phosphate concentrates plant, use ammonia in significant quantities at all of our Florida and Louisiana phosphates concentrates plants and store ammonia at some of our distribution facilities. For our Florida phosphates concentrates plants, ammonia is received at terminals in Tampa and transported by pipelines to our facilities. Our ammonia is generally stored and transported at high pressures. An accident could occur that could result in serious injuries or death, or the evacuation of areas near an accident. An accident could also result in property damage or the shutdown of our Florida or Louisiana phosphates concentrates plants, the ammonia terminals or pipelines serving those plants or our other ammonia storage and handling facilities. As a result, an accident involving ammonia could have a material adverse effect on our results of operations, liquidity or financial condition.

We also use or produce other hazardous or volatile chemicals at some of our facilities. If our safety procedures are not effective, an accident involving these other hazardous or volatile chemicals could result in serious injuries or death, or result in the shutdown of our facilities.

We use sulfuric acid in the production of concentrated phosphates in our Florida and Louisiana operations. Some of our Florida and Louisiana facilities produce fluorosilicic acid, which is a hazardous chemical, for resale to third parties. We also use or produce other hazardous or volatile chemicals at some of our facilities. An accident involving any of these chemicals could result in serious injuries or death, or evacuation of areas near an accident. An accident could also result in property damage or shutdown of our facilities, or cause us to expend significant amounts to remediate safety issues or to repair damaged facilities. As a result, an accident involving any of these chemicals could have a material adverse effect on our results of operations, liquidity or financial condition. For example, in October 2006, an explosion occurred at our Faustina, Louisiana ammonia plant, which is located adjacent to our phosphate production facility. As a result, the ammonia plant was idle for repairs until mid-January 2007.

Deliberate, malicious acts, including terrorism, could damage our facilities, disrupt our operations or injure employees, contractors, customers or the public and result in liability to us.

Intentional acts of destruction could hinder our sales or production and disrupt our supply chain. Our facilities could be damaged or destroyed, reducing our operational production capacity and requiring us to repair or replace our facilities at substantial cost. Employees, contractors and the public could suffer substantial physical injury for which we could be liable. Governmental authorities may impose security or other requirements that could make our operations more difficult or costly. The consequences of any such actions could adversely affect our operating results and financial condition.

Table of Contents

We may be adversely affected by changing antitrust laws to which we are subject. Increases in crop nutrient prices can increase the scrutiny to which we are subject under these laws.

We are subject to antitrust and competition laws in various countries throughout the world. We cannot predict how these laws or their interpretation, administration and enforcement will change over time. Changes in antitrust laws globally, or in their interpretation, administration or enforcement, may limit our existing or future operations and growth, or the operations of Canpotex Limited and the Phosphate Chemicals Export Association, Inc., which serve as export associations for our Potash and Phosphates businesses, respectively. Increases in crop nutrient prices have in the past resulted in increased scrutiny of the crop nutrient industry under antitrust and competition laws and can increase the risk that these laws could be interpreted, administered or enforced in a manner that could affect our operating practices or impose liability on us in a manner that could materially adversely affect our operating results and financial condition.

We may be adversely affected by other changes in laws resulting from increases in food and crop nutrient prices.

Increases in prices for, among other things, food, fuel and crop inputs (including crop nutrients) have in the past been the subject of significant discussion by various governmental bodies and officials throughout the world. In response to increases, it is possible that governments in one of more of the locations in which we operate or where we or our competitors sell our products could take actions that could affect us. Such actions could include, among other matters, changes in governmental policies relating to agriculture and biofuels (including changes in subsidy levels), price controls, tariffs, windfall profits taxes or export or import taxes. Any such actions could materially adversely affect our operating results and financial condition.

Our competitive position could be adversely affected if we are unable to participate in continuing industry consolidation.

Most of our products are readily available from a number of competitors, and price and other competition in the crop nutrient industry is intense. In addition, crop nutrient production facilities and distribution activities frequently benefit from economies of scale. As a result, particularly during pronounced cyclical troughs, the crop nutrient industry has a long history of consolidation. Mosaic itself is the result of a number of industry consolidations. We expect consolidation among crop nutrient producers could continue. Our competitive position could suffer to the extent we are not able to expand our own resources either through consolidations, acquisitions, joint ventures or partnerships. In the future, we may not be able to find suitable companies to combine with, assets to purchase or joint venture or partnership opportunities to pursue. Even if we are able to locate desirable opportunities, we may not be able to enter into transactions on economically acceptable terms. If we do not successfully participate in continuing industry consolidation, our ability to compete successfully could be adversely affected and result in the loss of customers or an uncompetitive cost structure, which could adversely affect our sales and profitability.

Our risk management strategy may not be effective.

Our businesses are affected by fluctuations in market prices for our products, the purchase price of natural gas, ammonia and sulfur consumed in operations, freight and shipping costs and foreign currency exchange rates. We periodically enter into derivatives and forward purchase contracts to mitigate some of these risks. However, our strategy may not be successful in minimizing our exposure to these fluctuations. See Market Risk in our Management's Analysis and Note 15 of our Consolidated Financial Statements that is incorporated by reference in this report in Part II, Item 8.

A shortage of railcars, barges and ships for carrying our products and the raw materials we use in our business could result in customer dissatisfaction, loss of production or sales, and higher transportation or equipment costs.

We rely heavily upon truck, rail, barge and ocean freight transportation to obtain the raw materials we need and to deliver our products to our customers. In addition, the cost of transportation is an important part of the final

Table of Contents

sale price of our products. Finding affordable and dependable transportation is important in obtaining our raw materials and to supply our customers. Higher costs for these transportation services or an interruption or slowdown due to factors including high demand, high fuel prices, labor disputes, layoffs or other factors affecting the availability of qualified transportation workers, adverse weather or other environmental events, or changes to rail, barge or ocean freight systems, could negatively affect our ability to produce our products or deliver them to our customers, which could affect our performance and results of operations.

Strong demand for grain and other products and a strong world economy increase the demand for and reduce the availability of transportation, both domestically and internationally. Shortages of railcars, barges and ocean transport for carrying product and increased transit time may result in customer dissatisfaction, loss of sales and higher equipment and transportation costs. In addition, during periods when the shipping industry has a shortage of ships the substantial time needed to build new ships prevents rapid market response. Delays and missed shipments due to transportation shortages, including vessels, barges, railcars and trucks, could result in customer dissatisfaction or loss of sales potential, which could negatively affect our performance and results of operations.

A lack of customers' access to credit can adversely affect their ability to purchase our products.

Some of our customers require access to credit to purchase our products. A lack of available credit to customers in one or more countries, due to the global or local economic conditions or for other reasons, could adversely affect demand for crop nutrients.

For example, the recent global economic crisis reduced the availability of credit to borrowers worldwide. A lack of available credit was one of several significant factors that adversely affected international customers' demand for crop nutrients in some countries in our fiscal year ended May 31, 2009.

We extend trade credit to our customers and guarantee the financing that some of our customers use to purchase our products. Our results of operations may be adversely affected if these customers are unable to repay the trade credit from us or financing from their banks. Increases in prices for crop nutrient, other agricultural inputs and grain may increase this risk.

We extend trade credit to our customers in the United States and throughout the world, in some cases for extended periods of time. In Brazil, where there are fewer third-party financing sources available to farmers, we also have several programs under which we guarantee customers financing from financial institutions that they use to purchase our products. As our exposure to longer trade credit extended throughout the world and use of guarantees in Brazil increases, we are increasingly exposed to the risk that some of our customers will not pay us or the amounts we have guaranteed. Additionally, we become increasingly exposed to risk due to weather and crop growing conditions, fluctuations in commodity prices or foreign currencies, and other factors that influence the price, supply and demand for agricultural commodities. Significant defaults by our customers could adversely affect our financial condition and results of operations.

Increases in prices for crop nutrients increase the dollar amount of our sales to customers. The larger dollar value of our customers' purchases may also lead them to request longer trade credit from us and/or increase their need for us to guarantee their financing of our products. Either factor could increase the amount of our exposure to the risk that our customers may be unable to repay the trade credit from us or financing from their banks that we guarantee. In addition, increases in prices for other agricultural inputs and grain may increase the working capital requirements, indebtedness and other liabilities of our customers, increase the risk that they will default on the trade credit from us or their financing that we guarantee, and decrease the likelihood that we will be able to collect from our customers in the event of their default.

Cargill's status as a significant stockholder and its representation on our Board of Directors may create conflicts of interest with our other stockholders and could cause us to take actions that may not be beneficial to our other stockholders or that our other stockholders do not support.

As of May 31, 2010, Cargill owned 64.2% of the outstanding shares of our common stock. In addition, seven Cargill nominees are members of our twelve-member Board of Directors. Accordingly, Cargill effectively

Table of Contents

controls our strategic direction and significant corporate transactions, and its interests in these matters may conflict with the interests of other stockholders of Mosaic. As a result, Cargill could cause us to take actions that may not be beneficial to our other stockholders or that our other stockholders do not support.

Cargill's significant ownership interest in Mosaic and our classified Board of Directors and other anti-takeover provisions could deter an acquisition proposal for Mosaic that other stockholders may consider favorable.

Because Cargill is the owner of a majority of the shares of our common stock, a third party will not be able to acquire control of us without Cargill's consent because Cargill could vote its shares of our common stock against any takeover proposal submitted for stockholder approval. In addition, we have a classified Board of Directors and other takeover defenses in our certificate of incorporation and bylaws. Cargill's ownership interest in us and these other anti-takeover provisions could discourage potential acquisition proposals for us and could delay or prevent a change of control of Mosaic. These deterrents could make it very difficult for non-Cargill holders to remove or replace members of our Board of Directors or management, which could be detrimental to our other stockholders.

Our stockholders may be adversely affected if Cargill were to, among other things, increase its ownership percentage of our common stock above 64.2% or seek additional representation on our Board of Directors, any of which could have an impact on the price of our common stock. Our stockholders may also be adversely affected if Cargill were to transfer all or a significant percentage of its interest in our common stock to a third party.

Cargill is free to increase its ownership interest in our common stock. Purchases of additional shares of our common stock by Cargill could result in lower trading volumes for our common stock and make it difficult for stockholders to sell shares of our common stock.

In addition, Cargill is permitted to sell its shares of our common stock. Cargill's sale or transfer of a significant number of shares of our common stock could create a decline in the price of our common stock. Furthermore, if Cargill's sales or transfers were made to a single buyer or group of buyers, it could result in a third party acquiring effective control of Mosaic.

Cargill is also free to seek to increase its representation on the Mosaic Board of Directors above seven members. This action could further increase Cargill's control over Mosaic and deter or delay an acquisition of Mosaic thereby having a negative impact on the price of our common stock.

Our success will increasingly depend on our ability to attract and retain highly qualified and motivated employees.

We believe our continued success depends on the collective abilities and efforts of our employees. Like many businesses, a significant number of our employees, including some of our most highly skilled employees with specialized expertise in potash and phosphates operations, will be approaching retirement age throughout the next decade and beyond. In addition, we compete for a talented workforce with other businesses, particularly within the mining and chemicals industries in general and the crop nutrients industry in particular. Our expansion plans are highly dependent on our ability to retain and to attract and train highly qualified and motivated employees who are essential to the success of our ongoing operations as well as to our expansion plans. If we were to be unsuccessful in retaining, attracting and training the employees we require, our ongoing operations and expansion plans could be materially and adversely affected.

The success of our Potash expansion plans and other strategic initiatives depends on our ability to effectively manage these initiatives.

We have initiated several significant strategic initiatives, principally our plans to expand the annual production capacity of our Potash business by more than five million tonnes of finished product by 2020. These strategic

Table of Contents

initiatives involve capital and other expenditures of several billions of dollars over a number of years and require effective project management. To the extent the processes we put in place to manage these initiatives are not effective, our capital expenditure and other costs may exceed our expectations or the benefits we expect from these initiatives might not be fully realized.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Information regarding our plant and properties is included in Part I, Item 1, *Business*, of this report.

Item 3. Legal Proceedings.

We have included information about legal and environmental proceedings in Note 21 of our Consolidated Financial Statements. This information is incorporated herein by reference.

We are also subject to the following legal and environmental proceedings in addition to those described in Note 21 of our Consolidated Financial Statements:

Fosfertil Merger Proceedings. In December 2006, Fosfertil and Bunge Fertilizantes S.A. (*Bunge Fertilizantes*) proposed a reorganization pursuant to which Bunge Fertilizantes would become a subsidiary of Fosfertil and subsidiaries of Bunge Limited (*Bunge Group*) would increase their ownership in Fosfertil. Pursuant to the proposed reorganization, our existing 20.1% ownership interests in Fosfertil would have been diluted to approximately 10% of the combined enterprise.

In June 2006, Mosaic Fertilizantes do Brasil Ltda. (formerly known as Mosaic Fertilizantes do Brasil S.A.) (*Mosaic Brazil*) filed a lawsuit against Fosfertil, Fertifos and other subsidiaries of Bunge Group (collectively, the *Bunge Parties*) in the Civil Court of the Central District in Sao Paulo, Brazil (the *Civil Court*), challenging the validity of corporate actions taken by Fosfertil and Fertifos in advance of the proposal for the reorganization. These corporate actions included, among other things, actions taken at an April 2006 meeting of the shareholders of Fertifos to replace our representatives on the Fertifos Board of Directors and subsequent acts by the reconstituted Fertifos Board. Following various proceedings and decisions in the Brazilian courts, in August 2009, the Superior Court of Justice (the *Superior Court*) upheld an April 2007 decision against us by the Civil Court in this lawsuit. In March 2010, we filed an appeal to the Supreme Court against the Superior Court's August 2009 decision.

In December 2006 and May 2007, Mosaic Brazil filed additional lawsuits in the Civil Court seeking annulment of the vote by Fertifos' Board of Directors approving the proposed reorganization. These lawsuits were against (i) Fertifos and its directors on the grounds that the Board of Directors lacked statutory authority to decide the matter and (ii) Fertifos, its directors, and Fosfertil based on conflicts of interests on the part of the Fertifos' directors appointed by Bunge Fertilizantes. In January 2009, the Civil Court ruled in favor of Mosaic Brazil in both of these lawsuits and declared the vote by Fertifos' Board of Directors approving the proposed reorganization null and void. In April 2009, the defendants appealed the Civil Court's rulings in Mosaic Brazil's favor to the State Court of Appeal.

In February 2007, Mosaic Brazil petitioned the Brazilian Securities Commission, challenging, among other things, the valuation placed by the Bunge Parties on Fosfertil. In connection with the pending acquisition of Mosaic Brazil's equity interests in Fertifos and Fosfertil by Vale, as discussed under *Phosphates Segment Sale of Fosfertil and Cubatao Facility* in Part I, Item 1, *Business*, Mosaic

Table of Contents

Brazil and Vale have agreed to release and waive all rights in connection with these proceedings. Motions for dismissal have been filed with, and the dismissals are pending approval before, the applicable courts. As the motions for dismissal are approved by the courts, these proceedings will be concluded.

New Wales Multifos Kiln Testing Issues. We have reported to the EPA and the Florida Department of Environmental Protection certain irregularities in our testing related to compliance with the nitrous oxide emission limits in the air permit for a kiln used for production of Multifos animal feed at our New Wales, Florida, phosphate concentrates plant. We understand that both federal and state enforcement officials are considering whether to bring enforcement actions with respect to the testing irregularities. We cannot predict whether federal or state enforcement officials will bring enforcement actions or the amount or nature of any potential penalties or other liabilities that would be sought; however, we do not expect that resolution of this matter will have a material impact on our business or financial condition.

Table of Contents**PART II.****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

We have included information about the market price of, dividends on and the number of holders of our common stock under Quarterly Results (Unaudited) in the financial information that is incorporated by reference in this report in Part II, Item 8, Financial Statements and Supplementary Data.

We have included information on dividend restrictions in Note 11 of our Consolidated Financial Statements.

The principal stock exchange on which our common stock is traded is The New York Stock Exchange.

The following provides information related to equity compensation plans:

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights ^(a)	Weighted-average exercise price of outstanding options, warrants and rights ^(b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in first column)
Equity compensation plans approved by stockholders	3,482,473	\$ 30.84	18,149,353
Equity compensation plans not approved by stockholders	-	-	-
Total	3,482,473	\$ 30.84	18,149,353

^(a) Includes grants of stock options and time-based restricted stock units.

^(b) Includes weighted average exercise price of stock options only.

Pursuant to our employee stock plans relating to the grant of employee stock options, stock appreciation rights and restricted stock awards, we have granted and may in the future grant employee stock options to purchase shares of common stock of Mosaic for which the purchase price may be paid by means of delivery to us by the optionee of shares of common stock of Mosaic that are already owned by the optionee (at a value equal to market value on the date of the option exercise). During the period covered by this report, no options to purchase shares of common stock of Mosaic were exercised for which the purchase price was so paid.

Item 6. Selected Financial Data.

We have included selected financial data for our fiscal years 2006 through 2010 under Five Year Comparison, in the financial information that is incorporated by reference in this report in Part II, Item 8, Financial Statements and Supplementary Data. This information is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We have included our Management's Analysis in our annual report to stockholders. This information is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We have included a discussion about market risks under Market Risk in our Management's Analysis. This information is incorporated herein by reference.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

We have included our Consolidated Financial Statements, the Notes to Consolidated Financial Statements, the report of our Independent Registered Public Accounting Firm, and the information under Quarterly Results in our annual report to stockholders. This information is incorporated herein by reference. All other schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable, and therefore, have been omitted.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 (Exchange Act) is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including our principal executive officer and our principal financial officer, to allow timely decisions regarding required disclosures. Our management, with the participation of our principal executive officer and our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Our principal executive officer and our principal financial officer have concluded, based on such evaluations, that our disclosure controls and procedures were effective for the purpose for which they were designed as of the end of such period.

(b) Management's Report on Internal Control Over Financial Reporting

We have included management's report on internal control over financial reporting under Management's Report on Internal Control Over Financial Reporting in our annual report to stockholders.

We have included our registered public accounting firm's attestation report on our internal controls over financial reporting under Report of Independent Registered Public Accounting Firm in our annual report to stockholders.

This information is incorporated herein by reference.

(c) Changes in Internal Control Over Financial Reporting

Our management, with the participation of our principal executive officer and our principal financial officer, have evaluated any change in internal control over financial reporting that occurred during the fiscal quarter ended May 31, 2010 in accordance with the requirements of Rule 13a-15(d) promulgated by the SEC under the Exchange Act. There were no changes in internal control over financial reporting identified in connection with management's evaluation that occurred during the fiscal quarter ended May 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

PART III.

Item 10. Directors, Executive Officers and Corporate Governance.

The information contained under the headings Proposal No. 1 Election of Directors, Corporate Governance Committees of the Board of Directors, Corporate Governance Policies Relating to the Board of Directors Nomination and Selection of Directors, and Section 16(a) Beneficial Ownership Reporting Compliance included in our definitive proxy statement for our 2010 annual meeting of stockholders and the information contained under Executive Officers of the Registrant in Part I, Item 1, Business, in this report is incorporated herein by reference.

We have a Code of Business Conduct and Ethics within the meaning of Item 406 of Regulation S-K adopted by the SEC under the Exchange Act that applies to our principal executive officer, principal financial officer and principal accounting officer. Our Code of Business Conduct and Ethics is available on Mosaic's website (www.mosaicco.com), and we intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to, or waiver from, a provision of our code of ethics by posting such information on our website. The information contained on Mosaic's website is not being incorporated herein.

Item 11. Executive Compensation.

The information under the headings Executive and Director Compensation and Compensation Committee Interlocks and Insider Participation included in our definitive proxy statement for our 2010 annual meeting of stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information under the headings Beneficial Ownership of Securities, and Certain Relationships and Related Transactions Registration Rights Agreement included in our definitive proxy statement for our 2010 annual meeting of stockholders is incorporated herein by reference. The table set forth in Part II, Item 5, Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, of this report is also incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information under the headings Corporate Governance Board Independence, Corporate Governance Committees of the Board of Directors, Corporate Governance Policies Relating to the Board of Directors Policy and Procedures Regarding Transactions with Related Persons, and Certain Relationships and Related Transactions included in our definitive proxy statement for our 2010 annual meeting of stockholders is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information included under Audit Committee Report and Payment of Fees to Independent Registered Public Accounting Firm Fees Paid to Independent Registered Public Accounting Firm and Audit Committee Report and Payment of Fees to Independent Registered Public Accounting Firm Pre-approval of Independent Registered Public Accounting Firm Services included in our definitive proxy statement for our 2010 annual meeting of stockholders is incorporated herein by reference.

Table of Contents

PART IV.

Item 15. Exhibits and Financial Statement Schedules

- (a) (1) Consolidated Financial Statements filed as part of this report are listed in the Financial Table of Contents included in our annual report to stockholders and incorporated by reference in this report in Part II, Item 8, Financial Statements and Supplementary Data.

 - (2) All schedules for which provision is made in the applicable accounting regulations of the SEC are listed in this report in Part II, Item 8, Financial Statements and Supplementary Data.

 - (3) Reference is made to the Exhibit Index beginning on page E-1 hereof.
- (b) Exhibits
Reference is made to the Exhibit Index beginning on page E-1 hereof.
- (c) Summarized financial information of 50% or less owned persons is included in Note 9 of Notes to Consolidated Financial Statements. Financial statements and schedules are omitted as none of such persons are significant under the tests specified in Regulation S-X under Article 3.09 of general instructions to the financial statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE MOSAIC COMPANY
(Registrant)

/s/ James T. Prokopanko

James T. Prokopanko
Chief Executive Officer and President

Date: July 22, 2010

S-1

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ James T. Prokopanko	Chief Executive Officer and President (principal executive officer)	July 22, 2010
James T. Prokopanko		
/s/ Lawrence W. Stranghoener	Executive Vice President and Chief Financial Officer (principal financial officer)	July 22, 2010
Lawrence W. Stranghoener		
/s/ Anthony T. Brausen	Vice President Finance and Chief Accounting Officer (principal accounting officer)	July 22, 2010
Anthony T. Brausen		
*	Chairman of the Board of Directors	July 22, 2010
Robert L. Lumpkins		
*	Director	July 22, 2010
Guillaume Bastiaens		
*	Director	July 22, 2010
Raymond F. Bentele		
*	Director	July 22, 2010
Phyllis E. Cochran		
*	Director	July 22, 2010
Richard D. Frasch		
*	Director	July 22, 2010
William R. Graber		
*	Director	July 22, 2010
Harold H. MacKay		
*	Director	July 22, 2010
William T. Monahan		
*	Director	July 22, 2010
James L. Popowich		

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	*	Director	July 22, 2010
David T. Seaton			
	*	Director	July 22, 2010
Steven M. Seibert			

***By:**

/s/ Lawrence W. Stranghoener
Lawrence W. Stranghoener

Attorney-in-fact

S-2

Table of Contents**Exhibit Index**

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
2.i.	Agreement and Plan of Merger and Contribution, dated as of January 26, 2004, by and among IMC Global Inc. (now known as Mosaic Global Holdings Inc.), Global Nutrition Solutions, Inc. (now known as The Mosaic Company (Mosaic)), GNS Acquisition Corp., Cargill, Incorporated (Cargill) and Cargill Fertilizer, Inc., as amended by Amendment No. 1 to Agreement and Plan of Merger and Contribution, dated as of June 15, 2004 and as further amended by Amendment No. 2 to Agreement and Plan of Merger and Contribution, dated as of October 18, 2004*	Exhibit 2.1 to the Current Report on Form 8-K of Mosaic for October 22, 2004**	
2.ii.	Letter Agreement dated April 11, 2005 to Agreement and Plan of Merger and Contribution, dated as of January 26, 2004, by and among IMC Global Inc., Global Nutrition Solutions, Inc., Cargill and Cargill Fertilizer, Inc., as amended by Amendment No. 1 to Agreement and Plan of Merger and Contribution, dated as of June 15, 2004 and as further amended by Amendment No. 2 to Agreement and Plan of Merger and Contribution, dated as of October 18, 2004	Exhibit 2 to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period ended February 28, 2005**	
2.iii.	Form of Share Purchase Agreement and Other Covenants dated February 10, 2010 between Vale S.A. (Vale), Mineração Naque S.A. (Nacque), Vale International S.A. (International), The Mosaic Company (Mosaic) and Mosaic Fertilizantes do Brasil S.A. (Mosaic Brazil)*	Exhibit 2.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
2.iv.	Form of Option Agreement dated February 10, 2010 between Vale, Nacque, Mosaic and Mosaic Brazil*	Exhibit 2.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
2.v.	Form of Holdings Option Agreement dated February 10, 2010 between Vale, International, Nacque and Mosaic*	Exhibit 2.c. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
2.vi.	Form of Standstill Commitment dated February 10, 2010 between Vale and Mosaic	Exhibit 2.d. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	

Table of Contents

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
2.vii.	Form of amendment dated as of March 12, 2010 to Share Purchase Agreement and Other Covenants dated February 10, 2010 between Vale, Nacque, International, Mosaic and Mosaic Brazil	Exhibit 2.e. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
2.viii.	Form of amendment dated as of March 12, 2010 to Option Agreement dated February 10, 2010 between Vale, Nacque, Mosaic and Mosaic Brazil	Exhibit 2.f. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
3.i.a.	Restated Certificate of Incorporation of Mosaic	Exhibit 3.1 to Mosaic's Registration Statement on Form 8-A dated October 22, 2004**	
3.ii.	Bylaws of Mosaic, as amended and restated effective July 2, 2009	Exhibit 3.2 to the Current Report on Form 8-K of Mosaic for July 2, 2009**	
4.iii.	Registrant hereby agrees to furnish to the Commission, upon request, with all instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries		
10.ii.a.	Registration Rights Agreement, dated as of January 26, 2004, by and between Cargill and Mosaic	Annex C to the proxy statement/prospectus forming a part of Registration Statement No. 333-114300	
10.ii.b.	Form of Service Agreement dated July 11, 2005 (effective July 7, 2005) between Mosaic Fertilizer, LLC and Cargill International SA, Ocean Transportation Division	Exhibit 10.ii.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2005**	
10.ii.c.	Form of Barter Agreement dated May 31, 2005 (effective July 7, 2005) between Cargill Agricola S.A. and Mosaic Fertilizantes Do Brasil S.A.	Exhibit 10.ii.g. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2005**	
10.ii.d.	Form of Services Agreement dated May 16, 2006 between Banco Cargill S.A. and Mosaic Fertilizantes do Brasil S.A.	Exhibit 10.ii.q. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2006**	
10.ii.e.	Form of Fertilizer Supply Agreement dated October 22, 2004 between Mosaic and Cargill's Ag Horizons business unit	Exhibit 10.ii.t. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2006**	
10.ii.f.	Form of Shared Service and Access Agreement at Port Cargill, MN dated October 22, 2004, between Cargill and GNS II (U.S.) LLC (now Mosaic Crop Nutrition, LLC)	Exhibit 10.ii.jj. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2006**	

Table of Contents

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
10.ii.g.	Form of Shared Service and Access Agreement at Houston, TX dated October 22, 2004, between Cargill and GNS II (U.S.) LLC (now Mosaic Crop Nutrition, LLC)	Exhibit 10.ii.kk. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2006**	
10.ii.h.	Form of Master Services Agreement (Master Services Agreement) dated December 29, 2006, between Cargill and Mosaic	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2007**	
10.ii.i.	Form of agreement for Customer Financial Solutions between Mosaic Fertilizantes do Brasil S.A. and Banco Cargill S.A.	Exhibit 10.ii.h. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2007**	
10.ii.j.	Form of Supply Agreement dated September 14, 2007 between Cargill, Limited and Mosaic Canada Crop Nutrition, L.P. for the supply of fertilizer products in Canada	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2007**	
10.ii.k.	Form of Offer of General Services dated September 14, 2007 between Mosaic de Argentina S.A. and Cargill S.A.C.I.	Exhibit 10.ii.g. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2007**	
10.ii.l.	Form of Supply Agreement dated September 28, 2007 between Mosaic Crop Nutrition, LLC and Cargill S.A.C.I. for supply of DAP, MAP and MicroEssentials (S-15) in Argentina	Exhibit 10.ii.j. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2007**	
10.ii.m.	Form of Barge Freight Contract dated January 23, 2008, between Cargo Carriers, a division of Cargill Marine & Terminal, Inc., and Mosaic Crop Nutrition, LLC	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 29, 2008**	
10.ii.n.	Form of Fertilizer Agency Agreement dated January 23, 2008, between Mosaic Canada Crop Nutrition, LP and Cargill Limited	Exhibit 10.ii.g. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 29, 2008**	
10.ii.o.	Form of Supply Agreement for Feed Grade Phosphates dated January 23, 2008, between Mosaic Crop Nutrition, LLC and Cargill PLC	Exhibit 10.ii.h. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 29, 2008**	
10.ii.p.	Form of Supply Agreement dated April 25, 2008, for the purchase of approximately 2,400 metric tons of triple superphosphate by Mosaic de Argentina S.A. from Cargill S.A.C.I. in Argentina	Exhibit 10.ii.iii. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	

Table of Contents

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
10.ii.q.	Form of Product Supply Agreement dated May 27, 2008, between Mosaic Fertilizantes do Brasil S.A. and Cargill Agricola S.A.	Exhibit 10.ii.jjj. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.r.	Form of Offer of Single Super Phosphate dated May 27, 2008 between Mosaic de Argentina S.A. and Cargill S.A.C.I.	Exhibit 10.ii.kkk. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.s.	Form of Supply Agreement dated May 29, 2008 for DAP/MAP/S-15 between Mosaic Crop Nutrition, LLC and Cargill S.A.C.I.	Exhibit 10.ii.lll. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.t.	Form of Schedule of Services dated May 28, 2008 between Cargill Agricola, S.A., Mosaic Fertilizantes do Brasil, S.A., Mosaic Fertilizantes Ltda., Mosaic Fertilizantes Limited and Fospar, S.A. to the Master Services Agreement	Exhibit 10.ii.mmm. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.u.	Form of Supply Agreement dated May 29, 2008, for the sale of feed grade phosphates, urea and potash in North America between Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients and Cargill Animal Nutrition, Inc.	Exhibit 10.ii.nnn. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.v.	Form of Product Supply Agreement dated May 29, 2008, between Mosaic Fertilizantes do Brasil S.A., Mosaic Fertilizantes Limited and Seara Alimentos S.A.	Exhibit 10.ii.ooo. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.w.	Forms of Renewals of Supply Agreements dated May 29, 2008, for the sale of feed grade phosphates in the Philippines and Thailand between Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients and Cargill, Incorporated.	Exhibit 10.ii.ppp. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.x.	Form of Renewal of Supply Agreement dated May 31, 2008, for the sale of feed grade phosphates in Vietnam, Indonesia and Taiwan between Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients and Cargill Animal Nutrition, Inc.	Exhibit 10.ii.qqq. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.y.	Form of Renewal of Supply Agreement dated May 29, 2008, for sale of feed grade phosphates in the United Kingdom between Mosaic Crop Nutrition, LLC and Cargill PLC.	Exhibit 10.ii.rrr. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	

Table of Contents

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
10.ii.z.	Form of Renewal of Supply Agreement dated May 31, 2008, for sale of monocalcium phosphates in Malaysia between Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients and Desa Cargill Sdn. Bhd.	Exhibit 10.ii.sss. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.aa.	Form of Renewal of Supply Agreement dated May 31, 2008 for sale of monocalcium phosphates in Malaysia between Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients and Cargill Feed Sdn. Bhd.	Exhibit 10.ii.ttt. to the Annual Report on Form 10-K of Mosaic for the fiscal year ended May 31, 2008**	
10.ii.bb.	Form of Supply Agreement dated May 29, 2008, for the sale of feed grade phosphates in India between Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients and Cargill India	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2008**	
10.ii.cc.	Form of Supply Agreement dated June 20, 2008 for the supply of industrial fine grade potassium chloride treated with triple superphosphate between Mosaic Canada Crop Nutrition, LP and Cargill Limited	Exhibit 10.ii.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2008**	
10.ii.dd.	Form of Supply Agreement dated July 18, 2008, between Phosphate Chemical Export Association, Inc. (PhosChem) and Cargill S.A.C.I. for spot sales of fertilizer products in Argentina	Exhibit 10.ii.c. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2008**	
10.ii.ee.	Form of Barter Arrangement dated March 2, 2010 between Mosaic de Argentina S.A. and Cargill S.A.C.I.		X
10.ii.ff.	Form of Agreement dated July 22, 2008 between PhosChem and Cargill Financial Services International, Inc. relating to participation by subsidiaries of Cargill, Incorporated in PhosChem s fertilizer export sales to customers in India	Exhibit 10.ii.e. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2008**	
10.ii.gg.	Form of renewal dated January 1, 2009 of agreement for the sale of white muriate of potash by Mosaic Crop Nutrition, LLC to Cargill, Incorporated s salt business unit	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2009**	
10.ii.hh.	Form of renewal of agreement effective for the period December 22, 2008 through December 22, 2009 for the sale of fertilizer and feed products by Mosaic de Argentina Sociedad Anonima and Mosaic Fertilizantes do Brasil S.A. to Cargill Bolivia S.A. in Bolivia	Exhibit 10.ii.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2009**	

Table of Contents

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
10.ii.ii.	Form of renewal of agreement effective for the period December 22, 2008 through December 22, 2009 for the sale of fertilizer and feed products by Mosaic de Argentina Sociedad Anonima and Mosaic Fertilizantes do Brasil S.A. to Cargill Agropecuaria S.A.C.I. in Paraguay	Exhibit 10.ii.c. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2009**	
10.ii.jj.	Form of offer by Mosaic de Argentina S.A. to sell monoammonium phosphate and MicroEssentials™ fertilizers to Cargill S.A.C.I. through August 31, 2010	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended August 31, 2009**	
10.ii.kk.	Form of Supply Agreement dated September 30, 2009, for the sale of feed grade phosphates and potash in North America by Mosaic Crop Nutrition, LLC dba Mosaic Feed Ingredients to Cargill Animal Nutrition, Inc.	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2009**	
10.ii.mm.	Form of Barter Arrangement dated September 29, 2009, between Mosaic de Argentina S.A. and Cargill S.A.C.I.	Exhibit 10.ii.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2009**	
10.ii.nn.	Form of North America HR Shared Services Work Order dated October 1, 2009 under Master Services Agreement dated December 29, 2006 between Cargill, Incorporated and The Mosaic Company	Exhibit 10.ii.c. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2009**	
10.ii.oo.	Form of Supply Agreement dated September 28, 2009 for the sale of fertilizer products by Mosaic de Argentina S.A. to Cargill S.A.C.I.	Exhibit 10.ii.d. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2009**	
10.ii.pp.	Form of amendment dated December 9, 2009 to Master Services Agreement dated December 29, 2006 between Mosaic and Cargill, Incorporated	Exhibit 10.ii.a. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
10.ii.qq.	Form of amendment dated January 7, 2010 to Product Supply Agreement dated January 20, 2009 for the sale of fertilizer and feed products by Mosaic de Argentina Sociedad Anonima and Mosaic Brazil to Cargill Agropecuaria S.A.C.I. in Paraguay	Exhibit 10.ii.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended February 28, 2010**	
10.ii.rr.	Description of Related Party Transactions	Note 22 of Notes to the Consolidated Financial Statements that are incorporated by reference in this report in Part II, Item 8, Financial Statements and Supplementary Data	

Table of Contents

Exhibit No.	Description	Incorporated Herein by Reference to	Filed with Electronic Submission
10.iii.a.***	The Mosaic Company 2004 Omnibus Stock and Incentive Plan (as amended October 8, 2009)	Appendix A to the Proxy Statement of The Mosaic Company dated August 25, 2009**	
10.iii.b.***	Form of Employee Non-Qualified Stock Option under The Mosaic Company 2004 Omnibus Stock and Incentive Plan	Exhibit 10.iii.b. to the Quarterly Report on Form 10-Q of Mosaic for the Quarterly Period Ended November 30, 2004**	
10.iii.c.***	Description of Executive Physical Program	Fourth Paragraph of Item 1.01 of Mosaic's Current Report on Form 8-K for May 26, 2005**	
10.iii.d.***	Description of Mosaic Management Incentive Program		X
10.iii.e.***	Form of Employee Non-Qualified Stock Option under The Mosaic Company 2004 Omnibus Stock and Incentive Plan, effective August 1, 2005	Exhibit 99.1 to the Current Report on Form 8-K of Mosaic for August 2, 2006**	
10.iii.f.***	Summary of Board of Director Compensation of Mosaic		X
10.iii.g.***	Supplemental Retirement Agreement, dated January 1, 2000, between Mosaic Canada ULC (formerly known as IMC Canada Ltd.) and Norman B. Beug	Exhibit 10.iii.q. to the Annual Report on Form 10-K for the Fiscal Year Ended May 31, 2007**	
10.iii.h.***	Form of Employee Non-Qualified Stock Option under The Mosaic Company 2004 Omnibus Stock and Incentive Plan, approved July 6, 2006	Exhibit 99.3. to the Current Report on Form 8-K of Mosaic for August 2, 2006**	
10.iii.i.***	Form of Employee Restricted Stock Unit Award Agreement under The Mosaic Company 2004 Omnibus Stock and Incentive Plan, approved July 6, 2006	Exhibit 99.4. to the Current Report on Form 8-K of Mosaic for August 2, 2006**	
10.iii.j.***	Form of Director Restricted Stock Unit Award Agreement under The Mosaic Company 2004 Omnibus Stock and Incentive Plan, effective August 4, 2006	Exhibit 99.5. to the Current Report on Form 8-K of Mosaic for August 2, 2006**	863
Settlements, net	(166)		1,215 (36) 3,519
Ending balance	\$ (1,695)		\$ (111) \$(1,695) \$(111)
Gains (losses) included in earnings relating to derivatives	\$ (1,676)		\$ 351 \$(1,921) \$1,147

still held as
of
September
30, 2017 and
2016

During periods of market disruption, including periods of volatile oil and natural gas prices, rapid credit contraction or illiquidity, it may be difficult to value certain of the Partnership's derivative instruments if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were previously in active markets with observable data that become illiquid due to changes in the financial environment. In such cases, more derivative instruments may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated or require greater estimation thereby resulting in valuations with less certainty. Further, rapidly changing commodity and unprecedented credit and equity market conditions could materially impact the valuation of derivative instruments as reported within Legacy's consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on Legacy's results of operations or financial condition

Fair Value on a Non-Recurring Basis

Nonfinancial assets and liabilities measured at fair value on a non-recurring basis include certain nonfinancial assets and liabilities as may be acquired in a business combination and thereby measured at fair value; measurements of oil and natural gas property impairments; and the initial recognition of asset retirement obligations ("ARO") for which fair value is used. These ARO estimates are derived from historical costs as well as management's expectation of future cost environments. As there is no corroborating market activity to support the assumptions used, Legacy has designated these liabilities as Level 3. A reconciliation of the beginning and ending balances of Legacy's asset retirement obligation is presented in Note 7.

Nonrecurring fair value measurements of proved oil and natural gas properties during the nine-month period ended September 30, 2017 consist of:

Description	Fair Value Measurements During the Six Months Ended September 30, 2017 Using	
	Quoted Prices in Significant Markets for Identical Assets (Level 1) (In thousands)	Other Observable Inputs (Level 2) (Level 3)
Assets:		
Impairment (a)	\$-\$	—\$ 23,153

Legacy periodically reviews oil and natural gas properties for impairment when facts and circumstances indicate that their carrying value may not be recoverable. During the nine-month period ended September 30, 2017, Legacy incurred impairment charges of \$24.5 million as oil and natural gas properties with a net cost basis of \$47.7 million were written down to their fair value of \$23.2 million. In order to determine whether the carrying value of an asset is recoverable, Legacy compares net capitalized costs of proved oil and natural gas properties to estimated undiscounted future net cash flows using management's expectations of future oil and natural gas prices. These future price scenarios reflect Legacy's estimation of future price volatility. If the net capitalized cost exceeds the undiscounted future net cash flows, Legacy writes the net cost basis down to the discounted future net cash flows, which is management's estimate of fair value. Significant inputs used to determine the fair value include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices; and (iv) a market-based weighted average cost of capital rate. The underlying commodity prices embedded in the Company's estimated cash flows are the product of a process that begins with NYMEX forward curve pricing, adjusted for estimated location and quality differentials, as well as other factors that Legacy's management believes will impact realizable prices. The inputs used by management for the fair value measurements utilized in this review include significant unobservable inputs, and therefore, the fair value measurements employed are classified as Level 3 for these types of assets.

The carrying amount of the revolving long-term debt of \$485 million as of September 30, 2017 approximates fair value because Legacy's current borrowing rate does not materially differ from market rates for similar bank borrowings. Legacy has classified the revolving long-term debt as a Level 2 item within the fair value hierarchy. The carrying amount of the second lien term loan debt under Legacy's Second Lien Term Loan Credit Agreement approximates fair value because Legacy's current borrowing rate does not materially differ from market rates for similar borrowings. Legacy has classified the Second Lien Term Loans as a Level 2 item within the fair value hierarchy. As of September 30, 2017, the fair values of the 2020 Senior Notes and the 2021 Senior Notes were \$163.1 million and \$287.1 million, respectively. As these valuations are based on unadjusted quoted prices in an active market, the fair values are classified as Level 1 items within the fair value hierarchy.

(6) Derivative Financial Instruments

Commodity derivative transactions

Due to the volatility of oil and natural gas prices, Legacy periodically enters into price-risk management transactions (e.g., swaps, enhanced swaps or collars) for a portion of its oil and natural gas production to achieve a more predictable cash flow, as well as to reduce exposure from price fluctuations. While the use of these arrangements limits Legacy's ability to benefit from increases in the prices of oil and natural gas, it also reduces Legacy's potential exposure to adverse price movements. Legacy's arrangements, to the extent it enters into any, apply to only a portion of its production, provide only partial price protection against declines in oil and natural gas prices and limit Legacy's potential gains from future increases in prices. None of these instruments are used for trading or speculative purposes and required no upfront or deferred cash premium paid or payable to our counterparty.

All of these price risk management transactions are considered derivative instruments. These derivative instruments are intended to reduce Legacy's price risk and may be considered hedges for economic purposes, but Legacy has chosen not to designate them as cash flow hedges for accounting purposes. Therefore, all derivative instruments are recorded on the balance sheet at fair value with changes in fair value being recorded in current period earnings.

By using derivative instruments to mitigate exposures to changes in commodity prices, Legacy exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes Legacy, which creates credit risk. Legacy minimizes the credit or

repayment risk in derivative instruments by entering into transactions with high-quality counterparties, all of whom are current or former members of Legacy's lending group.

The following table sets forth a reconciliation of the changes in fair value of Legacy's commodity derivatives for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Beginning fair value of commodity derivatives	\$51,076	\$52,920	\$12,698	\$118,427
Total gain (loss) - oil derivatives	(11,403)	4,001	11,373	1,109
Total gain (loss) - natural gas derivatives	(1,906)	14,325	24,503	(3,420)
Crude oil derivative cash settlements received	(3,102)	(8,089)	(9,800)	(30,434)
Natural gas derivative cash settlements received	(3,870)	(3,524)	(7,979)	(26,049)
Ending fair value of commodity derivatives	\$30,795	\$59,633	\$30,795	\$59,633

Certain of our commodity derivatives and interest rate derivatives are presented on a net basis on the Consolidated Balance Sheets. The following table summarizes the gross fair values of our derivative instruments, presenting the impact of offsetting the derivative assets and liabilities on our Consolidated Balance Sheets as of the dates indicated below (in thousands):

	September 30, 2017		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets
Offsetting Derivative Assets:		(In thousands)	
Commodity derivatives	\$43,354	\$ (11,913)	\$ 31,441
Interest rate derivatives	1,183	(86)	1,097
Total derivative assets	\$44,537	\$ (11,999)	\$ 32,538

Offsetting Derivative Liabilities:			
Commodity derivatives	\$(12,559)	\$ 11,913	\$ (646)
Interest rate derivatives	(86)	86	—
Total derivative liabilities	\$(12,645)	\$ 11,999	\$ (646)

	December 31, 2016		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets
Offsetting Derivative Assets:		(In thousands)	

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Commodity derivatives	\$56,103	\$ (30,648) \$ 25,455
Interest rate derivatives	1,328	(68) 1,260
Total derivative assets	\$57,431	\$ (30,716) \$ 26,715

Offsetting Derivative Liabilities:

Commodity derivatives	\$(43,405)	\$ 30,648	\$ (12,757)
Interest rate derivatives	(1,145) 68	(1,077)
Total derivative liabilities	\$(44,550)	\$ 30,716	\$ (13,834)

As of September 30, 2017, Legacy had the following NYMEX West Texas Intermediate ("WTI") crude oil swaps paying floating prices and receiving fixed prices for a portion of its future oil production as indicated below:

Time Period	Volumes (Bbls)	Average	Price
		Price per Bbl	Range per Bbl
October-December 2017	46,000	\$84.75	\$84.75
2018	2,190,000	\$52.56	\$51.20 - \$55.15

As of September 30, 2017, Legacy had the following Midland-to-Cushing crude oil differential swaps paying a floating differential and receiving a fixed differential for a portion of its future oil production as indicated below:

Time Period	Volumes (Bbls)	Average	Price
		Price per Bbl	Range per Bbl
October-December 2017	552,000	\$(0.30)	\$(0.75)-\$(0.05)
2018	4,015,000	\$(1.13)	\$(1.25)-\$(0.80)
2019	730,000	\$(1.15)	\$(1.15)

As of September 30, 2017, Legacy had the following NYMEX WTI crude oil costless collars that combine a long put with a short call as indicated below:

Time Period	Volumes (Bbls)	Average Long	Average Short
		Put Price per Bbl	Call Price per Bbl
October-December 2017	552,000	\$45.00	\$59.02
2018	1,551,250	\$47.06	\$60.29

As of September 30, 2017, Legacy had the following NYMEX WTI crude oil enhanced swap contracts that combine a short put and long put with a fixed-price swap as indicated below:

Time Period	Volumes (Bbls)	Average Long	Average Short	Average
		Put Price per Bbl	Put Price per Bbl	Swap Price per Bbl
October-December 2017	46,000	\$57.00	\$82.00	\$90.85
2018	127,750	\$57.00	\$82.00	\$90.50

As of September 30, 2017, Legacy had the following NYMEX Henry Hub natural gas swaps paying floating natural gas prices and receiving fixed prices for a portion of its future natural gas production as indicated below:

Time Period	Volumes (MMBtu)	Average	Price
		Price per MMBtu	Range per MMBtu
October-December 2017	6,900,000	\$3.36	\$3.29-\$3.39
2018	42,200,000	\$3.25	\$3.04-\$3.39
2019	25,800,000	\$3.36	\$3.29-\$3.39

As of September 30, 2017, Legacy had the following NYMEX Henry Hub costless collars that combine a long put with a short call as indicated below:

Time Period	Volumes (MMBtu)	Average Long Put	Average Short Call
		Price per MMBtu	Price per MMBtu
October-December 2017	3,680,000	\$2.90	\$3.44

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As of September 30, 2017, Legacy had the following NYMEX Henry Hub natural gas derivative three-way collar contracts that combine a long put, a short put and a short call as indicated below:

Time Period	Volumes (MMBtu)	Average Short Put Price per MMBtu	Average Long Put Price per MMBtu	Average Short Call Price per MMBtu
October-December 2017	1,260,000	\$3.75	\$4.25	\$5.53

Page 22

As of September 30, 2017, Legacy had the following Henry Hub NYMEX to Northwest Pipeline, California SoCal NGI and San Juan Basin natural gas differential swaps paying a floating differential and receiving a fixed differential for a portion of its future natural gas production as indicated below:

October-December 2017

	Volumes (MMBtu)	Average Price per MMBtu
NWPL	1,840,000	\$(0.16)
SoCal	630,200	\$0.11
San Juan	630,200	\$(0.10)

Interest rate derivative transactions

Due to the volatility of interest rates, Legacy periodically enters into interest rate risk management transactions in the form of interest rate swaps for a portion of its outstanding debt balance. These transactions allow Legacy to reduce exposure to interest rate fluctuations. While the use of these arrangements limits Legacy's ability to benefit from decreases in interest rates, it also reduces Legacy's potential exposure to increases in interest rates. Legacy's arrangements, to the extent it enters into any, apply to only a portion of its outstanding debt balance, provide only partial protection against interest rate increases and limit Legacy's potential savings from future interest rate declines. It is never management's intention to hold or issue derivative instruments for speculative trading purposes. Conditions sometimes arise where actual borrowings are less than notional amounts hedged, which has, and could result in overhedged amounts.

Legacy accounts for these interest rate swaps at fair value and included in the consolidated balance sheet as assets or liabilities.

Legacy does not designate these derivatives as cash flow hedges, even though they reduce its exposure to changes in interest rates. Therefore, the mark-to-market of these instruments is recorded in current earnings as a component of interest expense. The total impact on interest expense from the mark-to-market and settlements was as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In thousands)			
Beginning fair value of interest rate swaps	\$940	\$(5,994)	\$183	\$(362)
Total gain (loss) on interest rate swaps	132	1,397	222	(5,652)
Cash settlements paid	25	646	692	2,063
Ending fair value of interest rate swaps	\$1,097	\$(3,951)	\$1,097	\$(3,951)

The table below summarizes the interest rate swap position as of September 30, 2017:

Notional Amount	Weighted Average Fixed Rate	Effective Date	Maturity Date	Estimated Fair Value at September 30, 2017
(Dollars in thousands)				
\$235,000	1.363 %	9/1/2015	9/1/2019	\$ 1,097

(7) Asset Retirement Obligation

AROs associated with the retirement of a tangible long-lived asset are recognized as a liability in the period in which it is incurred and becomes determinable. Under this method, when liabilities for dismantlement and abandonment costs, excluding salvage values, are initially recorded, the carrying amount of the related oil and natural gas properties is increased. The fair value of the ARO asset and liability is measured using expected future cash outflows discounted at Legacy's credit-adjusted risk-free interest rate. Accretion of the liability is recognized each period using the interest method of allocation, and the capitalized cost is depleted over the useful life of the related asset.

The following table reflects the changes in the ARO during the nine months ended September 30, 2017 and year ended December 31, 2016:

	September 30, 2017	December 31, 2016
	(In thousands)	
Asset retirement obligation - beginning of period	\$272,148	\$286,405
Liabilities incurred with properties acquired	62	24
Liabilities incurred with properties drilled	—	1
Liabilities settled during the period	(1,623)	(2,351)
Liabilities associated with properties sold	(8,404)	(24,605)
Current period accretion	9,580	12,674
Asset retirement obligation - end of period	\$271,763	\$272,148

(8) Partners' Deficit

Preferred Units

On April 17, 2014, Legacy issued 2,000,000 of its 8% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (the "Series A Preferred Units") in a public offering at a price of \$25.00 per unit. On May 12, 2014 Legacy issued an additional 300,000 Series A Preferred Units pursuant to the underwriters' option to purchase additional Series A Preferred Units.

On June 17, 2014, Legacy issued 7,000,000 of its 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (the "Series B Preferred Units" and, together with the Series A Preferred Units, the "Preferred Units") in a public offering at a price of \$25.00 per unit. On July 1, 2014, the underwriters exercised their over-allotment option to purchase an additional 200,000 Series B Preferred Units.

Distributions on the Preferred Units are cumulative from the date of original issue and will be payable monthly in arrears on the 15th day of each month of each year, when, as and if declared by the board of directors of the Partnership's general partner. Distributions on the Series A Preferred Units will be payable from, and including, the date of the original issuance to, but not including April 15, 2024 at an initial rate of 8.00% per annum of the stated liquidation preference. Distributions on the Series B Preferred Units will be payable from, and including, the date of the original issuance to, but not including June 15, 2024 at an initial rate of 8.00% per annum of the stated liquidation preference. Distributions accruing on and after April 15, 2024 for the Series A Preferred Units and June 15, 2024 for the Series B Preferred Units will accrue at an annual rate equal to the sum of (a) three-month LIBOR as calculated on each applicable date of determination and (b) 5.24% for Series A and 5.26% for Series B, based on the \$25.00 liquidation preference per preferred unit.

At any time on or after April 15, 2019 or June 15, 2019, Legacy may redeem the Series A Preferred Units or Series B Preferred Units, respectively, in whole or in part at a redemption price of \$25.00 per Preferred Unit plus an amount

equal to all accumulated and unpaid distributions thereon through and including the date of redemption, whether or not declared. Legacy may also redeem the Preferred Units in the event of a Change of Control.

The Series A Preferred Units and the Series B Preferred Units trade on NASDAQ under the symbols "LGCYP" and "LGCYO," respectively.

On January 21, 2016, Legacy announced that its general partner suspended monthly cash distributions for both its Series A Preferred Units and its Series B Preferred Units. As of September 30, 2017, \$3.42 of distributions per unit were in arrears, representing a total cumulative arrearage of approximately \$32.5 million.

Incentive Distribution Units

On June 4, 2014, Legacy issued 300,000 Incentive Distribution Units representing limited partner interests in the Partnership (the "Incentive Distribution Units") to WPX Energy Rocky Mountain, LLC ("WPX") as part of Legacy's purchase of a non-operated interest in oil and natural gas properties located in the Piceance Basin in Garfield County, Colorado from WPX on June 4, 2014 (the "WPX Acquisition"). The Incentive Distribution Units issued to WPX include 100,000 Incentive Distribution Units that immediately vested along with the ability to vest in up to an additional 200,000 Incentive Distribution Units (the "Unvested IDUs") in connection with any future asset sales or transactions completed with Legacy. Incentive Distribution Units that are not issued to WPX or other parties will remain in Legacy's treasury for the benefit of all limited partners until such time as Legacy may make future issuances of Incentive Distribution Units. Effective January 1, 2016, WPX assigned its vested and unvested IDUs to WPX Energy Holdings, LLC ("WPX Holdings"), a controlled affiliate of WPX Energy, Inc.

The Incentive Distribution Units (except for the Unvested IDUs) represent a right to incremental cash distributions from Legacy after certain target levels of distributions are paid to unitholders, which targets were set above the levels of Legacy's distributions to unitholders at the time of issuance to WPX. As of June 4, 2017, all of the Unvested IDUs had been forfeited pursuant to their terms of issuance.

In addition, the vested and outstanding Incentive Distribution Units held by WPX Holdings may be converted by Legacy, subject to applicable conversion factors, into units on a one-for-one basis at any time when Legacy has made a distribution in respect of its units for each of the four full fiscal quarters prior to the delivery of its conversion notice, and the amount of the distribution in respect of the units for the full quarter immediately preceding delivery of its conversion notice was equal to at least \$0.90 per unit; and the amount of all distributions during each quarter within the four-quarter period immediately preceding delivery of its conversion notice did not exceed the adjusted operating surplus for such quarter. Further, WPX Holdings also has the ability to similarly convert any of its vested Incentive Distribution Units beginning three years after June 4, 2014. WPX Holdings may not transfer any of the Incentive Distribution Units it holds to any person that is not a controlled affiliate of WPX Energy, Inc.

Income (loss) per unit

The following table sets forth the computation of basic and diluted income (loss) per unit:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income (loss)	\$(33,866)	\$(4,303)	\$(28,571)	\$48,766
Distributions to preferred unitholders	(4,750)	(4,750)	(14,250)	(13,458)
Net income (loss) attributable to unitholders	\$(38,616)	\$(9,053)	(42,821)	35,308
Weighted average number of units outstanding	72,562	72,056	72,341	70,370
Effect of dilutive securities:				
Restricted and phantom units	—	—	—	—
Weighted average units and potential units outstanding	72,562	72,056	72,341	70,370
Basic and diluted income (loss) per unit	\$(0.53)	\$(0.13)	\$(0.59)	\$0.50

For the three and nine months ended September 30, 2017, 260,830 restricted units and 1,389,773 phantom units were excluded from the calculation of diluted income (loss) per unit due to their anti-dilutive effect. For the three and nine months ended September 30, 2016, 565,594 restricted units and 1,212,692 phantom units were excluded from the calculation of diluted income (loss) per unit due to their anti-dilutive effect.

(9) Unit-Based Compensation

Long-Term Incentive Plan

On March 15, 2006, the LTIP for Legacy was implemented for its employees, consultants and directors, its affiliates and its general partner. On June 12, 2015, the unitholders of Legacy approved an amendment to the LTIP to provide for an increase in the number of units available for issuance from 2,000,000 to 5,000,000. The awards under the LTIP may include unit grants, restricted units, phantom units, unit options and unit appreciation rights ("UARs"). As of September 30, 2017, grants of awards net of forfeitures and, in the case of phantom units, historical exercises covering 3,385,173 units had been made, comprised of 266,014 unit option awards, 1,008,620 restricted unit awards, 1,389,773 phantom unit awards and 720,766 unit awards. The UAR awards and certain phantom unit awards granted under the LTIP may only be settled in cash, and therefore are not included in the aggregate number of units granted under the LTIP. The LTIP is administered by the compensation committee (the "Compensation Committee") of the board of directors of LRGPLLC.

The cost of employee services in exchange for an award of equity instruments is measured based on a grant-date fair value of the award (with limited exceptions), and that cost must generally be recognized over the vesting period of the award. However, if an entity that nominally has the choice of settling awards by issuing stock predominately settles in cash, or if an entity usually settles in cash whenever an employee asks for cash settlement, the entity is settling a substantive liability rather than repurchasing an equity instrument. Because the UARs are settled in cash, Legacy accounts for them by utilizing the liability method. The liability method requires companies to measure the cost of the employee services in exchange for a cash award based on the fair value of the underlying security at the end of each reporting period. Compensation cost is recognized based on the change in the liability between periods.

Unit Appreciation Rights

A UAR is a notional unit that entitles the holder, upon vesting, to receive cash valued at the difference between the closing price of units on the exercise date and the exercise price, as determined on the date of grant. Because these awards are settled in cash, Legacy is accounting for the UARs by utilizing the liability method.

Legacy did not issue UARs to employees during the year ended December 31, 2016 or the nine-month period ended September 30, 2017.

For the nine-month periods ended September 30, 2017 and 2016, Legacy recorded \$(64,430) and \$94,876, respectively, of compensation (benefit) expense due to the change in liability from December 31, 2016 and 2015, respectively, based on its use of the Black-Scholes model to estimate the September 30, 2017 and 2016 fair value of these UARs (see Note 5). As of September 30, 2017, there was a total of approximately \$40,000 of unrecognized compensation costs related to the unexercised and non-vested portion of these UARs. At September 30, 2017, this cost was expected to be recognized over a weighted-average period of approximately 0.93 years. Compensation expense is based upon the fair value as of September 30, 2017 and is recognized as a percentage of the service period satisfied. Based on historical data, Legacy has assumed a volatility factor of approximately 87% and employed the Black-Scholes model to estimate the September 30, 2017 fair value to be realized as compensation cost based on the percentage of service period satisfied. Based on historical data, Legacy has assumed an estimated forfeiture rate of 5.6%. Legacy will adjust the estimated forfeiture rate based upon actual experience. Legacy has assumed no annual distribution.

A summary of UAR activity for the nine months ended September 30, 2017 is as follows:

Units	Weighted-Average Exercise Price	Weighted-Average Remaining	Aggregate Intrinsic
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			Contractual Term	Value	
Outstanding at January 1, 2017	884,546	\$ 20.75	3.68	\$	—
Expired and forfeited	(152,858)	23.60			
Outstanding at September 30, 2017	731,688	\$ 20.15	3.52	\$	—
UARs exercisable at September 30, 2017	589,523	\$ 23.46	3.18	\$	—

Page 26

The following table summarizes the status of Legacy's non-vested UARs since January 1, 2017:

	Non-Vested UARs	
	Number of Units	Weighted-Average Exercise Price
Non-vested at January 1, 2017	314,177	\$ 14.16
Vested	(157,011)	20.90
Forfeited	(15,001)	15.29
Non-vested at September 30, 2017	142,165	\$ 6.44

Legacy has used a weighted-average risk-free interest rate of 1.7% in its Black-Scholes calculation of fair value, which approximates the U.S. Treasury interest rates at September 30, 2017 whose terms are consistent with the expected life of the UARs. Expected life represents the period of time that UARs are expected to be outstanding and is based on Legacy's best estimate. The following table represents the weighted-average assumptions used for the Black-Scholes option-pricing model.

	Nine Months Ended September 30, 2017	
Expected life (years)	3.52	
Risk free interest rate	1.7	%
Annual distribution rate per unit	\$0.00	
Volatility	87.3	%

Phantom Units

Legacy has also issued phantom units under the LTIP to executive officers. A phantom unit is a notional unit that entitles the holder, upon vesting, to receive either one Partnership unit for each phantom unit or the cash equivalent of a Partnership unit, as stipulated by the form of the grant. Legacy is accounting for the phantom units settled in Partnership units by utilizing the equity method. Legacy is accounting for the phantom units settled in cash by utilizing the liability method.

On June 22, 2016, the Compensation Committee approved with respect to Paul Horne, and the board of directors of LRGPLLCC approved the recommendation of the Compensation Committee with respect to the other executive officers the award of a maximum of 391,674 subjective, or service-based, phantom units that, upon vesting, settle in Partnership units, a maximum of 1,286,930 subjective phantom units that, upon vesting, settle in cash and a maximum of 2,238,138 objective, or performance-based, phantom units that, upon vesting, settle in cash to our executive officers.

On February 21, 2017, the Compensation Committee approved the award to Legacy's executive officers of a maximum of 396,850 subjective, or service-based, phantom units that, upon vesting, settle in units, a maximum of 793,701 subjective phantom units that, upon vesting, settle in cash and a maximum of 1,587,402 objective, or performance-based, phantom units that, upon vesting, settle in cash.

Compensation expense related to the phantom units was \$3.1 million and \$2.7 million for the nine months ended September 30, 2017 and 2016, respectively.

Restricted Units

During the year ended December 31, 2016, Legacy issued an aggregate of 137,569 restricted units to non-executive employees. The restricted units vest ratably over a three-year period beginning at the date of grant. During the nine-month period ended September 30, 2017, Legacy did not issue restricted units to any employees. Compensation expense related to restricted units was \$1.3 million and \$2.2 million for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, there was a total of \$1.1 million of unrecognized compensation expense related to the unvested portion of these restricted units. At September 30, 2017, this cost was expected to be recognized over a weighted-average period of 1.7 years. Pursuant to the provisions of ASC 718, Legacy's issued units, as reflected in the accompanying consolidated balance sheet at September 30, 2017, do not include 260,830 units related to unvested restricted unit awards.

Board Units

On May 10, 2016, Legacy granted and issued 39,526 units to each of its non-employee directors. The value of each unit was \$2.59 at the time of issuance.

On May 16, 2017, Legacy granted and issued 47,847 units to each of the six non-employee directors who receive compensation for their service on Legacy's board of directors. The value of each unit was \$2.04 at the time of issuance.

(10) Subsidiary Guarantors

The Partnership's 2020 Senior Notes were issued in a private offering on December 4, 2012 and were subsequently registered through a public exchange offer that closed on January 8, 2014. The Partnership's 2021 Senior Notes were issued in two separate private offerings on May 28, 2013 and May 8, 2014. \$250 million aggregate principal amount of our 2021 Senior Notes were subsequently registered through a public exchange offer that closed on March 18, 2014. The remaining \$300 million of aggregate principal amount of Legacy's 2021 Senior Notes were subsequently registered through a public exchange offer that closed on February 10, 2015. The 2020 Senior Notes and the 2021 Senior Notes are guaranteed by Legacy's 100% owned subsidiaries Legacy Reserves Operating GP LLC, Legacy Reserves Operating LP, Legacy Reserves Services, Inc., Legacy Reserves Energy Services LLC, Dew Gathering LLC and Pinnacle Gas Treating LLC, which constitute all of Legacy's wholly-owned subsidiaries other than Legacy Reserves Finance Corporation, and certain other future subsidiaries (the "Guarantors", together with any future 100% owned subsidiaries that guarantee the Partnership's 2020 Senior Notes and 2021 Senior Notes, the "Subsidiaries"). The Subsidiaries are 100% owned, directly or indirectly, by the Partnership and the guarantees by the Subsidiaries are full and unconditional, except for customary release provisions described in "—Footnote 2—Long-Term Debt." The Partnership has no assets or operations independent of the Subsidiaries, and there are no significant restrictions upon the ability of the Subsidiaries to distribute funds to the Partnership. The guarantees constitute joint and several obligations of the Guarantors.

(11) Subsequent Events

On October 30, 2017 Legacy entered into the Second Amendment to the Second Lien Term Loan Credit Agreement among Legacy, as borrower, Cortland Capital Market Services LLC, as administrative agent and second lien collateral agent, and the lenders party thereto, including GSO and certain funds and accounts managed, advised or sub-advised by GSO, which, among other things, extends the availability of undrawn principal under Legacy's term loan credit agreement (\$95.0 million as of September 30, 2017) to October 25, 2018, with any borrowing being subject to approval by each lender thereunder.

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

Cautionary Statement Regarding Forward-Looking Information

This document contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about:

- our business strategy;
- the amount of oil and natural gas we produce;
- the price at which we are able to sell our oil and natural gas production;
- our ability to acquire additional oil and natural gas properties at economically attractive prices;
- our drilling locations and our ability to continue our development activities at economically attractive costs;
- the level of our lease operating expenses, general and administrative costs and finding and development costs, including payments to our general partner;
- the level of our capital expenditures;
- our ability to comply with, renegotiate or receive waivers of debt covenants under our revolving credit facility and our term loan credit agreement;
- our ability to engage in capital markets activity which may include debt or equity exchanges or repurchases;
- our ability to resume cash distributions to our limited partners;
- our future operating results; and
- our plans, objectives, expectations and intentions.

All of these types of statements, other than statements of historical fact included in this document, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “could,” “should,” “expect,” “plan,” “project,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “pursue,” “target,” “continue,” such terms or other comparable terminology.

The forward-looking statements contained in this document are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this document are not guarantees of future performance, and our expectations may not be realized or the forward-looking events and circumstances may not occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to factors described in Legacy’s Annual Report on Form 10-K for the year ended December 31, 2016 in Item 1A under “Risk Factors.” The forward-looking statements in this document speak only as of the date of this document; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly.

Overview

Our revenues are highly sensitive to changes in oil and natural gas prices and to levels of production. Sustained periods of low prices for oil or natural gas have had and could continue to have a material adverse impact on our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital. Oil and natural gas prices experienced a significant drop in late 2014 and 2015. Prices recovered modestly during 2016 and 2017 but still remain at levels lower than previously seen before the decline began in 2014. Having financed significant acquisitions in leveraged transactions prior to this downturn, our financial condition has been materially adversely impacted as is evidenced by our proved reserve value and operating cash flow relative to our debt obligations. To illustrate the sensitivity of our proved reserves to fluctuations in commodity prices, we recalculated our proved reserves as of December 31, 2016 using the five-year average forward

price as of September 30, 2017 for both WTI oil and NYMEX natural gas. While this 5-year NYMEX forward strip price is not necessarily indicative of our overall outlook on future commodity prices, this commonly used methodology may help provide investors with an understanding of the impact of the recent commodity price environment. Under such assumptions, we estimate our year-end proved reserves increased by approximately 10.9% to 160.5 MMBoe from our 2016 year-end reported 144.8 MMBoe.

As set forth under “Investing Activities” below, we have entered into oil and natural gas derivatives designed to mitigate the effects of price fluctuations covering a portion of our expected production, which allows us to mitigate, but not eliminate, oil and natural gas price risk. Such derivative instruments are not designated as cash flow hedges and, therefore, the mark-to-market adjustment reflecting the change in fair value associated with these instruments is recorded in current earnings.

We regularly conduct financial sensitivity analyses to assess the effect of changes in pricing and production. These analyses allow us to determine our ability to execute our capital investment programs, the value of our proved reserves, our projected borrowing base under our revolving credit facility and, more generally, our ability to meet future financial obligations.

We also face the challenge of natural production declines. As initial reservoir pressures are depleted, oil and natural gas production from a given well or formation decreases. We attempt to overcome this natural decline through a combination of acquiring additional reserves, drilling to find additional reserves, recompleting or adding pay in existing wellbores and improving artificial lift.

Production and Operating Costs Reporting

We strive to increase our production levels to maximize our revenue and cash flow. Additionally, we continuously monitor our operations to ensure that we are incurring operating costs at the optimal level. Accordingly, we continuously monitor our production and operating costs per well to determine if any wells or properties should be shut-in or recompleted.

Such costs include, but are not limited to, the cost of electricity to lift produced fluids, chemicals to treat wells, field personnel to monitor the wells, well repair expenses to restore production, well workover expenses intended to increase production, and ad valorem taxes. We incur and separately report severance taxes paid to the states in which our properties are located. These taxes are reported as production taxes and are a percentage of oil and natural gas revenue. Ad valorem taxes are a percentage of property valuation. While gathering and transportation costs are generally borne by the purchasers of our oil and the price paid for our oil reflects these costs, much of our natural gas production is subject to such costs before the transfer of ownership to the purchaser, and we recognize these expenses as operating costs. We do not consider royalties paid to mineral owners an expense as we deduct hydrocarbon volumes owned by mineral owners from the reported hydrocarbon sales volumes.

Operating Data

The following table sets forth selected unaudited financial and operating data of Legacy for the periods indicated.

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands, except per unit data)			
Revenues:				
Oil sales	\$59,060	\$38,751	\$154,298	\$110,343
Natural gas liquids (NGL) sales	6,720	3,457	16,691	9,832
Natural gas sales	41,035	41,332	128,220	102,591
Total revenue	\$106,815	\$83,540	\$299,209	\$222,766
Expenses:				
Oil and natural gas production, excluding ad valorem taxes	\$39,515	\$40,118	\$131,005	\$128,299
Ad valorem taxes	\$2,564	\$3,003	\$7,093	\$9,406
Total oil and natural gas production	\$42,079	\$43,121	\$138,098	\$137,705
Production and other taxes	\$5,475	\$3,986	\$13,779	\$9,949
General and administrative, excluding transaction related expenses and LTIP	\$8,418	\$7,490	\$24,087	\$22,959
Transaction related expenses	\$54	\$296	\$138	\$1,087
LTIP expense	\$1,551	\$1,445	\$4,931	\$5,612
Total general and administrative	\$10,023	\$9,231	\$29,156	\$29,658
Depletion, depreciation, amortization and accretion	\$33,715	\$36,068	\$90,200	\$110,695
Commodity derivative cash settlements:				
Oil derivative cash settlements received	\$3,102	\$8,089	\$9,800	\$30,434
Natural gas derivative cash settlements received	\$3,870	\$3,524	\$7,979	\$26,049
Production:				
Oil (MBbls)	1,323	962	3,404	3,070
Natural gas liquids (MGal)	11,375	9,742	27,542	27,646
Natural gas (MMcf)	15,771	16,572	46,967	50,581
Total (MBoe)	4,222	3,956	11,888	12,158
Average daily production (Boe/d)	45,891	43,000	43,546	44,372
Average sales price per unit (excluding derivative cash settlements):				
Oil price (per Bbl)	\$44.64	\$40.28	\$45.33	\$35.94
Natural gas liquids price (per Gal)	\$0.59	\$0.35	\$0.61	\$0.36
Natural gas price (per Mcf)	\$2.60	\$2.49	\$2.73	\$2.03
Combined (per Boe)	\$25.30	\$21.12	\$25.17	\$18.32
Average sales price per unit (including derivative cash settlements):				
Oil price (per Bbl)	\$46.99	\$48.69	\$48.21	\$45.86
Natural gas liquids price (per Gal)	\$0.59	\$0.35	\$0.61	\$0.36
Natural gas price (per Mcf)	\$2.85	\$2.71	\$2.90	\$2.54
Combined (per Boe)	\$26.95	\$24.05	\$26.66	\$22.97
Average WTI oil spot price (per Bbl)	\$48.18	\$44.85	\$49.30	\$41.35
Average Henry Hub natural gas spot price (per MMBtu)	\$2.95	\$2.88	\$3.01	\$2.34
Average unit costs per Boe:				
Oil and natural gas production, excluding ad valorem taxes	\$9.36	\$10.14	\$11.02	\$10.55
Ad valorem taxes	\$0.61	\$0.76	\$0.60	\$0.77
Production and other taxes	\$1.30	\$1.01	\$1.16	\$0.82
General and administrative excluding transaction related expenses and LTIP	\$1.99	\$1.89	\$2.03	\$1.89

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Total general and administrative	\$2.37	\$2.33	\$2.45	\$2.44
Depletion, depreciation, amortization and accretion	\$7.99	\$9.12	\$7.59	\$9.10

Page 32

Results of Operations

Three-Month Period Ended September 30, 2017 Compared to Three-Month Period Ended September 30, 2016

Our revenues from the sale of oil were \$59.1 million and \$38.8 million for the three-month periods ended September 30, 2017 and 2016, respectively. Our revenues from the sale of NGLs were \$6.7 million and \$3.5 million for the three-month periods ended September 30, 2017 and 2016, respectively. Our revenues from the sale of natural gas were \$41.0 million and \$41.3 million for the three-month periods ended September 30, 2017 and 2016, respectively. The \$20.3 million increase in oil revenues reflects an increase in production due to our Permian horizontal drilling program and increased working interests under our amended and restated development agreement and the increase in average realized price of \$4.36 per Bbl (11%) due to an increase in average West Texas Intermediate (“WTI”) crude oil prices of \$3.33 per Bbl and improving regional differentials. The \$3.3 million increase in NGL sales reflects an increase in the realized NGL price of approximately \$0.24 per Gal (69%) and increased production in our Piceance Basin properties. The \$0.3 million decrease in natural gas revenues reflects lower production partially offset by an increase in realized natural gas prices. Average realized natural gas prices increased by \$0.11 per Mcf (4%) during the three months ended September 30, 2017 compared to the same period in 2016 primarily due to the increase in average NYMEX Henry Hub natural gas prices of \$0.07 (2%) per Mcf and improved realized regional differentials. Our natural gas production decreased by approximately 801 MMcf (5%) primarily due to natural production declines, individually immaterial divestitures partially offset by increased working interests under our amended and restated development agreement.

For the three-month period ended September 30, 2017, we recorded \$13.3 million of net losses on oil and natural gas derivatives. Commodity derivative gains and losses represent the changes in fair value of our commodity derivatives during the period and are based on oil and natural gas futures prices. The net losses recognized during the three-month period ended September 30, 2017 are primarily due to a decrease in the value of our natural gas derivative position resulting from an increase in commodity prices during the quarter partially offset by favorable cash settlements. For the three-month period ended September 30, 2016, we recorded \$18.3 million of net gains on oil and natural gas derivatives. Settlements of such contracts resulted in cash receipts of \$7.0 million and \$11.6 million during the three months ended September 30, 2017 and 2016, respectively.

Our oil and natural gas production expenses, excluding ad valorem taxes, decreased to \$39.5 million (\$9.36 per Boe) for the three-month period ended September 30, 2017 from \$40.1 million (\$10.14 per Boe) for the three-month period ended September 30, 2016. This decrease is primarily attributable to cost containment efforts across all operating regions partially offset by costs associated with increased production related to our Permian horizontal drilling program and as well as increased working interests under our amended and restated development agreement. Our ad valorem tax expense decreased to \$2.6 million (\$0.61 per Boe) for the three-month period ended September 30, 2017 compared to \$3.0 million (\$0.76 per Boe) for the three-month period ended September 30, 2016. The decrease was attributable to lower historical oil and natural gas commodity prices, resulting in lower reserve valuations, upon which much of our ad valorem taxes are based, resulting in lower ad valorem tax expense.

Our production and other taxes were \$5.5 million and \$4.0 million for the three-month periods ended September 30, 2017 and 2016, respectively. Production and other taxes increased due to the increase in our production and weighted average product price as tax rates remained consistent.

Our general and administrative expenses were \$10.0 million and \$9.2 million for the three-month periods ended September 30, 2017 and 2016, respectively. General and administrative expenses increased \$0.8 million due to general cost increases.

We incurred depletion, depreciation, amortization and accretion expense, or DD&A, of \$33.7 million and \$36.1 million for the three-month periods ended September 30, 2017 and 2016, respectively. DD&A decreased \$2.4 million due primarily to lower depletion across much of our asset base due to the reduced depletable basis resulting from the significant impairment realized in prior periods.

In the three-month periods ended September 30, 2017 and 2016, we recognized impairment expense of \$14.7 million and \$4.6 million, respectively. The impairment expense in 2017 was recognized on 12 separate producing fields due

to lower natural gas futures prices. In the three-month period ended September 30, 2016, we recognized \$4.6 million of impairment expense on eight separate producing fields primarily related to well performance and the further decline in oil and natural gas futures prices during the period.

We recorded gains on disposal of assets of \$2.0 million and \$8.4 million for the three-month periods ended September 30, 2017 and 2016, respectively. The gains in 2017 were primarily related to the disposition of marginal oil and natural gas assets partially offset by costs associated with disposal. The gains in 2016 primarily consisted of dispositions of unproved leasehold acreage.

We recorded interest expense of \$23.6 million and \$17.1 million for the three-month periods ended September 30, 2017 and 2016, respectively. Interest expense increased period over period due to additional expense associated with new borrowings under our Second Lien Term Loan Credit Agreement.

As a result of the items described above, Legacy recorded a net loss of \$33.9 million and \$4.3 million for the three-month periods ended September 30, 2017 and 2016, respectively.

Nine-Month Period Ended September 30, 2017 Compared to Nine-Month Period Ended September 30, 2016

Our revenues from the sale of oil were \$154.3 million and \$110.3 million for the nine-month periods ended September 30, 2017 and 2016, respectively. Our revenues from the sale of NGLs were \$16.7 million and \$9.8 million for the nine-month periods ended September 30, 2017 and 2016, respectively. Our revenues from the sale of natural gas were \$128.2 million and \$102.6 million for the nine-month periods ended September 30, 2017 and 2016, respectively. The \$44.0 million increase in oil revenues reflects an increase in oil production due to our Permian horizontal drilling program as well as increased working interests under our amended and restated development agreement and the increase in average realized price of \$9.39 per Bbl (26%) due to an increase in average WTI crude oil prices of \$7.95 per Bbl and improving regional differentials. The \$6.9 million increase in NGL sales reflects an increase in the realized NGL price of approximately \$0.25 per Gal (70%) due to higher commodity prices. The \$25.6 million increase in natural gas revenues reflects an increase in realized natural gas prices partially offset by a decrease in natural gas production. Average realized natural gas prices increased by \$0.70 per Mcf (35%) during the nine months ended September 30, 2017 compared to the same period in 2016 due to the increase in average NYMEX Henry Hub natural gas prices of \$0.67 per Mcf. Our natural gas production decreased by approximately 3,614 MMcf (7%) due to natural production declines, individually immaterial divestitures partially offset by increased working interests under our amended and restated development agreement.

For the nine-month period ended September 30, 2017, we recorded \$35.9 million of net gains on oil and natural gas derivatives. Commodity derivative gains and losses represent the changes in fair value of our commodity derivatives during the period and are based on oil and natural gas futures prices. The net gains recognized during the nine-month period ended September 30, 2017 are primarily due to a decrease in commodity prices during 2017 and favorable cash settlements received. For the nine-month period ended September 30, 2016, we recorded \$2.3 million of net losses on oil and natural gas derivatives. Settlements of such contracts resulted in cash receipts of \$17.8 million and \$56.5 million during the nine months ended September 30, 2017 and 2016, respectively.

Our oil and natural gas production expenses, excluding ad valorem taxes, increased to \$131.0 million for the nine-month period ended September 30, 2017 from \$128.3 million for the nine-month period ended September 30, 2016. This increase is primarily attributable to increased workover and repair activity across all operating regions, increased well count due to our Permian horizontal drilling program and increased working interests under our amended and restated development agreement partially offset by general cost reduction efforts. Our ad valorem tax expense decreased to \$7.1 million (\$0.60 per Boe) for the nine-month period ended September 30, 2017 compared to \$9.4 million (\$0.77 per Boe) for the nine-month period ended September 30, 2016 primarily due to lower historical oil and natural gas commodity prices, resulting in lower reserve valuations, upon which much of our ad valorem taxes are based, resulting in lower ad valorem tax expense.

Our production and other taxes were \$13.8 million and \$9.9 million for the nine-month periods ended September 30, 2017 and 2016, respectively. Production and other taxes increased due to the increase in our weighted average product price as tax rates remained consistent.

Our general and administrative expenses were \$29.2 million and \$29.7 million for the nine-month periods ended September 30, 2017 and 2016, respectively. General and administrative expenses decreased slightly due to general cost reduction efforts.

We incurred depletion, depreciation, amortization and accretion expense, or DD&A, of \$90.2 million and \$110.7 million for the nine-month periods ended September 30, 2017 and 2016, respectively. DD&A decreased \$20.5 million due primarily to lower depletion across much of our asset base due to the reduced depletable basis resulting from the significant impairment realized in prior periods.

Impairment expense was \$24.5 million and \$20.1 million for the nine-month periods ended September 30, 2017 and 2016, respectively. In the nine-month period ended September 30, 2017, we recognized \$24.5 million of impairment expense on 23 separate producing fields primarily related to the further decline in oil and natural gas futures prices during the period and increased expenses. Impairment expense for the period ended September 30, 2016 was recognized on 20 separate producing fields primarily related to the further decline in oil and natural gas futures prices during the period and well performance.

We recorded losses (gains) on disposal of assets of \$3.5 million and \$(49.3) million for the nine-month periods ended September 30, 2017 and 2016, respectively. The losses in 2017 were primarily related to the disposition of oil and natural gas assets operated under a CO₂ flood partially offset by gains on disposal of other immaterial assets. The gains in 2016 primarily consisted of dispositions of unproved leasehold acreage and low volume, high cost producing properties.

We recorded interest expense of \$64.4 million and \$62.6 million for the nine-month periods ended September 30, 2017 and 2016, respectively. Interest expense increased approximately \$1.8 million primarily due to additional expense associated with new borrowings under our Second Lien Term Loan Credit Agreement partially offset by decreased interest expense following our repurchase and exchange of a portion of our Senior Notes in 2016.

As a result of the items described above, Legacy recorded net income (loss) of \$(28.6) million and \$48.8 million for the nine-month periods ended September 30, 2017 and 2016, respectively.

Non-GAAP Financial Measure

Our management uses Adjusted EBITDA as a tool to provide additional information and metrics relative to the performance of our business. Our management believes that Adjusted EBITDA is useful to investors because this measure is used by many companies in the industry as a measure of operating and financial performance and is commonly employed by financial analysts and others to evaluate the operating and financial performance of the Partnership from period to period and to compare it with the performance of other publicly traded partnerships within the industry. Adjusted EBITDA may not be comparable to a similarly titled measure of other publicly traded limited partnerships or limited liability companies because all companies may not calculate Adjusted EBITDA in the same manner. The following presents a reconciliation of "Adjusted EBITDA," which is a non-GAAP measure, to its nearest comparable GAAP measure. Adjusted EBITDA should not be considered as an alternative to GAAP measures, such as net income, operating income, cash flow from operating activities, or any other GAAP measure of financial performance. Adjusted EBITDA is defined as net income (loss) plus:

- Interest expense;
- Gain on extinguishment of debt
- Income tax expense;
- Depletion, depreciation, amortization and accretion;
- Impairment of long-lived assets;
- (Gain) loss on disposal of assets;
- Equity in (income) loss of equity method investees;
- Unit-based compensation expense related to LTIP unit awards accounted for under the equity or liability methods;
- Minimum payments earned in excess of overriding royalty interest;
- Equity in EBITDA of equity method investee;
- Net (gains) losses on commodity derivatives;
- Net cash settlements received on commodity derivatives;
- Transaction related expenses.

The following table presents a reconciliation of our consolidated net income (loss) to Adjusted EBITDA for the three and nine months ended September 30, 2017 and 2016, respectively.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income (loss)	\$ (33,866)	\$ (4,303)	\$ (28,571)	\$ 48,766
Plus:				
Interest expense	23,621	17,080	64,368	62,558
Gain on extinguishment of debt	—	—	—	(150,802)
Income tax expense	266	223	837	710
Depletion, depreciation, amortization and accretion	33,715	36,068	90,200	110,695
Impairment of long-lived assets	14,665	4,618	24,548	20,065
(Gain) loss on disposal of assets	(2,034)	(8,447)	3,491	(49,289)
Equity in (income) loss of equity method investees	—	(7)	(12)	7
Unit-based compensation expense	1,551	1,445	4,931	5,612
Minimum payments earned in excess of overriding royalty interest(a)	512	423	1,427	1,225
Net (gains) losses on commodity derivatives	13,309	(18,326)	(35,876)	2,311
Net cash settlements received on commodity derivatives	6,972	11,613	17,779	56,483
Transaction related expenses	54	296	138	1,087
Adjusted EBITDA	\$ 58,765	\$ 40,683	\$ 143,260	\$ 109,428

(a) A portion of minimum payments earned in excess of overriding royalties earned under a contractual agreement expiring December 31, 2019. The remaining amount of the minimum payments are recognized in net income.

For the three months ended September 30, 2017 and 2016, respectively, Adjusted EBITDA increased 44% to \$58.8 million from \$40.7 million. For the nine months ended September 30, 2017 and 2016, respectively, Adjusted EBITDA increased 31% to \$143.3 million from \$109.4 million. These increases can be attributed to the increase in realized commodity prices, increased oil production from our Permian horizontal drilling program and increased working interests under our amended and restated development agreement.

Capital Resources and Liquidity

Legacy's primary sources of capital and liquidity have been cash flow from operations, the issuance of the Senior Notes, the issuance of additional units and Preferred Units, the Second Lien Term Loans and bank borrowings, or a combination thereof. To date, Legacy's primary use of capital has been for the acquisition and development of oil and natural gas properties, the repayment of bank borrowings and repurchases of Senior Notes on the open market.

Based upon current oil and natural gas price expectations and our commodity derivatives positions, we anticipate that our cash flow from operations, commodity hedge realizations and borrowings under our revolver and Second Lien Term Loans will provide us sufficient liquidity to fund our operations in 2017 and 2018 including our revised 2017 capital expenditure budget of \$205 million, of which \$141.5 million has been incurred. However, should oil and natural gas prices decline significantly, we could breach certain financial covenants under our revolving credit facility or our term loan credit agreement, which would constitute a default under our revolving credit facility or our term loan credit agreement. Such a default, if not remedied, would require a waiver from our lenders in order for us to avoid an event of default and potential subsequent acceleration of all amounts outstanding under our revolving credit facility or our term loan credit agreement or foreclosure on our oil and natural gas properties. Certain payment defaults or

acceleration under our revolving credit facility could cause a cross-default or cross-acceleration of all of our other indebtedness. If an event of default occurs, or if other debt agreements cross-default, and the lenders under the affected debt agreements accelerate the maturity of any loans or other debt outstanding, we will not have sufficient liquidity to repay all of our outstanding indebtedness. Our revolving credit facility and term loan credit agreement contain covenants that currently prevent us from making distributions to our limited partners, including holders of our preferred units, unless we meet certain financial criteria, which, as of September 30, 2017, we do not meet. Future cash flows are subject to a number of variables, including the level of oil and natural gas production and prices. There can be no assurance that operations and other capital resources

will provide cash in sufficient amounts to operate or to maintain planned levels of capital expenditures. Please see “—Cash Flow from Financing Activities—Credit Facility.”

The amounts available for borrowing under our revolving credit facility are subject to a borrowing base, which is currently set at \$575 million. As of October 30, 2017, we had \$89.2 million available for borrowing under our revolving credit facility. Our lenders redetermine the borrowing base semi-annually, with the next redetermination scheduled on or about April 2018, subject to the parties' rights to have additional redeterminations between scheduled redeterminations.

As of October 30, 2017, we had \$95.0 million available for borrowing under our term loan credit agreement. Please see “—Cash Flow from Financing Activities—Second Lien Term Loan Credit Agreement.”

Our commodity derivatives position, which we use to mitigate commodity price volatility and (if positive) support our borrowing capacity, resulted in \$17.8 million of cash receipts in the nine months ended September 30, 2017.

For an example illustrating the potential effects of commodity prices on our estimates of proved reserves, see “Management’s Discussion and Analysis of Financial Condition—Overview.”

As market conditions warrant, we may, subject to certain limitations and restrictions, repurchase, exchange or otherwise pay down our outstanding debt, including our Senior Notes, in open market transactions, privately negotiated transactions, by tender offer or otherwise which may impact the trading liquidity of such securities. The amounts involved in any such transactions, individually or in the aggregate, may be material.

A significant portion of our horizontal operated development activity in the Permian Basin is pursued through our development agreement (as amended, the "Development Agreement") with Jupiter JV, LP ("Investor"), which was formed by certain of TPG Sixth Street Partners' investment funds. Our capital resources and liquidity benefit from our interest in the development activity under the Development Agreement.

On August 1, 2017, we, along with Investor, entered into the First Amended and Restated Development Agreement (the “Restated Agreement”), which amends and restates the Development Agreement pursuant to which we and Investor agreed to participate in the funding, exploration, development and operation of certain of our undeveloped oil and gas properties in the Permian Basin. Under the Restated Agreement, the parties have committed to develop a tranche of 16 wells (the “Second Tranche”), and we must propose an additional tranche of 10 wells in which Investor can elect to participate (the “Third Tranche”). Investor may elect to combine the drilling of the wells to be included in the Third Tranche into the Second Tranche. Investor’s share of its portion of development costs will be limited to \$40 million for the Second Tranche, and, if Investor elects to participate in the Third Tranche, its portion of development costs will be limited to \$50 million for those wells.

In connection with the Restated Agreement, we made a payment of \$141 million (the “Acceleration Payment”) to cause the reversion of Investor's working interest from 80% to 15% of the parties' combined interests in all wells contained in the first tranche such that our working interest reverted from 20% to 85% of the parties' combined working interests in all wells contained in the tranche, and all undeveloped assets subject to the terms of the Restated Agreement reverted back to us. The reversion of interests as a result of the Acceleration Payment was accounted for as an asset acquisition. See “—Footnote 3—Asset Acquisition” in the Notes to Condensed Consolidated Financial Statements for discussion of the impact ASU 2017-01 had on our current period consolidated financial statements. Pursuant to the Restated Agreement, Investor shall fund 40% of the costs to the parties' combined interests to develop the wells in the Second Tranche of 16 wells in exchange for an undivided 33.7% working interest of our original working interest in the wells, subject to a reversionary interest of 6.3% of our original working interest in the wells upon the occurrence of Investor achieving a 15% internal rate of return in the aggregate with respect to such tranche of wells. Investor will

have the option to fund the Third Tranche on identical terms and will also have the opportunity to participate in a maximum of 6 additional wells per tranche in the Restated Agreement's area of mutual interest. The Restated Agreement provides that Investor can suspend its obligation to fund wells in a tranche upon the occurrence of certain events, but that we can continue to drill and fund on our own any such wells in which Investor elects to not participate (subject to Investor's later right to participate in such wells in accordance with the Restated Agreement). Additionally, the management fee to be paid to us under the Management Services Agreement entered into at the time of the execution of the Development Agreement has been proportionately reduced to reflect Investor's decreased working interest in the properties.

The Acceleration Payment was funded by a \$145 million draw under term loan credit agreement.

In connection with the execution of the Restated Agreement, GSO, as lender under our term loan credit agreement, has provided a waiver to us to make capital expenditures that are expected to be required to develop the assets under the Restated Agreement.

Page 37

Cash Flow from Operations

Our net cash provided by (used in) operating activities was \$72.9 million and \$(3.4) million for the nine-month periods ended September 30, 2017 and 2016, respectively. The 2017 period was impacted by higher realized commodity prices which were partially offset by higher operating expenses.

Our cash flow from operations is subject to many variables, the most significant of which is the volatility of oil, NGL and natural gas prices. Oil, NGL and natural gas prices are determined primarily by prevailing market conditions, which are dependent on regional and worldwide economic activity, weather and other factors beyond our control. Our future cash flow from operations will depend on our ability to maintain and increase production through acquisitions and development projects, as well as the prices of oil, NGL and natural gas.

Cash Flow from Investing Activities

We invested \$254.5 million of capital for the nine-month period ended September 30, 2017, which consisted of \$96.0 million for development projects, exclusive of accrued capital expenditures, \$141.4 million related to the Acceleration Payment resulting in the reversion of working interests in properties included in our Restated Agreement, \$17.1 million of individually immaterial acquisitions of oil and natural gas properties and prospective acreage as well as adjustments to prior period acquisitions. We received \$5.6 million of proceeds net of costs related to the divestiture of various oil and natural gas properties in individually immaterial transactions and post close adjustments. We invested \$28.0 million of capital for the nine-month period ended September 30, 2016, which consisted of \$18.5 million for development projects, \$9.4 million for individually immaterial acquisitions of oil and natural gas properties and adjustments to prior period acquisitions. We received \$96.5 million of proceeds related to the divestiture of various oil and natural gas properties in individually immaterial transactions.

Our annual capital expenditure budget for 2017, which predominantly consists of drilling, recompletion and well stimulation projects, was increased on August 1, 2017 to \$205 million to reflect the increased capital expenditure requirement following the reversion of working interests in accordance with the Restated Agreement caused by the Acceleration Payment. During the nine months ended September 30, 2017, we incurred \$141.5 million of such capital expenditures inclusive of accrued capital expenditures. We anticipate that we will have sufficient sources of working capital, including our cash flow from operations and available borrowing capacity under our revolving credit facility and our term loan credit agreement to meet our cash obligations including our remaining planned capital expenditures. Our remaining borrowing capacity under our revolving credit facility is \$89.2 million as of October 30, 2017. The amount and timing of our capital expenditures is largely discretionary and within our control, with the exception of certain projects managed by other operators. We may defer a portion of our planned capital expenditures until later periods. Accordingly, we routinely monitor and adjust our capital expenditures in response to changes in oil and natural gas prices, drilling and acquisition costs, industry conditions, non-operated capital requirements and internally generated cash flow. Future cash flows are subject to a number of variables, including the level of oil and natural gas production and prices. There can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned levels of capital expenditures.

We enter into oil and natural gas derivative transactions to reduce the impact of oil and natural gas price volatility on our operations. We use derivatives to offset price volatility of oil and natural gas prices. For the nine-month periods ended September 30, 2017 and 2016, we had favorable settlements of \$17.8 million and \$56.5 million, respectively, related to our commodity derivatives.

By reducing the cash flow effects of price volatility from a portion of our oil and natural gas production, we have mitigated, but not eliminated, the potential effects of changing prices on our cash flow from operations for those

periods. While mitigating negative effects of falling commodity prices, these derivative contracts also limit the benefits we would receive from increases in commodity prices. It is our policy to enter into derivative contracts only with counterparties that are major, creditworthy institutions deemed by management as competent and competitive market makers. In addition, none of our current counterparties require us to post margin. However, we cannot be assured that all of our counterparties will meet their obligations under our derivative contracts. Due to this uncertainty, we routinely monitor the creditworthiness of our counterparties.

The following tables summarize, for the periods indicated, our oil and natural gas derivatives currently in place as of October 30, 2017, covering the period from October 1, 2017 through December 31, 2019. We use derivatives, including swaps, enhanced swaps and three-way collars, as our mechanism for offsetting the cash flow effects of changes in commodity prices whereby we pay the counterparty floating prices and receive fixed prices from the counterparty, which serves to reduce the effects on cash flow of the floating prices we are paid by purchasers of our oil and natural gas. These transactions are mostly settled based upon the monthly average closing price of the front-month NYMEX WTI oil, the price on the last trading day of front-month NYMEX Henry Hub natural gas.

Page 38

Oil Swaps:

Time Period	Volumes (Bbls)	Average Price per Bbl	Price Range per Bbl
October-December 2017	46,000	\$84.75	\$84.75
2018	2,664,500	\$53.54	\$51.20 - \$58.04

Natural Gas Swaps:

Time Period	Volumes (MMBtu)	Average Price per MMBtu	Price Range per MMBtu
October-December 2017	6,900,000	\$3.36	\$3.29-\$3.39
2018	36,200,000	\$3.23	\$3.04-\$3.39
2019	25,800,000	\$3.36	\$3.29-\$3.39

We have entered into regional crude oil differential swap contracts in which we have swapped the floating WTI-ARGUS (Midland) crude oil price for floating WTI-ARGUS (Cushing) crude oil price less a fixed-price differential. As noted above, we receive a discount to the NYMEX WTI crude oil price at the point of sale. Due to refinery downtime and limited takeaway capacity that has impacted the Permian Basin, the difference between the WTI-ARGUS (Midland) price, which is the price we receive on almost all of our Permian crude oil production, and the WTI-ARGUS (Cushing) price reached historic highs in late 2012 and early 2013 and again in late 2014. We entered into these differential swaps to negate a portion of this volatility. The following table summarizes the oil differential contracts currently in place as of October 30, 2017, covering the period from October 1, 2017 through December 31, 2019:

Time Period	Volumes (Bbls)	Average Price per Bbl	Price Range per Bbl
October-December 2017	552,000	\$(0.30)	\$(0.75)-\$(0.05)
2018	4,015,000	\$(1.13)	\$(1.25)-\$(0.80)
2019	730,000	\$(1.15)	\$(1.15)

We have also entered into multiple NYMEX WTI crude oil costless collar contracts. Each contract combines a long put option or "floor" with a short call option or "ceiling." At an annual WTI market price of \$40.00, \$50.00 and \$65.00, the summary positions below would result in a net price of \$45.00, \$50.00 and \$59.02, respectively for 2017 and \$47.06, \$50.00 and \$60.29, respectively for 2018. The following table summarizes the costless oil collar contracts currently in place as of October 30, 2017, covering the period from October 1, 2017 through December 31, 2018:

Time Period	Volumes (Bbls)	Average Long Put Price per Bbl	Average Short Call Price per Bbl
October-December 2017	552,000	\$45.00	\$59.02
2018	1,551,250	\$47.06	\$60.29

We have also entered into multiple NYMEX WTI crude oil derivative enhanced swap contracts. The enhanced swap contract combines buying a lower-priced put, selling a higher-priced put, and using the net proceeds from these positions to simultaneously obtain a swap at above market prices ("enhanced swap price"). If the market price is at or above the higher-priced short put, this contract allows us to settle at the enhanced swap price. If the market price is below the higher-priced short put but above the lower-priced long put, this contract allows us to settle for the market price plus the spread between the enhanced swap price and the higher-priced short put. If the market price is at or below the lower-priced long put, this contract allows us to settle for the lower-priced long put plus the spread between the enhanced swap price and the higher-priced short put. For example, at an annual average WTI market price of \$40.00, \$50.00 and \$65.00, the summary positions below would result in a net price of \$65.85, \$65.85 and \$73.85, respectively for 2017 and \$65.50, \$65.50 and \$73.50, respectively for 2018. The following table summarizes this type of enhanced swap contracts currently in place as of October 30, 2017, covering the period from October 1, 2017 to December 31, 2018:

Time Period	Volumes (Bbls)	Average Long Put Price per Bbl	Average Short Put Price per Bbl	Average Swap Price per Bbl
October-December 2017	46,000	\$57.00	\$82.00	\$90.85
2018	127,750	\$57.00	\$82.00	\$90.50

We have also entered into multiple NYMEX Henry Hub natural gas costless collar contracts. Each contract combines a long put option or "floor" with a short call option or "ceiling." At an annual Henry Hub price of \$2.50, \$3.00 and \$3.50, the summary position below would result in a net price of \$2.90, \$3.00 and \$3.44, respectively. The following table summarizes the costless natural gas collar contracts currently in place as of October 30, 2017, covering the period from October 1, 2017 through December 31, 2017:

Time Period	Volumes (MMBtu)	Average Long Put Price per MMBtu	Average Short Call Price per MMBtu
October-December 2017	3,680,000	\$2.90	\$3.44

We have also entered into multiple NYMEX Henry Hub natural gas derivative three-way collar contracts. Each contract combines a long put, a short put and a short call. The use of the short put allows us to buy a put and sell a call at higher prices, thus establishing a higher ceiling and limiting our exposure to future settlement payments while also restricting our downside risk. If the market price is below the long put fixed price but above the short put fixed price, a three-way collar allows us to settle for the long put fixed price. A three-way collar also allows us to settle for market plus the spread between the short put and the long put in a case where the market price has fallen below the short put fixed price. For example, at an annual average Henry Hub market price of \$2.50, \$3.00 and \$3.50, the summary position below would result in a net price of \$3.00, \$3.50 and \$4.00, respectively for 2017. The following table summarizes the three-way natural gas collar contracts currently in place as of October 30, 2017, covering the period from October 1, 2017 to December 31, 2017:

Time Period	Volumes (MMBtu)	Average Short Put Price per MMBtu	Average Long Put Price per MMBtu	Average Short Call Price per MMBtu
October-December 2017	1,260,000	\$3.75	\$4.25	\$5.53

As of October 30, 2017, Legacy had the following Henry Hub NYMEX to Northwest Pipeline, California SoCal NGI and San Juan Basin natural gas differential swaps paying a floating differential and receiving a fixed differential for a portion of its future natural gas production as indicated below:

	October-December 2017	Average Volumes (MMBtu)	Average Price per MMBtu
NWPL	1,840,000		\$(0.16)
SoCal	630,200		\$0.11

San Juan 630,200

\$(0.10)

Page 40

Cash Flow from Financing Activities

Our net cash provided by financing activities was \$163.8 million for the nine months ended September 30, 2017, compared to cash used in financing activities of \$121.2 million for the nine months ended September 30, 2016. During the nine months ended September 30, 2017, total net borrowings under our revolving credit facility were \$22.0 million and net borrowings under our Second Lien Term Loans were \$145.0 million.

During the nine months ended September 30, 2016, total net payments under our revolving credit facility were \$92.0 million. We had cash outflow during the nine months ended September 30, 2016 in the amount of \$21.5 million for repurchases of our Senior Notes on the open market.

Credit Facility

On April 1, 2014, we entered into a five-year \$1.5 billion secured revolving credit facility with Wells Fargo Bank, National Association, as administrative agent (the "Current Credit Agreement"). Borrowings under the Current Credit Agreement mature on April 1, 2019. Our obligations under the Current Credit Agreement are secured by mortgages on over 95% of the total value of its oil and natural gas properties plus certain undeveloped properties as well as a pledge of all of its ownership interests in our operating subsidiaries. The amount available for borrowing at any one time is limited to the borrowing base and contains a \$2 million sub-limit for letters of credit.

As of September 30, 2017, we were in compliance with all covenants of the Current Credit Agreement. Depending on future oil and natural gas prices, we could breach certain financial covenants under our revolving credit facility, which would constitute a default under our revolving credit facility. Such default, if not remedied, would require a waiver from our lenders in order for us to avoid an event of default and subsequent acceleration of all amounts outstanding under our revolving credit facility and potential foreclosure on our oil and natural gas properties. As previously noted, if the lenders under our revolving credit facility were to accelerate, subject to certain limitations, the indebtedness under our revolving credit facility as a result of a default, such acceleration could cause a cross-default of all of our other outstanding indebtedness, and permit the holders of such indebtedness to accelerate the maturities of such indebtedness. While no assurances can be made that, in the event of a covenant breach, such a waiver will be granted, we believe the long-term global outlook for commodity prices and our efforts to date, which include the suspension of distributions to our unitholders and holders of our preferred units, as well as asset sales completed and anticipated as of the date of this filing, will be viewed positively by our lenders. If an event of default would occur and were continuing, we would be unable to make borrowings under the Current Credit Agreement, may be unable to make distributions to our unitholders and our financial condition and liquidity would be adversely affected. The Current Credit Agreement contains a covenant that currently prohibits us from paying distributions to our limited partners, including holders of our preferred units. For further information related to our Current Credit Agreement, please refer to "—Footnote 2—Long-Term Debt" in the Notes to Condensed Consolidated Financial Statements.

As of September 30, 2017, we had approximately \$485 million drawn under the Current Credit Agreement at a weighted average interest rate of 3.99%, leaving approximately \$114.2 million of availability under the Current Credit Agreement. For the nine-month period ended September 30, 2017, we paid in cash \$14.7 million of interest expense on the Current Credit Agreement.

As part of our routine fall redetermination, our borrowing base was redetermined to \$575.0 million, leaving approximately \$89.2 million of availability under the Current Credit Agreement as of October 30, 2017.

We periodically enter into interest rate swap transactions to mitigate the volatility of interest rates. As of September 30, 2017, we had interest rate swaps on notional amounts of \$235 million with a weighted average fixed rate of 1.36%. These swaps mature in September 2019.

Second Lien Term Loan Credit Agreement

On October 25, 2016, we entered into a Term Loan Credit Agreement (the “Second Lien Term Loan Credit Agreement”) among us, as borrower, Cortland Capital Market Services LLC, as administrative agent and second lien collateral agent, and the lenders party thereto, providing for term loans up to an aggregate principal amount of \$300 million (the “Second Lien Term Loans”). GSO Capital Partners LP (“GSO”) and certain funds and accounts managed, advised or sub-advised, by GSO are the initial lenders thereunder. The Second Lien Term Loans are secured on a second lien priority basis by the same collateral that secures our Current Credit Agreement and are unconditionally guaranteed on a joint and several basis by the same wholly owned subsidiaries of ours that are guarantors under the Current Credit Agreement. As of September 30, 2017, we were in compliance with all covenants of the Second Lien Term Loan Credit Agreement. The Second Lien Term Loans mature on August 31, 2020. The Second Lien Term Loan Credit Agreement contains a covenant that currently prohibits us from paying distributions to our

Page 41

unitholders and holders of our preferred units. For further information related to our Second Lien Term Loan Credit Agreement, please refer to "—Footnote 2—Long-Term Debt" in the Notes to Condensed Consolidated Financial Statements.

As of October 30, 2017, Legacy had approximately \$205.0 million drawn under the Second Lien Term Loan Credit Agreement. On October 30, 2017 Legacy entered into the Second Amendment to the Second Lien Term Loan Credit Agreement among Legacy, as borrower, Cortland Capital Market Services LLC, as administrative agent and second lien collateral agent, and the lenders party thereto, including GSO and certain funds and accounts managed, advised or sub-advised by GSO, which, among other things, extends the availability of undrawn principal under our term loan credit agreement (\$95.0 million as of October 30, 2017) to October 25, 2018, with any borrowing being subject to approval by each lender thereunder.

8% Senior Notes Due 2020

On December 4, 2012, we, together with our 100% owned subsidiary Legacy Reserves Finance Corporation, completed a private placement offering to eligible purchasers of an aggregate principal amount of \$300.0 million of our 2020 Senior Notes, which were subsequently registered through a public exchange offer that closed on January 8, 2014. The 2020 Senior Notes were issued at 97.848% of par. We received approximately \$286.7 million of net cash proceeds, after deducting the discount to initial purchasers and offering expenses payable by us.

During the fiscal year ended December 31, 2016, we repurchased a face amount of \$52.0 million of our 2020 Senior Notes on the open market.

As of September 30, 2017, we were in compliance with all financial and other covenants of the 2020 Senior Notes. As previously noted, if the lenders under our revolving credit facility were to accelerate the indebtedness under our revolving credit facility as a result of a default, such acceleration could cause a cross-default of all of our other outstanding indebtedness and permit the holders of such indebtedness to accelerate the maturities of such indebtedness. For further information related to our 2020 Senior Notes please refer to "—Footnote 2—Long-Term Debt" in the Notes to Condensed Consolidated Financial Statements.

6.625% Senior Notes Due 2021

On May 28, 2013, we, together with our 100% owned subsidiary Legacy Reserves Finance Corporation, completed a private placement offering to eligible purchasers of an aggregate principal amount of \$250 million of our 2021 Senior Notes, which were subsequently registered through a public exchange offer that closed on March 18, 2014. This issuance of our 2021 Senior Notes was at 98.405% of par. We received approximately \$240.7 million of net cash proceeds, after deducting the discount to initial purchasers and offering expenses payable by us.

On May 13, 2014, we, together with our 100% owned subsidiary Legacy Reserves Finance Corporation, completed a private placement offering to eligible purchasers of an aggregate principal amount of an additional \$300 million of our 6.625% 2021 Senior Notes. This issuance of our 2021 Senior Notes was at 99.0% of par. We received approximately \$91.8 million of net cash proceeds, after deducting the discount to initial purchasers and offering expenses payable by us.

During the fiscal year ended December 31, 2016, we repurchased a face amount of \$117.3 million of our 2021 Senior Notes on the open market.

As of September 30, 2017, we were in compliance with all financial and other covenants of the 2021 Senior Notes. As previously noted, if the lenders under our revolving credit facility were to accelerate the indebtedness under our revolving credit facility as a result of a default, such acceleration could cause a cross-default of all of our other outstanding indebtedness and permit the holders of such indebtedness to accelerate the maturities of such

indebtedness. For further information related to our 2021 Senior Notes, please refer to "—Footnote 2—Long-Term Debt" in the Notes to Condensed Consolidated Financial Statements.

Off-Balance Sheet Arrangements

None.

Page 42

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to select and apply accounting policies that best provide the framework to report our results of operations and financial position. The selection and application of those policies requires management to make difficult subjective or complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

As of September 30, 2017, with the exception of the adoption of ASU 2017-01 as discussed in "—Footnote 3—Asset Acquisition" in the Notes to Condensed Consolidated Financial Statements, our critical accounting policies were consistent with those discussed in our Annual Report on Form 10-K for the period ended December 31, 2016.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil and natural gas reserves, the fair value of assets and liabilities acquired in business combinations, valuation of derivatives, future cash flows from oil and natural gas properties, depreciation, depletion and amortization, asset retirement obligations and accrued revenues. Actual results could differ from these estimates.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, Business Combinations: Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Effective July 1, 2017, we adopted ASU 2017-01. See "—Footnote 3—Asset Acquisition" in the Notes to Condensed Consolidated Financial Statements for discussion of the impact ASU 2017-01 had on our current period consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this ASU will not have any material impact on our results of operations, cash flows or financial position.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU No. 2016-12"). The amendments under this ASU do not change the core revenue recognition principle in Topic 606. In addition, ASU No. 2016-12 provides clarifying guidance in certain narrow areas and adds some practical expedients. These amendments are also effective at the same date that Topic 606 is effective.

In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. Under this ASU, the SEC Staff is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities-Oil and Gas, effective upon adoption of Topic 606. Revenue from Contracts with Customers (Topic 606) is

effective for public entities for fiscal years, and interim periods within the fiscal years, beginning after December 15, 2017.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize

revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers ("ASU 2015-14"), which approved a one-year delay of the standard's effective date. In accordance with ASU 2015-14, the standard is now effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We expect to adopt the modified retrospective approach and are currently determining the impacts of the new standard on our contract portfolio. We have identified three revenue streams: oil, natural gas and natural gas liquids. Our approach includes performing a detailed review of key contracts representative of our business and comparing historical accounting policies and practices to the new standard. We have engaged a consultant to assist with our assessment and final conclusion of the impact of ASU 2016-09 on our financial statements. Our contracts are primarily short-term in nature, and our assessment at this stage is that, other than additional disclosures, we currently do not expect the new revenue recognition standard will have a material impact on our consolidated financial statements upon adoption however we have not completed our analysis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term “market risk” refers to the risk of loss arising from adverse changes in oil and natural gas prices and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures. All of our market risk sensitive instruments were entered into for purposes other than speculative trading. These derivative instruments are discussed in "Item 1. Financial Statements—Notes to Consolidated Financial Statements —Footnote 7—Derivative Financial Instruments."

Commodity Price Risk

Our major market risk exposure is in the pricing applicable to our oil and natural gas production. Realized pricing is primarily driven by the market prices applicable to our natural gas production and the prevailing price for crude oil. Pricing for oil and natural gas has been volatile and unpredictable for several years, and we expect this volatility to continue in the future. The prices we receive for production depend on many factors outside of our control, such as the strength of the economy and the regional and international supply of oil and natural gas.

We periodically enter into and anticipate entering into derivative transactions with respect to a portion of our projected oil and natural gas production through various transactions that offset changes in the future prices received. These transactions may include swaps, enhanced swaps and three-way collars. These derivative transactions are intended to support oil and natural gas prices at targeted levels and to manage our exposure to oil and natural gas price fluctuations. We do not hold or issue derivative instruments for speculative trading purposes.

As of September 30, 2017, the fair value of our commodity derivative positions was a net asset of \$30.8 million based on NYMEX futures prices from October 2017 to December 2019 for both oil and natural gas. As of December 31, 2016, the fair market value of our commodity derivative positions was a net asset of \$12.7 million based on NYMEX futures prices from January 2017 to December 2019 for both oil and natural gas. For more discussion about our derivative transactions and to see a table listing the oil and natural gas derivatives from October 2017 through December 2019, please read “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Cash Flow from Investing Activities.”

Interest Rate Risks

At September 30, 2017, we had debt outstanding under our revolving credit facility of \$485 million, which incurred interest at floating rates in accordance with our revolving credit facility. The average annual interest rate incurred by us under our revolving credit facility for the nine-month period ended September 30, 2017 was 4.15%. A 1% increase in LIBOR on our outstanding debt under our revolving credit facility as of September 30, 2017 would result in an estimated \$2.5 million increase in annual interest expense assuming our current interest rate hedges remain in place and do not expire. We have entered into interest rate swaps with a weighted-average fixed rate of 1.36% to mitigate the volatility of interest rates on notional amounts of \$235 million of floating rate debt.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, or the “Exchange Act”) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management,

including our general partner's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our general partner's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. Based upon that evaluation and subject to the foregoing, our general partner's chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to accomplish their objectives.

Our general partner's chief executive officer and chief financial officer do not expect that our disclosure controls or our internal controls will prevent all error and all fraud. The design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their cost. Because of the inherent limitations in all control

Page 45

systems, no evaluation of controls can provide absolute assurance that we have detected all of our control issues and all instances of fraud, if any. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions.

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Page 46

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not currently a party to any material legal proceedings. In addition, we are not aware of any legal or governmental proceedings against us, or contemplated to be brought against us, under the various environmental protection statutes to which we are subject.

Item 1A. Risk Factors.

In addition to the information set forth in this report, you should carefully consider the factors discussed under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results. The risks described in these reports are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities

Period	(a) Total number of units purchased	(b) Price paid per unit	(c) Total number of units purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value of units) that may yet be purchased under the plans or programs
September 22, 2017	24,810(1)	\$1.36	—	—

(1) These units were purchased by the Partnership in satisfaction of certain employee tax withholding obligations at a price of \$1.36 per unit, the closing price of Legacy's units on the NASDAQ Global Market on September 22, 2017.

Item 5. Other Information.

On October 30, 2017 Legacy entered into the Second Amendment to the Second Lien Term Loan Credit Agreement among Legacy, as borrower, Cortland Capital Market Services LLC, as administrative agent and second lien collateral agent, and the lenders party thereto, including GSO and certain funds and accounts managed, advised or sub-advised by GSO, which, among other things, extends the availability of undrawn principal under our term loan credit agreement (\$95.0 million as of September 30, 2017) to October 25, 2018, with any borrowing being subject to approval by each lender thereunder.

Item 6. Exhibits.

The following documents are filed as a part of this Quarterly Report on Form 10-Q or incorporated by reference:

Exhibit Number	Description
<u>3.1</u>	<u>Certificate of Limited Partnership of Legacy Reserves LP (Incorporated by reference to Legacy Reserves LP's Registration Statement on Form S-1 (File No. 333-134056) filed May 12, 2006, Exhibit 3.1)</u>
<u>3.2</u>	<u>Fifth Amended and Restated Agreement of Limited Partnership of Legacy Reserves LP (Incorporated by reference to Legacy Reserves LP's Current Report on Form 8-K filed April 10, 2017, Exhibit 3.1)</u>
<u>3.3</u>	<u>Certificate of Formation of Legacy Reserves GP, LLC (Incorporated by reference to Legacy Reserves LP's Registration Statement on Form S-1 (File No. 333-134056) filed May 12, 2006, Exhibit 3.3)</u>
<u>3.4</u>	<u>Amended and Restated Limited Liability Company Agreement of Legacy Reserves GP, LLC (Incorporated by reference to Legacy Reserves LP's Registration Statement on Form S-1 (File No. 333-134056) filed May 12, 2006, Exhibit 3.4)</u>
<u>3.5</u>	<u>First Amendment to Amended and Restated Limited Liability Company Agreement of Legacy Reserves GP, LLC (Incorporated by reference to Legacy Reserves LP's Quarterly Report on Form 10-Q (File No. 001-33249) filed May 4, 2012, Exhibit 3.6)</u>
<u>3.6</u>	<u>Second Amendment to Amended and Restated Limited Liability Company Agreement of Legacy Reserves GP, LLC (Incorporated by reference to Legacy Reserves LP's Quarterly Report on Form 10-Q (File No. 001-33249) filed May 4, 2012, Exhibit 3.7)</u>
<u>10.1*</u>	<u>Second Amendment to Term Loan Credit Agreement, among Legacy Reserves LP, as Borrower, Cortland Capital Market Services LLC, as Administrative Agent and the lenders party thereto, dated as of October 30, 2017</u>
<u>10.2</u>	<u>First Amendment and Waiver to Term Loan Credit Agreement, among Legacy Reserves LP, as Borrower, Cortland Capital Market Services LLC, as Administrative Agent and the lenders party thereto, dated as of July 31, 2017. (Incorporated by reference to Legacy Reserves LP's Quarterly Report on Form 10-Q (File No. 001-33249) filed August 4, 2017, Exhibit 10.1)</u>
<u>31.1*</u>	<u>Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002)</u>
<u>31.2*</u>	<u>Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002)</u>
<u>32.1*</u>	<u>Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002)</u>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document

* Filed herewith

** Filed electronically herewith.

SIGNATURES

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

LEGACY RESERVES LP

By: Legacy Reserves GP, LLC, its General Partner

November 1, 2017 By: /s/ James Daniel Westcott

James Daniel Westcott

Executive Vice President and Chief Financial Officer

(On behalf of the Registrant and as Principal Financial Officer)

Page 49