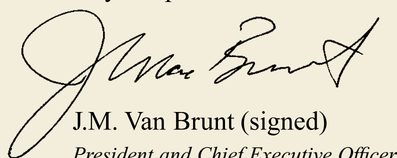
management's report to the shareholders

The consolidated financial statements and all information contained in this annual report are the responsibility of management and the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgments based on currently available information. The Corporation has established an internal audit program and accounting and reporting systems supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The financial information presented throughout this annual report is consistent with the financial statements.

KPMG LLP, an independent firm of chartered accountants, has been appointed by the shareholders as external auditors of the Corporation. The Auditors' Report to the Shareholders, which describes the scope of their examination and expresses their opinion, is presented herein.

The Audit Committee of the Board of Directors, whose members are independent of management, meets with management, the internal auditors and the independent auditors to satisfy itself that the responsibilities of the respective parties are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval.



J.M. Van Brunt (signed)
President and Chief Executive Officer

B.G. Waterman (signed)
Senior Vice President, Finance and Chief Financial Officer

Calgary, Canada
March 12, 2001

auditors' report to the shareholders

We have audited the consolidated balance sheets of Agrium Inc. as at December 31, 2000 and 1999, and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three year period ended December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000, in accordance with Canadian generally accepted accounting principles.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three year period ended December 31, 2000, and shareholders' equity as at December 31, 2000 and 1999, to the extent summarized in Note 21 to the consolidated financial statements.

KPMG LLP (signed) Chartered Accountants

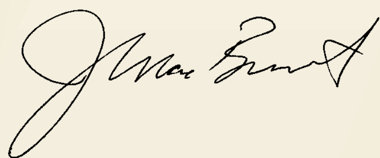
Calgary, Canada
March 12, 2001

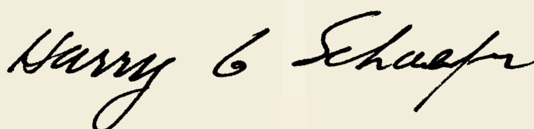
consolidated balance sheets

As at December 31 *(millions of U.S. dollars)*	2000	Restated *(Note 2)* 1999
ASSETS		
Current assets		
Cash and cash-equivalents	**$ 18**	$ 104
Accounts receivable *(Note 4)*	**275**	268
Income and other taxes receivable	**28**	–
Inventories *(Note 5)*	**347**	256
Prepaid expenses	**20**	15
	688	643
Capital assets *(Note 6)*	**1,484**	1,149
Other assets *(Note 7)*	**150**	115
Goodwill *(Note 8)*	**49**	52
	$ 2,371	$ 1,959
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness *(Note 9)*	**$ 308**	$ 179
Accounts payable and accrued liabilities *(Note 10)*	**370**	267
Income and other taxes payable	**–**	22
Current portion of long-term debt *(Note 11)*	**1**	1
	679	469
Long-term debt *(Note 11)*	**507**	497
Other liabilities *(Note 12)*	**120**	76
Future income taxes *(Note 13)*	**197**	164
	1,503	1,206
Shareholders' equity		
Share capital *(Note 14)*:		
Authorized: unlimited common shares and preferred securities		
Issued and outstanding:		
Common shares: 2000 – 115 million (1999 – 112 million)		
Preferred securities: 2000 – 9 million (1999 – 7 million)	**596**	518
Retained earnings	**315**	255
Cumulative translation adjustment	**(43)**	(20)
	868	753
Commitments *(Note 16)*		
Contingencies *(Note 17)*		
Subsequent event *(Note 22)*		
	$ 2,371	$ 1,959

See accompanying notes.

APPROVED BY THE BOARD:





J.M. Van Brunt (signed) Director

Harry Schaefer (signed) Director

consolidated statements of operations and retained earnings

Years ended December 31	2000	Restated *(Note 2)* 1999	Restated *(Note 2)* 1998
(millions of U.S. dollars, except per-share amounts)			
Net sales	**$ 1,873**	$ 1,716	$ 1,805
Cost of product	**1,326**	1,227	1,224
Gross profit	**547**	489	581
Expenses			
Selling, general and administrative	**253**	245	256
Depreciation, depletion and amortization	**107**	93	92
Other expenses	**24**	20	5
Earnings before interest and taxes	**163**	131	228
Interest on long-term debt	**36**	36	35
Other interest	**1**	1	5
Earnings before income taxes	**126**	94	188
Income taxes *(Note 13)*	**44**	32	69
Net earnings	**82**	62	119
Retained earnings – beginning of year	**255**	234	251
Repurchase of common shares	**–**	(20)	(117)
Common share dividends declared	**(13)**	(13)	(13)
Preferred securities charges	**(9)**	(8)	(6)
Retained earnings – end of year	**$ 315**	$ 255	$ 234
Basic earnings per common share *(Note 15)*	**$ 0.65**	$ 0.47	$ 0.94
Average outstanding shares *(in millions)*	**112**	113	120
Fully diluted earnings per common share *(Note 15)*	**$ 0.63**	$ 0.46	$ 0.92
Average outstanding shares *(in millions)*	**120**	118	125
Dividends per common share	**$ 0.11**	$ 0.11	$ 0.11

See accompanying notes.

consolidated statements of cash flows

Years ended December 31 *(millions of U.S. dollars)*	**2000**	Restated *(Note 2)* 1999	Restated *(Note 2)* 1998
Operating			
Net earnings	**$ 82**	$ 62	$ 119
Items not affecting cash:			
Depreciation, depletion and amortization	**107**	93	92
Future income taxes (reduction) *(Note 13)*	**35**	(28)	(7)
Cash provided by operating activities, before changes in non-cash working capital	**224**	127	204
Changes in non-cash operating working capital			
Accounts receivable	**23**	38	15
Income and other taxes receivable	**(28)**	–	40
Inventories	**(32)**	28	(29)
Prepaid expenses	**(5)**	–	3
Accounts payable and accrued liabilities	**98**	3	(9)
Income and other taxes payable	**(24)**	(36)	59
	32	33	79
Cash provided by operating activities	**256**	160	283
Investing			
Capital assets	**(179)**	(234)	(174)
Acquisition *(Note 3)*	**(246)**	–	–
Other assets	**(48)**	(49)	8
Net change in non-cash working capital	**(24)**	2	35
Other	**34**	18	(6)
Cash used in investing activities	**(463)**	(263)	(137)
Financing			
Common shares	**3**	(32)	(147)
Preferred securities	**–**	–	169
Bank indebtedness	**130**	151	(41)
Issue (repayment) of long-term debt	**10**	(4)	(3)
Common share dividends paid	**(13)**	(13)	(14)
Preferred securities charges paid	**(9)**	(8)	(6)
Cash provided by (used in) financing activities	**121**	94	(42)
Increase (decrease) in cash and cash-equivalents	**(86)**	(9)	104
Cash and cash-equivalents – beginning of year	**104**	113	9
Cash and cash-equivalents – end of year	**$ 18**	$ 104	$ 113
Interest paid	**$ 67**	$ 54	$ 40
Income tax paid (received)	**$ 54**	$ 97	$ (18)

See accompanying notes.

notes to consolidated financial statements

(millions of U.S. dollars, unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

The Corporation's accounting policies are in accordance with accounting principles generally accepted in Canada (Canadian GAAP) and, except as outlined in Note 21 and the pro forma information in Note 3, are in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The underlying financial records contain amounts based on informed estimates and best judgments of management. Certain comparative figures have been reclassified to conform with the current year's presentation. The Corporation's significant accounting policies are:

Foreign Currency

The U.S. dollar is the unit of measurement for the majority of the Corporation's business transactions and accordingly, the Corporation has adopted the U.S. dollar as its reporting currency. The Corporation's Canadian operations are considered self-sustaining and are translated into U.S. dollars using the current rate method. Under this method, assets and liabilities are translated at period end exchange rates and items included in the statements of operations and retained earnings and cash flows are translated at weighted average rates.

Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the Corporation and all of its subsidiaries. The Corporation's Profertil joint venture interest is accounted for using the proportionate consolidation method under which the Corporation's share of Profertil's revenues, expenses, assets and liabilities are included in the accounts. All intercompany transactions and balances are eliminated.

The cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired is recorded as goodwill and amortized on a straight-line basis over periods not exceeding 20 years. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired the value. Goodwill is written down to fair value when declines in value are considered to be other than temporary, based upon expected cash flows of the related acquired business.

Segmentation

The Corporation's activities are divided geographically and then by functional area into five reportable segments. The four operating segments are North America Wholesale, North America Retail, South America Wholesale and South America Retail. Wholesale comprises the production and sales of the four primary nutrients: nitrogen, phosphate, potash and sulphur. Retail comprises the sale of fertilizers, chemicals, seed, custom application and agronomic consulting. The fifth non-operating segment is Other, which includes corporate overhead and inter-segment eliminations. Net sales between geographic regions are accounted for at prices which approximate fair market value and are eliminated on consolidation.

Cash and Cash-Equivalents

Short-term investments with an original maturity of three months or less are considered to be cash-equivalents and are stated at their fair value.

Inventories

Inventories consisting of fertilizer, chemicals and seed are recorded at the lower of average cost and net realizable value. Operating supplies are recorded at average cost less allowance for obsolescence. Raw material inventory is comprised of phosphate rock at cost.

Capital Assets

Capital assets are carried at cost and include the cost of renewals and betterments. Cost is defined as expenditures incurred up to the commencement of commercial production. This includes external direct costs of material and services, internal costs for personnel working directly on the project, interest incurred during construction and net revenue less associated expenses earned on product sold prior to achieving commercial production levels.

Depreciation is calculated using the straight-line method based on the estimated service lives of the respective assets, ranging from three to 25 years. Depletion of resource properties is determined using the unit of production method based on the estimated proven and probable reserve life. Depreciation is not provided on major additions until commencement of commercial operations.

Management reviews capital assets on an ongoing basis to determine if circumstances indicate impairment in the carrying value or estimated useful life of the asset. Impairment is considered to have occurred when the carrying value of the asset exceeds the forecasted cash flow and any impairment is reflected in the statement of income. Where the estimate of useful life changes, depreciation is adjusted prospectively to reflect the change in amortization period.

Management also reviews costs for future removal and site restoration on an ongoing basis. Provisions are charged to income when the cost of site restoration exceeds the salvage value of the asset. The charge to income is based on the remaining service life of the asset.

Other Assets

Other assets include long-term receivables, investments in associated corporations and intangible assets.

Investments in associated companies, where the Corporation has the ability to exercise significant influence, or is evidenced by ownership of between 20 percent and 50 percent of the equity, are carried on the equity basis of accounting. The Corporation's share of earnings is included in other income. Investments where the Corporation does not exercise significant influence and holds less than a 20 percent investment are accounted for using the cost method.

Intangibles include software costs, feasibility studies for investment projects and deferred financing costs and are amortized on a straight-line basis over periods of three to five years except for deferred financing costs which are amortized over the term of the associated debt instrument. Management reviews intangible assets on an ongoing basis to determine if the carrying value or estimated useful life of the intangible asset has been impaired. When the decline in the value is considered to be other than temporary, the intangible asset is written down to its recoverable amount.

Leases

Leases that transfer substantially all the benefits and inherent risks of ownership of the property leased to the Corporation are recorded as capital leases. The present value of the payments under the leases is included in capital assets and long-term debt. The leased property is amortized on a straight-line basis over its estimated life.

All other leases are classified as operating leases under which lease payments are recorded as expenses in the period in which they are incurred.

Employee Future Benefits

Employee future benefits are funded by the Corporation and obligations are determined using the projected benefit method of actuarial valuation prorated over the projected length of employee service. Past service costs, experience gains or losses and the effects of changes in plan assumptions are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group. Contributions by the Corporation to defined contribution employee future benefit plans are expensed as incurred.

Environmental Costs

The Corporation is affected by extensive environmental regulation relating to current operations and other discontinued mining operations. These regulations include requirements for future site decommissioning and restoration and reclamation. It is the Corporation's policy to meet or exceed standards set by relevant legislation or industry practice.

Environmental expenditures which increase the life or efficiency of a facility, or which reduce or prevent future contamination, are capitalized. Remediation costs relating to existing conditions, which are likely and reasonably estimable, are recorded net of anticipated recoveries in a systematic manner over the estimated life of the underlying assets. Expenditures are considered likely and reasonably estimable if required under existing legislation or regulatory assessment, or if a plan of remediation has been completed and accepted.

Environmental expenditures relating to litigation, claims or assessments arising under regulations in effect which are not reasonably estimable due to uncertainty of outcome, timing and the nature of the work to be performed are considered contingent liabilities.

Future Income Taxes

Future income taxes are recognized for differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantially enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period the change is considered substantially enacted. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Stock Option Plan

The Corporation has a stock option plan, which is described in Note 14. It is the Corporation's policy to issue stock options at the market price on the date of granting the option and no compensation expense is recorded. Any consideration received on exercise of the stock options is recorded as share capital.

Revenue Recognition

Revenue is recognized when the product is delivered to the customer or the service has been performed. For wholesale operations, revenue is recognized when the product is delivered to the customer at the plant, warehouse or terminal site or when the risks and rewards of ownership are otherwise transferred to the customer. For retail operations, revenue is recognized when a customer purchases and takes delivery of the product or service. Transportation costs are recovered from the customer through product or service pricing.

Financial Instruments

The Corporation manages its risks associated with foreign exchange and commodities with derivative instruments. Gains and losses on contracts that are designated and effective hedges are deferred and recognized in the same period as the hedged transaction. Forward foreign exchange contracts are used to manage the Corporation's exposure to fluctuations in foreign exchange, and gains or losses arising from these contracts are recognized when the contract is complete and the gain or loss is included in other income. The Corporation manages prices for its natural gas and electrical power requirements through the use of index-priced contracts with suppliers. Gains and losses on these derivative contracts are recognized as a component of cost of production when the underlying commodity being hedged is used.

Plant Turnaround Costs

Costs incurred during the temporary shutdown of a production facility for periodic scheduled maintenance are charged to production costs on a straight-line basis over the period until the next scheduled turnaround, generally one to four years.

2 CHANGE IN ACCOUNTING POLICY

In 1999, the Canadian Institute of Chartered Accountants issued a new accounting standard, 3461, *"Employee Future Benefits"*. This standard requires the recognition of expenses relating to any obligation to provide certain benefits to retired employees. The Corporation has retroactively adopted the provisions of this section, effective January 1, 2000, resulting in restatement of prior year cost of product sold, selling, general and administrative expenses, income taxes, other liabilities, future income taxes and retained earnings.

As a result of this change, at December 31, 1999, other liabilities increased $19-million, future income taxes decreased $8-million and retained earnings decreased $11-million. Net earnings decreased $2-million in each of 1999 and 1998.

3 ACQUISITION

Effective September 30, 2000, the Corporation acquired from Union Oil Company of California (Unocal), ammonia and urea production facilities in Alaska and certain nitrogen-based production and distribution assets in Washington, Oregon and California. The consideration was approximately $321-million, including working capital and other adjustments of $76-million. The consideration was settled by issuing to Unocal $50-million principal amount of six percent convertible preferred securities, due September 30, 2030, which are convertible at the discretion of the holder into the Corporation's common shares at a conversion price of $11.9677 per common share, 2.6 million of the Corporation's common shares valued at $25-million, and the remainder of $246-million in cash was provided through the Corporation's existing cash resources and short-term borrowings. In addition, the Corporation granted to Unocal a right to receive an "Earn-out" payment pursuant to which Unocal is entitled to receive, for each of the six years following the closing of the acquisition, a payment equal to 35 percent of the amount by which certain industry-recognized price commodity indices for ammonia and urea exceed certain forecasted prices for such commodities based on production capacity volumes of the Alaska production facilities acquired from Unocal.

Concurrent with the purchase from Unocal, the Corporation sold certain storage assets purchased from Unocal for proceeds of approximately $16-million. The net acquisition has been accounted for under the purchase method of accounting with the net assets acquired and liabilities assumed included in the balance sheet as at September 30, 2000, and results from operations included in the Corporation's financial statements from that date.

The purchase price was allocated to the assets acquired less liabilities assumed, based on the estimated fair value as follows:

Current assets	$ 99
Current liabilities	(23)
Working capital	76
Tangible capital assets	286
Environmental and decommissioning provisions	(41)
Consideration paid to Unocal	321
Transaction expenses	10
Disposition of storage assets	(16)
Total net assets	$ 315

The purchase consideration paid to Unocal together with future payments under the Earn-out arrangement are subject to final allocation upon completion of an independent appraisal.

The following unaudited pro forma financial information combines the consolidated results of operations of the Corporation and Unocal as if the acquisition had occurred on January 1, 2000, and January 1, 1999. This pro forma financial information does not necessarily reflect the results of operations as they would have been if the Corporation had purchased Unocal during such periods and is not necessarily indicative of results that may be obtained in the future.

	2000	1999
Net sales	**$ 2,143**	$ 1,982
Net earnings in accordance with Canadian GAAP	**86**	41
Basic earnings per share in accordance with Canadian GAAP	**$ 0.67**	$ 0.27
Net earnings in accordance with U.S. GAAP	**74**	30
Basic earnings per share in accordance with U.S. GAAP	**$ 0.66**	$ 0.27

4 ACCOUNTS RECEIVABLE

	2000	1999
Trade accounts	**$ 254**	$ 238
Rebates and other non-trade accounts	**34**	41
	288	279
Allowance for doubtful accounts	**(13)**	(11)
	$ 275	268

A subsidiary of the Corporation has entered into an agreement with a financial institution to sell, on an ongoing basis, an undivided percentage interest in a designated pool of North American receivables, on a non-recourse basis, in an amount not to exceed $125-million. This subsidiary is designated as a special-purpose, bankruptcy remote subsidiary so that in the event the Corporation was involved in bankruptcy proceedings this entity would not be consolidated as part of the Corporation. On an ongoing basis, certain of the Corporation's U.S. subsidiaries sell their accounts receivable balances net of allowances to this subsidiary and, in turn, this subsidiary will sell an eligible amount of those receivables to the financial institution.

In December 2000, this program was increased from $75-million in North America Retail receivables, to $125-million including both North America Retail and North America Wholesale receivables. At December 31, 2000, $91-million (1999 – $64-million) in receivables had been sold under this program. Fee and expense payments related to this program totalled $4-million in 2000 (1999 – $3-million; 1998 – $3-million).

5 INVENTORIES

	2000	1999
Fertilizers and chemicals	**$ 279**	$ 197
Operating supplies	**44**	43
Raw materials	**24**	16
	$ 347	$ 256

Fertilizers and chemicals include both the Corporation's produced product or work in process from its wholesale production facilities and inventory at its retail farm centers purchased from third party vendors. Operating supplies include catalyst used in the wholesale production process, materials used for maintenance and repairs and other supplies. Raw materials consist primarily of phosphate rock, which has been mined but not used in the production process.

6 CAPITAL ASSETS

	2000			1999
	Cost	*Accumulated Depreciation, Depletion and Amortization*	*Net Book Value*	*Net Book Value*
Land	**$ 37**	**$ –**	**$ 37**	$ 29
Buildings and improvements	**462**	**110**	**352**	166
Building under capital lease	**15**	**1**	**14**	15
Machinery and equipment	**1,459**	**722**	**737**	699
Resource properties	**39**	**16**	**23**	22
Construction in progress	**321**	**–**	**321**	218
	$ 2,333	**$ 849**	**$ 1,484**	$ 1,149

Included in construction in progress, is interest capitalized during 2000 of $20-million (1999 – $16-million) primarily on the Profertil facility.

7 OTHER ASSETS

	2000	1999
South American value-added tax and other costs	**$ 86**	$ 58
Receivable under environmental indemnity agreement	**12**	12
Long-term receivables	**26**	14
Long-term investments	**11**	10
Information system costs	**2**	8
Other	**13**	13
	$ 150	$ 115

The long-term portions of value-added taxes are related to the investment in retail in South America and the Corporation's share of the Profertil nitrogen facility construction. Value-added taxes are accumulated on the balance sheet, as costs are incurred and recovered against future income taxes payable once profitability is achieved.

8 GOODWILL

	2000	1999
Cost	**$ 67**	$ 67
Accumulated amortization	**18**	15
	$ 49	$ 52

Included in depreciation and amortization in the statement of operations for 2000 is amortization of goodwill of $3-million (1999 – $4-million; 1998 – $4-million).

9 BANK INDEBTEDNESS

	2000	1999
Short-term financing (a)	**$ 163**	$ –
Profertil bridge financing (b)	**145**	149
Commercial paper borrowing facility (c)	**–**	30
	$ 308	$ 179

The weighted average interest rate for bank indebtedness in 2000 was 8 percent (1999 – 7 percent, 1998 – 5 percent).

(a) Short-term Financing

The Corporation has $200-million short-term financing which was used to purchase the Unocal assets. This facility expires April 30, 2001. Interest rates on this facility are either the London interbank offered rate (LIBOR) or a base rate established by the bank plus variable spreads, at the election of the Corporation.

(b) Profertil S.A.

In February 1999, Profertil completed a bridge financing of up to $285-million with a maturity of March 30, 2001, to finance the construction of the $600-million urea and ammonia production facility. The Corporation has guaranteed 50 percent of total amounts outstanding under the bridge facility. The Corporation's share of amounts outstanding under the bridge facility was $143-million at December 31, 2000 (1999 – $143-million).

Profertil has entered into a syndicated credit agreement for the permanent long-term financing of the project. The Corporation has guaranteed 50 percent of the amounts outstanding under this facility until completion guarantees on the plant have been released, at which time the facility will become non-recourse.

Profertil utilizes limited short-term borrowings from local financial institutions at prevailing interest rates to meet cash requirements in excess of the bridge facility. The Corporation's share of amounts outstanding was $2-million at December 31, 2000 (1999 – $6-million).

(c) Agrium Inc.

The Corporation has an unsecured four-year term loan facility of $100-million with a Canadian chartered bank. Interest rates on this term loan facility are at either the LIBOR or a base rate established by the bank plus variable spreads, at the election of the Corporation. Additional lines of credit include a C$35-million or $25-million demand operating loan facility. Interest rates on this demand operating loan facility are based on the prevailing bankers acceptance rates plus a spread, or at commercial rates plus a commission. The Corporation also has a commercial paper borrowing facility of C$150-million, or its equivalent in U.S. dollars. The paper is rated investment-grade by the two Canadian rating agencies and bears interest at prevailing market rates. The loan agreements require the Corporation to maintain certain financial ratios and other covenants.

(d) Agrium U.S. Inc.

The Corporation's wholly-owned subsidiary, Agrium U.S. Inc., has a base revolving credit facility of up to $75-million which expires December 5, 2005. This facility is guaranteed by the Corporation and requires the Corporation to maintain certain financial ratios and to comply with other covenants.

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2000	1999
Trade accounts payable	**$ 146**	$ 163
Accrued liabilities	**67**	38
Deferred hedging gains *(Note 18)*	**75**	–
Payroll and related taxes	**50**	40
Accrued interest payable	**10**	10
Dividends payable	**7**	6
Customer rebates	**10**	9
Other	**5**	1
	$ 370	$ 267

11 LONG-TERM DEBT

	2000	1999
Unsecured senior notes (a)	**$ 175**	$ 175
Unsecured notes and debentures (b)	**300**	300
Capital lease obligation (c)	**15**	16
Other	**18**	7
	508	498
Principal repayments due within one year	**1**	1
	$ 507	$ 497

(a) The unsecured senior notes were issued in two tranches: $75-million at a coupon rate of 6.86 percent maturing December 29, 2007, with five equal annual principal repayments beginning December 29, 2003; and $100-million at a coupon rate of 7.06 percent maturing December 29, 2010, with seven equal annual principal repayments beginning December 29, 2004. These notes are guaranteed by Agrium U.S. Inc., which is a subsidiary of the Corporation. The notes require the Corporation to maintain certain financial ratios and meet other covenants.

(b) The Corporation has long-term unsecured financing comprised of $75-million 7.0 percent notes due 2004, $100-million 7.7 percent debentures due 2017 and $125-million 7.8 percent debentures due 2027. These notes and debentures require the Corporation to meet certain covenants.

(c) The capital lease obligation is comprised of the corporate head office building lease (Note 6) which is denominated in Canadian dollars, bears interest at seven percent and expires in March 2019. Total payments, including principal and interest, to be paid over the remainder of the lease are $27-million, of which $12-million represents interest. Annual payments in each of the next five years are included in Note 16, Commitments.

12 OTHER LIABILITIES

	2000	1999
Site restoration and reclamation (a)	**$ 89**	$ 51
Employee future benefits (b)		
Pensions	**5**	3
Post-retirement benefits	**23**	19
Other	**3**	3
	$ 120	$ 76

(a) Site Restoration and Reclamation

The Corporation has recorded provisions for restoration and reclamation at various sites based on estimated expenditures where existing conditions allow these costs to be reasonably estimable. During 2000, the Corporation accrued $43-million (1999 – $5-million; 1998 – $4-million) for anticipated future expenditures. This amount includes $41-million recorded upon the acquisition of Unocal's fertilizer assets relating to known restoration and reclamation liabilities. The remaining $2-million relates to the Corporation's other sites and was expensed.

Expenditures relating to restoration and reclamation were $5-million in 2000 (1999 – $2-million) and were expensed or charged against provisions recorded in previous years.

(b) Employee Future Benefits

The Corporation maintains both defined benefit and defined contribution pension plans in Canada and in the United States, which are both contributory and non-contributory with regard to participants. The majority of salaried and hourly employees are members of the defined contribution pension plan. The Corporation also maintains certain contributory health care plans and life insurance benefits for retired employees. Benefits from defined benefit plans are based on either years of service and compensation or a rated amount for each year of service. The employee future benefit costs are determined annually by independent actuaries and include current service costs and a provision for the amortization of prior service costs. Employee future benefit costs for current service are charged to earnings in the year incurred. The liability for past service is charged to earnings over the remaining service lives of the employees.

The Corporation has additional defined benefit and defined contribution retirement income plans for senior management, which are non-contributory and provide a supplementary pension benefit. The plans are provided for by annual charges to earnings sufficient to meet the projected benefit obligations.

The components of net employee future benefits expense for the Corporation's defined benefit plans are computed actuarially as follows:

	2000	1999	1998
Defined benefit plans			
Service cost for benefits earned during the year	**$ 3**	$ 3	$ 3
Interest cost on projected benefit obligations	**5**	4	4
Expected return on plan assets	**(5)**	(5)	(5)
Net amortization and deferral	**1**	1	1
Net expense	**4**	3	3
Post-retirement plans			
Service cost for benefits earned during the year	**1**	1	1
Interest cost on projected benefit obligations	**2**	2	1
Net expense	**3**	3	2
Defined contribution plans	**7**	6	6
Total expense	**$ 14**	$ 12	$ 11

Significant actuarial assumptions used in calculating the net pension expense for the Corporation's defined benefit plans were as follows:

	2000	1999	1998
Pension plans			
Discount rate (%)	**7**	8	7
Long-term rate of return on assets (%)	**8**	8	9
Rate of increase in compensation levels (%)	**5**	5	5
Other post-retirement plans			
Discount rate (%)	**7**	7	7
Health care cost trend rate (%)	**8**	9	8

If the health care cost trend rate was increased or decreased by one percent, the accumulated post-retirement benefit obligation and the aggregate of service and interest cost would have increased or decreased by $1-million respectively.

The changes in accumulated benefit obligations and change in plan assets for the defined benefit pension and post-retirement benefits are outlined as follows:

	Pension Plans		*Post-retirement Benefit Plans*	
	2000	1999	**2000**	1999
Change in benefit obligations				
Balance, beginning of year	**$ 77**	$ 69	**$ 21**	$ 16
Interest and service cost	**8**	7	**3**	3
Acquisitions	**3**	–	**–**	–
Actuarial (loss) gain	**(3)**	2	**(1)**	2
Contractual benefits	**–**	2	**–**	–
Benefits paid	**(4)**	(3)	**–**	–
Balance, end of year	**$ 81**	$ 77	**$ 23**	$ 21
Change in plan assets				
Fair value, beginning of year	**$ 73**	$ 70	**$ –**	$ –
Actual return on plan assets	**6**	3	**–**	–
Employer contributions	**5**	3	**–**	–
Benefits paid	**(6)**	(3)	**–**	–
Fair value, end of year	**$ 78**	$ 73	**$ –**	$ –
Unfunded status	**3**	4	**23**	21
Unrecognized net (loss) gain	**2**	(1)	**–**	(2)
Accrued employee future benefits	**$ 5**	$ 3	**$ 23**	$ 19

The plans' assets consist primarily of corporate equities; corporate and government bonds and debentures; and cash.

13 INCOME TAXES

The significant components of future income tax assets and liabilities at December 31 are as follows:

	2000	1999
Debt retirement and other financing	**$ 9**	$ 14
Site restoration and reclamation	**29**	14
Loss carry-forwards expiring through 2007	**20**	10
Employee post-retirement benefits	**7**	8
Other	**7**	5
Future income tax assets before valuation allowance	**72**	51
Valuation allowance	**(7)**	(4)
Future income tax assets, net of valuation allowance	**65**	47
Depreciation, depletion and amortization	**207**	178
Deferred income	**42**	24
Other	**13**	9
Future income tax liabilities	**262**	211
Net future income tax liabilities	**$ 197**	$ 164

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rate of 45 percent (1999 – 45 percent; 1998 – 45 percent) were the following:

	2000	1999	1998
Earnings before income tax:			
Canadian	**$ 48**	$ 20	$ 119
Foreign	**78**	74	69
	$ 126	$ 94	$ 188
Statutory rate	**45%**	45%	45%
Income tax at statutory rates	**57**	42	85
Differences in foreign tax rates	**(15)**	(10)	(10)
Manufacturing and processing allowance	**(2)**	1	(5)
Other	**4**	(1)	(1)
Income tax provision	**$ 44**	$ 32	$ 69
Current:			
Canadian	**$ (5)**	$ 35	$ 57
Foreign	**14**	25	19
	9	60	76
Future:			
Canadian	**27**	(28)	(12)
Foreign	**8**	–	5
	35	(28)	(7)
	$ 44	$ 32	$ 69

14 SHARE CAPITAL

	2000		1999		1998	
	Shares	*Amount*	*Shares*	*Amount*	*Shares*	*Amount*
Common shares (millions)						
Issued and outstanding, beginning of year	**112**	**$ 347**	115	$ 359	126	$ 389
Repurchased for cash	**–**	**–**	(3)	(12)	(12)	(35)
Issued on exercise of stock options	**–**	**3**	–	–	1	5
Issued on purchase of Unocal assets	**3**	**25**	–	–	–	–
Issued and outstanding, end of year	**115**	**$ 375**	112	$ 347	115	$ 359
Preferred securities (millions)						
Issued and outstanding, beginning of year	**7**	**$ 171**	7	$ 171	–	$ –
Issued for cash	**–**	**–**	–	–	7	175
Preferred securities issue costs (net of tax)	**–**	**–**	–	–	–	(4)
Issued on purchase of Unocal assets	**2**	**50**	–	–	–	–
Issued and outstanding, end of year	**9**	**$ 221**	7	$ 171	7	$ 171
Total	**124**	**$ 596**	119	$ 518	122	$ 530

The Corporation has two classes of preferred securities issued and outstanding:

(a) $175-million, unsecured eight percent preferred securities due June 30, 2047
The charges on these securities are payable quarterly in arrears and the Corporation has the ability to defer the charges for up to 20 consecutive periods, subject to certain restrictions. The preferred securities are redeemable at the option of the Corporation, in whole or in part, on or after April 22, 2003, at the principal amount plus accrued and unpaid charges (the redemption price) to the date of redemption. The Corporation may, at its option, pay the redemption price or any deferred quarterly charges in cash or by delivering common shares to a trustee for subsequent sale.

(b) $50-million, six percent convertible preferred securities due September 30, 2030
This class was issued on September 29, 2000, in connection with the acquisition of Unocal assets. The convertible preferred securities are convertible at the discretion of the holder into the Corporation's common shares at a conversion price of $11.9677 per common share. The Corporation has the right to defer, at any time subject to certain conditions, payments of charges on the securities by extending the payment period for up to 20 consecutive quarterly periods. The Corporation may redeem the securities, in whole but not in part, at any time on or after September 30, 2003, at a redemption price equal to 103 percent of the principal amount of the securities plus accrued and unpaid charges.

The Corporation has the right to issue common shares and use the proceeds to settle the deferred interest, principal and redemption payments and consequently, both the eight percent preferred securities and six percent convertible preferred securities are classified as equity under Canadian GAAP.

Stock Option Plan
The Corporation has a stock option plan under which the Board of Directors may grant options to acquire common shares to its directors, officers and employees. At December 31, 2000, the Board of Directors was authorized to grant options on up to approximately nine million (1999 – eight million) common shares on which approximately seven million (1999 – six million) options had been granted. The exercise price of each option equals the market price of the Corporation's common shares on the last business day prior to the date of grant and an option's maximum term is 10 years. Options are granted throughout the year and vest and become exercisable equally over a four-year period, commencing one year after the grant date. In addition, under this plan the Board of Directors has resolved to grant options to directors and officers of the Corporation on the basis of one option for each common share acquired by the director or officer in the open market with the exercise price of each option equal to the purchase price paid for the original share. These options lapse if the participant does not hold 100 percent of the purchased shares on the first anniversary date, 75 percent on the second anniversary date, 50 percent on the third anniversary date or 25 percent on the fourth anniversary date.

Stock option transactions for the respective years were as follows:

	2000		1999		1998	
	Options Outstanding (millions)	***Weighted Avg. Exercise Price (C$)***	*Options Outstanding (millions)*	*Weighted Avg. Exercise Price (C$)*	*Options Outstanding (millions)*	*Weighted Avg. Exercise Price (C$)*
Outstanding, beginning of year	**6**	**$ 16.40**	5	$ 17.62	5	$ 16.58
Granted	**1**	**12.47**	1	12.53	1	18.94
Exercised	**–**	**16.38**	–	11.18	(1)	11.25
Outstanding, end of year	**7**	**15.52**	6	16.40	5	17.62
Exercisable, end of year	**4**	**$ 17.11**	3	$ 17.20	2	$ 16.48

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices (C$)	*Number Outstanding (millions)*	*Weighted Avg. Remaining Contractual Life (Years)*	*Weighted Avg. Exercise Price (C$)*	*Number Exercisable (millions)*	*Weighted Avg. Exercise Price (C$)*
1.92 to 12.00	2	8	$ 11.53	1	$ 10.77
12.21 to 13.15	1	8	12.84	–	12.93
13.50 to 18.65	3	7	18.05	2	18.57
18.80 to 22.15	1	7	19.70	1	19.95
1.92 to 22.15	7	7	$ 15.52	4	$ 17.11

Shareholders' Rights Plan

The Corporation has a shareholders' rights plan under which one right is issuable for each outstanding common share. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. The shareholders' rights plan expires in May 2001 and the Corporation intends to request shareholder approval for a new shareholders' rights plan at the annual meeting in May 2001.

15 EARNINGS PER COMMON SHARE

	2000	1999	1998
Earnings per share			
Basic	**$ 0.65**	$ 0.47	$ 0.94
Fully diluted	**$ 0.63**	$ 0.46	$ 0.92
Supplementary fully diluted	**$ 0.63**	$ 0.45	$ 0.83
Diluted (a) (Effective 2001)	**$ 0.62**	$ 0.46	$ 0.87
Weighted average shares			
Basic	**112**	113	120
Fully diluted	**120**	118	125
Supplementary fully diluted	**132**	141	145
Diluted (a) (Effective 2001)	**132**	133	136

The supplementary diluted earnings per share calculation assumes that the principal amount of preferred securities was settled through the issuance of common shares at market price on December 31, 2000, 1999 and 1998. The imputed interest rate used to calculate fully diluted earnings per share is the average rate of interest earned by the Corporation on its cash and cash-equivalents of 6 percent (1999 – 5 percent; 1998 – 5 percent).

(a) In 2000, the Canadian Institute of Chartered Accountants issued a new accounting standard, 3500, *"Earnings Per Share"*. The new standard requires the treasury stock method for calculating diluted earnings per share. Under this method all options whose average price is less than or equal to the average share price for the year are considered outstanding and all convertible securities are converted at the average share price during the period. This method no longer requires the calculation of supplementary fully diluted earnings per share. The Corporation has adopted this section effective January 1, 2001.

16 COMMITMENTS

	2001	2002	2003	2004	2005
Operating expenses					
Operating commitments	$ 39	$ 29	$ 26	$ 24	$ 24
Natural gas, sulphuric acid, power and other payments	576	246	200	116	107
Profertil natural gas and other *(Note 19)*	18	18	17	15	15
	633	293	243	155	146
Other					
Profertil construction joint venture *(Note 19)*	10	–	–	–	–
Long-term debt and capital lease repayments	1	1	16	105	30
	11	1	16	105	30
Total	$ 644	$ 294	$ 259	$ 260	$ 176

The operating commitments consist primarily of short-term leases for rail cars and contractual commitments at distribution facilities in North America Wholesale, vehicles and application equipment in North America Retail and office equipment and property leases throughout the Corporation's operations. The commitment represents the minimum payments in each of the next five years under each agreement. Operating lease payments expensed in 2000 were $25-million (1999 – $23-million; 1998 – $18-million).

The Corporation has also entered into a number of agreements with suppliers to guarantee supply for raw material requirements in the production processes at its wholesale facilities. Amongst these are a number of long-term fixed base-price natural gas agreements at the Kenai and Profertil facilities which are included in the commitments based on the minimum obligations under these contracts. Additionally, the Corporation's minimum commitments for North American natural gas purchases not under fixed base price contracts are calculated using the prevailing New York Mercantile Exchange (NYMEX) forward prices at December 31, 2000.

The Kenai facility has a reserve-based natural gas purchase contract with Unocal that expires July 1, 2009. The delivery price formula is based on a fixed price that is adjusted by the previous year's average Green Markets spot U.S. Gulf Coast ammonia price. The adjustment is made on July 1 each year if the average ammonia price exceeds or drops below defined Gulf Coast ammonia prices set in the agreement for the previous 12 months; otherwise only the base price applies for the next year.

Profertil has three, twelve-year natural gas purchase contracts. One is with the other 50 percent partner in the Profertil joint venture. The contracts are fixed base rate agreements where the base price for natural gas is adjusted by the quarterly average of Free On Board (FOB) Caribbean granulated urea in U.S. dollars per short ton and the quarterly average of West Texas Intermediate (WTI) U.S. dollars per barrel.

The Profertil construction joint venture commitment relates to the Corporation's 50 percent share of the final payment on the turn-key construction contract, which is due to the contractor once the facility passes commissioning tests and commercial operations are transferred to Profertil.

17 CONTINGENCIES

Contingent Purchase Price

As part of the Unocal asset acquisition, the Corporation granted to Unocal a right to receive an Earn-out payment pursuant to which Unocal is entitled to receive, for each of the six years following the closing of the acquisition, a payment equal to 35 percent of the amount by which defined New Orleans Louisiana (NOLA) ammonia and urea prices exceed certain forecast prices for such commodities based on production capacity volumes of the Alaska production facilities acquired from Unocal. At December 31, the Corporation's financial statements include $5-million payable to Unocal under this arrangement. This amount is included in accounts payable and accrued liabilities and is recorded as part of the cost to acquire the Unocal fertilizer assets.

Environmental

The Corporation also has contingent liabilities in respect of existing operations and discontinued mining activity of predecessor corporations. These liabilities arise from continuing changes to regulations in effect at the time the liabilities were incurred and are the subject of ongoing study and negotiation with various regulatory authorities. The amounts are not reasonably estimable, due to uncertainty as to the final outcome of the negotiations, the absence of an agreed plan of remediation, identification of where the ultimate liability may rest and the timing of when the expenditures may be incurred.

Stock Appreciation Rights

The Corporation approved a Stock Appreciation Rights (SAR) plan for employees in certain business segments. Under this plan, each eligible employee is granted SARs which provide for payment of a cash award based upon the appreciation in value of the Corporation's common stock, to certain guaranteed levels for 20 consecutive trading days on the New York Stock Exchange (NYSE), over a five-year term expiring on May 4, 2004. The employees receive cash for the SARs equal to their intrinsic value, being the difference between the SARs base price and their market value at the time the specified level is achieved. At December 31, 2000, no payments were required under this plan. The payments, when required, will be recorded as an expense. The potential expense, based on SARs outstanding at December 31, 2000, would be $2-million if the share price reached $15, an additional $4-million if the share price reached $22.50, an additional $8-million if the share price reached $33.75 and an additional $13-million if the share price reached $50.

18 FINANCIAL INSTRUMENTS

The Corporation is subject to the risks and uncertainties inherent in the fertilizer business. Financial results are subject to fluctuations in fertilizer prices, foreign exchange rates, natural gas and other raw material supply prices over which it has limited control. In addition, the Corporation is subject to normal credit risks as well as the risks of conducting business in an international environment.

The Corporation monitors and, when appropriate, utilizes financial instruments to manage its exposure to certain of these risks as described below. Market risk related to these financial instruments should be substantially offset by changes in the valuation of the underlying items being hedged. The Corporation deals only with major financial institutions, in order to mitigate risk.

Foreign Exchange

The Corporation is exposed to foreign exchange rate fluctuations on its Canadian dollar cash flow. In order to manage this risk the Corporation enters into derivative contracts. The contracts are designated as hedges of fixed obligations in Canadian dollars and hedges of net Canadian currency positions. At December 31, 2000, the Corporation had sold forward $19-million at an average rate of $1.4682 (1999 – $48-million at an average rate of $1.4702). The contracts have maturity dates ranging from January 25, 2001, to October 25, 2001. The unrealized gain and fair value of these contracts at December 31, 2000, was nil (1999 – $1-million).

Natural Gas Supply Prices

The Corporation manages its North American exposure to fluctuations in natural gas prices though the use of index-priced contracts with suppliers (Note 16). As part of this process, the Corporation has entered into natural gas derivative contracts, under which it receives or makes payments based on the difference between a fixed and a published index price and the current market price for natural gas. At December 31, 2000, the Corporation had contracts with financial institutions and brokers on approximately 26 million MMBtu at an average price of $2.44 per MMBtu representing approximately 123,000 MMBtu per day from April through October 2001 (1999 – 88 million MMBtu at an average price of $2.24). The carrying values and fair values of these natural gas derivative contracts as at December 31, 2000, were nil and $82-million respectively (1999 – nil and $16-million). If the contracts were settled on December 31, 2000 the Corporation would have been owed $83-million from third parties and owed third parties $1-million. The fair value represents the approximate amount the Corporation would pay or receive to terminate the contracts based on the prevailing NYMEX forward prices at December 31, 2000.

During December 2000 the Corporation closed contracts representing approximately 12 million MMBtu at an average gas price of $2.54 for total proceeds of $75-million. This represents approximately 125,000 MMBtu per day from January through March 2001. This benefit is being deferred and recorded in accounts payable and will be recognized against the cost of gas purchased for first quarter production requirements.

Fair Value of Financial Instruments

The fair value of long-term debt, including the current portion, at December 31, 2000, was $450-million (1999 – $450-million). The fair value of preferred securities at December 31, 2000, was $180-million (1999 – $137-million). This estimate is based on the quoted market price of these or similar issues or by discounting expected cash flows at the rates currently offered to the Corporation for debt and securities of the same remaining maturities.

The fair value of each class of other financial instruments, including cash and short-term investments, accounts receivable, accounts payable, advances and loans and bank indebtedness, approximates its carrying value due to their short-term maturity.

Credit Risk

The Corporation is subject to credit risk through trade receivables and short-term investments. Although a substantial portion of its debtor's ability to pay is dependent upon the agribusiness economic sector, a large customer base and its geographic dispersion reduce credit risk with respect to trade receivables.

Short-term cash investments are placed with financial institutions and in short-term corporate and government debt securities. The Corporation has a policy designed to limit the amount of credit exposure in any one type of investment instrument.

19 JOINT VENTURE OPERATIONS

The Corporation has a 50 percent interest in the Profertil nitrogen joint venture project which is accounted for using the proportionate consolidation method. A summary of the Corporation's proportionate interest in the joint venture at December 31 is as follows:

	2000	1999
Balance sheets		
Cash and cash-equivalents	**$ –**	$ 1
Accounts receivable	**11**	12
Inventories	**3**	4
Capital assets	**256**	195
Other assets	**58**	44
	328	256
Bank indebtedness *(Note 9)*	**145**	149
Accounts payable and accrued liabilities	**13**	37
Long-term debt	**15**	4
	173	190
Investment in joint venture	**$ 155**	$ 66
Statements of operations		
Net sales	**$ 12**	$ 3
Expenses	**16**	3
Net loss	**$ (4)**	$ –
Statements of cash flows		
Operating activities	**$ (2)**	$ (16)
Investing activities	**(99)**	(176)
Financing activities	**100**	191
Decrease in cash and cash-equivalents	**$ (1)**	$ (1)

Commitments presented in Note 16 include the Corporation's 50 percent share in the commitments of the joint venture.

20 SEGMENTED INFORMATION

The Corporation's activities are divided geographically and then by functional area into five reportable segments. The four operating segments are North America Wholesale, North America Retail, South America Wholesale and South America Retail. Wholesale comprises the production and sales of the four primary nutrients: nitrogen, phosphate, potash and sulphur. Retail comprises the sales of fertilizers, chemicals, seed, application and agronomic services. The fifth non-operating segment is Other, which includes corporate overhead and inter-segment eliminations. Net sales between geographic regions are accounted for at prices which approximate fair market value and are eliminated on consolidation.

The Corporation has retroactively segmented the South America business activities into South America Retail and South America Wholesale in anticipation of increased activity in South America Wholesale in 2001.

Segmented Net Sales, Expenses, Assets and Capital Expenditures

2000

	North America		South America			
	Wholesale	*Retail*	*Wholesale*	*Retail*	*Other*	*Total*
Net sales:						
External customers	**$ 982**	**$ 815**	**$ 7**	**$ 69**	**$ –**	**$ 1,873**
Internal customers	**63**	**–**	**5**	**–**	**(68)**	**–**
Total net sales	**1,045**	**815**	**12**	**69**	**(68)**	**1,873**
Cost of product	**767**	**568**	**10**	**50**	**(69)**	**1,326**
Gross profit	**278**	**247**	**2**	**19**	**1**	**547**
Expenses:						
Selling, general and administrative	**30**	**186**	**4**	**14**	**19**	**253**
Depreciation, depletion and amortization	**71**	**20**	**1**	**5**	**10**	**107**
Other (income) expense – net	**11**	**(6)**	**1**	**1**	**17**	**24**
Earnings before interest and taxes	**$ 166**	**$ 47**	**$ (4)**	**$ (1)**	**$ (45)**	**$ 163**
Total assets	**$ 2,281**	**$ 340**	**$ 332**	**$ 120**	**$ (702)**	**$ 2,371**
Capital expenditures	**$ 94**	**$ 17**	**$ 62**	**$ 1**	**$ 5**	**$ 179**

1999

	North America		South America			
	Wholesale	*Retail*	*Wholesale*	*Retail*	*Other*	*Total*
Net sales:						
External customers	$ 828	$ 794	$ 34	$ 60	$ –	$ 1,716
Internal customers	59	–	–	–	(59)	–
Total net sales	887	794	34	60	(59)	1,716
Cost of product	656	556	28	48	(61)	1,227
Gross profit	231	238	6	12	2	489
Expenses:						
Selling, general and administrative	36	176	6	14	13	245
Depreciation, depletion and amortization	56	22	–	7	8	93
Other (income) expense – net	11	(3)	(1)	(2)	15	20
Earnings before interest and taxes	$ 128	$ 43	$ 1	$ (7)	$ (34)	$ 131
Total assets	$ 1,680	$ 299	$ 258	$ 126	$ (404)	$ 1,959
Capital expenditures	$ 80	$ 18	$ 132	$ 1	$ 3	$ 234

1998

	North America		South America			
	Wholesale	*Retail*	*Wholesale*	*Retail*	*Other*	*Total*
Net sales:						
External customers	$ 934	$ 821	$ –	$ 50	$ –	$ 1,805
Internal customers	59	–	–	–	(59)	–
Total net sales	993	821	–	50	(59)	1,805
Cost of product	661	585	–	37	(59)	1,224
Gross profit	332	236	–	13	–	581
Expenses:						
Selling, general and administrative	46	178	–	15	17	256
Depreciation, depletion and amortization	55	23	–	6	8	92
Other (income) expense – net	5	(1)	–	1	–	5
Earnings before interest and taxes	$ 226	$ 36	$ –	$ (9)	$ (25)	$ 228
Total assets	$ 1,723	$ 327	$ 62	$ 118	$ (447)	$ 1,783
Capital expenditures	$ 88	$ 20	$ 55	$ 10	$ 1	$ 174

Net Sales and Gross Profit by Business Segment and Product Line

	2000			1999			1998		
	Net Sales	*Cost of Sales*	*Gross Profit*	*Net Sales*	*Cost of Sales*	*Gross Profit*	*Net Sales*	*Cost of Sales*	*Gross Profit*
North America Wholesale									
Nitrogen:									
Ammonia	**$ 246**	**$ 173**	**$ 73**	$ 165	$ 133	$ 32	$ 197	$ 135	$ 62
Urea	**299**	**216**	**83**	200	155	45	238	149	89
Other	**92**	**76**	**16**	57	46	11	66	48	18
	637	**465**	**172**	422	334	88	501	332	169
Phosphate	**196**	**177**	**19**	255	195	60	262	187	75
Potash	**151**	**81**	**70**	145	80	65	160	91	69
Sulphate and other products	**61**	**44**	**17**	65	47	18	70	51	19
	1,045	**767**	**278**	887	656	231	993	661	332
North America Retail									
Fertilizers	**352**	**254**	**98**	357	257	100	377	277	100
Chemicals	**358**	**267**	**91**	345	260	85	361	273	88
Other products and services	**105**	**47**	**58**	92	39	53	83	35	48
	815	**568**	**247**	794	556	238	821	585	236
South America Wholesale									
Fertilizers	**12**	**10**	**2**	34	28	6	–	–	–
South America Retail									
Fertilizers	**47**	**32**	**15**	46	34	12	33	27	6
Other products and services	**22**	**18**	**4**	14	14	–	17	10	7
	69	**50**	**19**	60	48	12	50	37	13
Other	**(68)**	**(69)**	**1**	(59)	(61)	2	(59)	(59)	–
Total	**$ 1,873**	**$ 1,326**	**$ 547**	$ 1,716	$ 1,227	$ 489	$ 1,805	$ 1,224	$ 581

Net Sales by Market Destination and Assets by Country

	2000			1999			1998		
	Net Sales	*Capital Assets*	*Goodwill*	*Net Sales*	*Capital Assets*	*Goodwill*	*Net Sales*	*Capital Assets*	*Goodwill*
Canada	**$ 423**	**$ 586**	**$ –**	$ 383	$ 606	$ –	$ 439	$ 521	$ –
United States	**1,249**	**615**	**49**	1,167	317	52	1,256	334	55
Argentina	**76**	**283**	**–**	94	226	–	51	96	–
Other	**125**	**–**	**–**	72	–	–	59	–	–
	$ 1,873	**$ 1,484**	**$ 49**	$ 1,716	$ 1,149	$ 52	$ 1,805	$ 951	$ 55

21 DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Corporation's consolidated financial statements are prepared in accordance with Canadian GAAP. These principles differ in certain respects from those applicable under U.S. GAAP. The approximate impact of these differences on the Corporation's financial statements is summarized below:

Consolidated Statements of Operations

	2000	1999	1998
Net earnings – Canadian GAAP	**$ 82**	$ 62	$ 119
Adjustments net of tax:			
Deferred start-up costs (a)	**–**	(3)	–
Preferred securities charges (b)	**(9)**	(8)	(6)
Other	**(1)**	3	1
Net earnings – U.S. GAAP	**$ 72**	$ 54	$ 114
Other comprehensive income:			
Translation adjustments	**(23)**	30	(34)
Comprehensive income – U.S. GAAP (d)	**$ 49**	$ 84	$ 80
Earnings per common share – U.S. GAAP			
Basic	**$ 0.64**	$ 0.46	$ 0.95
Diluted	**$ 0.61**	$ 0.46	$ 0.91

Consolidated Statements of Cash Flow

	2000	1999	1998
Operating – Canadian GAAP	**$ 256**	$ 160	$ 283
Deferred start-up costs (a)	**–**	(3)	–
Preferred securities charges paid (b)	**(9)**	(8)	(6)
Other	**–**	–	1
Operating – U.S. GAAP	**$ 247**	$ 149	$ 278
Investing – Canadian GAAP	**$ (463)**	$ (263)	$ (137)
Other assets (a) (b)	**–**	3	(6)
Other	**–**	–	(1)
Investing – U.S. GAAP	**$ (463)**	$ (260)	$ (144)
Financing – Canadian GAAP	**$ 121**	$ 94	$ (42)
Preferred securities (b)	**–**	–	(169)
Issue of long-term debt (b)	**–**	–	175
Preferred securities charges paid (b)	**9**	8	6
Financing U.S. GAAP	**$ 130**	$ 102	$ (30)
Cash and cash-equivalents – end of year			
Canadian and U.S. GAAP	**$ 18**	$ 104	$ 113

Consolidated Balance Sheets

As discussed in (b) below, a significant difference between Canadian and U.S. GAAP on balance sheet items relates to preferred securities, which are not considered equity instruments for U.S. GAAP due to the redemption feature. Under U.S. GAAP at December 31 long-term debt would increase by $225-million in 2000 (1999 – $175-million), other assets would increase by $6-million in 2000 (1999 – $6-million), future income taxes would increase by $2-million in 2000 (1999 – $2-million), and shareholders' equity would decrease by $221-million in 2000 (1999 – $171-million). The remaining balance sheet items under U.S. GAAP are not materially different from balances under Canadian GAAP.

Description of Significant Differences

(a) Prior to 2000, expenditures incurred by the Corporation during start-up of a new facility prior to commencement of commercial operations were capitalized in accordance with Canadian GAAP. Under U.S. GAAP, in accordance with Statement of Position 98-5, Reporting on the Costs of Start-Up Activities, all such expenditures must be expensed. In March 2000, Accounting Guideline 11 was issued by the Canadian Institute of Chartered Accountants, which eliminated this difference resulting in consistent treatment of these types of expenditures on a prospective basis.

(b) As disclosed in Note 14, the Corporation has included the preferred securities, net of issue costs, as part of shareholders' equity in accordance with Canadian GAAP. Under U.S. GAAP, the preferred securities would be classified as long-term debt and, accordingly, the annual carrying charges would be recognized as an expense.

(c) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-based Compensation, establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As permitted by the statement, the Corporation has elected to continue to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board Opinion 25. Since all options were granted with exercise prices equal to the market price at the date of grant, no compensation cost has been charged to operations.

(d) SFAS No. 130 requires the reporting of comprehensive income in addition to net earnings. Comprehensive income includes net income plus other comprehensive income; specifically, all changes in equity of a company during a period arising from transactions and other events from non-owner sources.

2001 Adoption of SFAS 133

SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137 and SFAS 138, is effective for the Corporation as of January 1, 2001. SFAS 133 requires that the Corporation recognizes all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. The majority of the Corporation's derivative instruments are hedging exposure to variable future cash flows of natural gas requirements and will meet all requirements to qualify for hedge accounting treatment under the new standard. Adoption of these new accounting standards will result in a transition adjustment to increase other comprehensive income by approximately $156-million, an increase in accounts receivable of $83-million, decrease in accounts payable of $73-million, increase in other assets of $7-million and an increase in other liabilities of $7-million.

Stock-based Compensation Plans

As stated above, the Corporation has chosen to follow the intrinsic method of accounting for stock-based compensation plans. Had the company adopted the fair value method outlined in SFAS 123, the Corporation's net income and earnings per share would have been the following pro forma amounts:

	2000		1999		1998	
	As Reported	**Pro Forma**	*As Reported*	*Pro Forma*	*As Reported*	*Pro Forma*
Net earnings	**$ 72**	**$ 68**	$ 54	$ 46	$ 114	$ 107
Earnings per common share						
Basic	**$ 0.64**	**$ 0.60**	$ 0.46	$ 0.41	$ 0.95	$ 0.89

The fair value of these options has been estimated using a Black Scholes option pricing model and based on the following assumptions:

	2000	1999	1998
Expected dividend yield	**0.9%**	0.9%	0.6%
Expected stock price volatility	**42%**	35%	37%
Risk-free interest rate	**6%**	6%	5%
Expected life of the options (years)	**10**	10	10

The fair value of options granted in the years indicated was as follows: 2000 – C$7.06; 1999 – C$6.40; and 1998 – C$10.20.

Supplemental Schedules of U.S. GAAP Financial Statements

The following supplemental schedules present the summarized consolidated balance sheets, consolidated statements of operations and retained earnings, consolidated statements of comprehensive income and consolidated statements of cash flows in accordance with U.S. GAAP as adjusted for the GAAP differences described above.

Supplemental Consolidated Balance Sheets – U.S. GAAP

As at December 31	**2000**	1999
Assets		
Current assets	**$ 688**	$ 643
Capital assets	**1,484**	1,149
Other assets	**150**	116
Goodwill	**49**	52
	$ 2,371	$ 1,960
Liabilities and Shareholders' Equity		
Current liabilities	**$ 679**	$ 469
Long-term debt	**732**	672
Other liabilities	**120**	76
Deferred income taxes	**197**	164
	1,728	1,381
Shareholders' Equity		
Common shares	**375**	347
Retained earnings	**311**	252
Cumulative translation adjustment	**(43)**	(20)
	643	579
	$ 2,371	$ 1,960

Supplemental Consolidated Statements of Operations and Retained Earnings – U.S. GAAP

Years ended December 31	**2000**	1999	1998
Gross sales	**$ 1,973**	$ 1,810	$ 1,904
Direct freight	**100**	94	99
Net sales	**1,873**	1,716	1,805
Cost of product	**1,326**	1,227	1,224
Gross profit	**547**	489	581
Expenses			
Selling, general, adminstrative and other expenses	**276**	268	261
Depreciation, depletion and amortization	**109**	90	91
Earnings before interest and taxes	**162**	131	229
Interest	**52**	51	49
Earnings before income taxes	**110**	80	180
Income taxes	**38**	26	66
Net earnings	**$ 72**	$ 54	$ 114
Retained earnings, beginning of period	**$ 252**	$ 231	$ 247
Repurchase of common shares	**–**	(20)	(117)
Common share dividends declared	**(13)**	(13)	(13)
Retained earnings, end of period	**$ 311**	$ 252	$ 231

Supplemental Consolidated Statements of Comprehensive Income – U.S. GAAP

Years ended December 31	**2000**	1999	1998
Net earnings	**$ 72**	$ 54	$ 114
Other comprehensive income			
Foreign currency translation adjustments	**(23)**	30	(34)
Comprehensive income	**$ 49**	$ 84	$ 80

Supplemental Consolidated Statements of Cash Flows – U.S. GAAP

Years ended December 31	**2000**	1999	1998
Operating			
Net earnings	**$ 72**	$ 54	$ 114
Items not affecting cash:			
Depreciation, depletion and amortization	**109**	90	91
Future income taxes (reduction)	**35**	(27)	(6)
Changes in non-cash operating working capital	**31**	32	79
Cash provided by operating activities	**247**	149	278
Investing			
Capital assets	**(179)**	(234)	(174)
Acquisition	**(246)**	–	–
Other assets	**(48)**	(46)	2
Other	**10**	20	28
Cash used in investing activities	**(463)**	(260)	(144)
Financing			
Common shares	**3**	(32)	(147)
Bank indebtedness	**130**	151	(41)
Issue of long-term debt	**10**	–	175
Repayment of long-term debt	**–**	(4)	(3)
Common share dividends paid	**(13)**	(13)	(14)
Cash provided by (used in) financing activities	**130**	102	(30)
Increase (decrease) in cash and cash-equivalents	**(86)**	(9)	104
Cash and cash-equivalents, beginning of year	**104**	113	9
Cash and cash-equivalents, end of year	**$ 18**	$ 104	$ 113

22 SUBSEQUENT EVENT

On February 15, 2001, the Corporation obtained long-term financing in the form of $125-million 8.25 percent debentures due February 15, 2011. The net proceeds of the debt offering were used to repay outstanding debt.