management's report to the shareholders

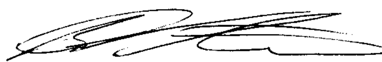
The consolidated financial statements and all information contained in this annual report are the responsibility of management and the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada 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 unrelated and independent of management, meets at least four times a year with management, the internal auditors and the independent auditors to satisfy itself that the responsibilities of the respective parties are properly discharged, including independence of external auditors and pre-approval of non-audit services, and to review the Consolidated Financial Statements and other financial disclosure documents before they are presented to the Board for approval.

John M. Van Brunt
President and Chief Executive Officer
Calgary, Canada

March 5, 2002



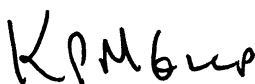
Bruce G. Waterman
Senior Vice President, Finance and Chief Financial Officer

auditors' report to the shareholders

We have audited the consolidated balance sheets of Agrium Inc. as at December 31, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2001, in accordance with Canadian generally accepted accounting principles.



KPMG LLP
Chartered Accountants
Calgary, Canada

March 5, 2002

consolidated statements of operations and retained earnings

Years ended December 31 (millions of U.S. dollars, except per share amounts)	**2001**	2000 Restated (Note 2)	1999 Restated (Note 2)
Sales	**$ 2,174**	$ 1,973	$ 1,810
Direct freight	**111**	100	94
Net sales	**2,063**	1,873	1,716
Cost of product	**1,522**	1,326	1,227
Gross profit	**541**	547	489
Expenses			
Selling, general and administrative	**272**	253	245
Depreciation, depletion and amortization	**141**	107	93
Other expenses (Note 3)	**48**	24	20
Argentine Charges - Peso devaluation (Note 4)	**20**	–	–
- U.S. dollar forced conversion (Note 4)	**29**	–	–
Earnings before interest expense and income taxes	**31**	163	131
Interest on long-term debt	**55**	36	36
Other interest	**19**	1	1
Earnings (loss) before income taxes	**(43)**	126	94
Income taxes (Note 6)	**2**	44	32
Net earnings (loss)	**$ (45)**	$ 82	$ 62
Retained earnings – beginning of year	**315**	255	234
Common share dividends declared	**(13)**	(13)	(13)
Preferred securities charges	**(12)**	(9)	(8)
Repurchase of common shares	**–**	–	(20)
Retained earnings – end of year	**$ 245**	$ 315	$ 255
Basic earnings (loss) per share (Note 7)	**$ (0.49)**	$ 0.65	$ 0.47
Average outstanding shares (in millions)	**115**	112	113
Diluted earnings (loss) per share (Note 7)	**$ (0.49)**	$ 0.62	$ 0.46
Average outstanding shares (in millions)	**115**	132	133
Dividends per common share for the year	**$ 0.11**	$ 0.11	$ 0.11

See accompanying notes.

consolidated statements of cash flows

Years ended December 31	**2001**	2000	1999
(millions of U.S. dollars)			Restated (Note 2)
OPERATING			
Net earnings (loss)	**$ (45)**	$ 82	$ 62
Items not affecting cash:			
Depreciation, depletion and amortization	**141**	107	93
Argentine Charges - Peso devaluation (Note 4)	**20**	–	–
- U.S. dollar forced conversion (Note 4)	**29**	–	–
Future income taxes (reduction) (Note 6)	**(26)**	35	(28)
Cash provided by operating activities	**119**	224	127
Changes in non-cash working capital			
Accounts receivable	**21**	23	38
Income and other taxes recoverable	**28**	(28)	–
Inventories	**(66)**	(32)	28
Prepaid expenses	**(2)**	(5)	–
Accounts payable and accrued liabilities	**(25)**	98	3
Income and other taxes payable	**12**	(24)	(36)
	(32)	32	33
Cash provided by operating activities after changes in non-cash working capital	**87**	256	160
INVESTING			
Capital assets	**(164)**	(179)	(234)
Acquisition (Note 8)	**(19)**	(246)	–
Other assets	**(32)**	(48)	(49)
Net change in non-cash working capital	**27**	(24)	2
Other	**(12)**	34	18
Cash used in investing activities	**(200)**	(463)	(263)
FINANCING			
Common shares	**1**	3	(32)
Bank indebtedness	**(97)**	130	151
Issue (repayment) of long-term debt	**267**	10	(4)
Common share dividends paid	**(13)**	(13)	(13)
Preferred securities charges paid	**(12)**	(9)	(8)
Cash provided by financing activities	**146**	121	94
Increase (decrease) in cash and cash-equivalents	**33**	(86)	(9)
Cash and cash-equivalents – beginning of year	**18**	104	113
Cash and cash-equivalents – end of year	**$ 51**	$ 18	$ 104
Supplemental cash flow disclosure:			
Interest paid	**$ 72**	$ 67	$ 54
Income tax paid (received)	**$ (2)**	$ 54	$ 97

See accompanying notes.

consolidated balance sheets

As at December 31	2001	2000
(millions of U.S. dollars)		
ASSETS		
Current assets		
Cash and cash-equivalents	**$ 51**	$ 18
Accounts receivable (Note 9)	**218**	275
Income and other taxes receivable	**–**	28
Inventories (Note 10)	**400**	347
Prepaid expenses	**34**	20
	703	688
Capital assets (Note 11)	**1,494**	1,484
Other assets (Note 12)	**132**	150
Goodwill (Note 13)	**45**	49
	$ 2,374	$ 2,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (Note 14)	**$ 211**	$ 308
Accounts payable and accrued liabilities (Note 15)	**349**	370
Income and other taxes payable	**13**	–
Current portion of long-term debt (Note 16)	**7**	1
	580	679
Long-term debt (Note 16)		
Profertil joint venture – non-recourse syndicated credit agreement	**141**	–
Other	**621**	507
	762	507
Other liabilities (Note 17)	**127**	120
Future income taxes (Note 6)	**162**	197
	1,631	1,503
SHAREHOLDERS' EQUITY		
Share capital (Note 18)		
Authorized: unlimited common shares and preferred securities		
Issued:		
Common shares: 2001 – 115 million (2000 – 115 million)	**376**	375
Preferred securities:		
8% Non-convertible 2001 – 7 million (2000 – 7 million)	**171**	171
6% Convertible 2001 – 2 million (2000 – 2 million)	**50**	50
Retained earnings	**245**	315
Cumulative translation adjustment	**(99)**	(43)
	743	868
Argentine Charges (Note 4)		
Commitments (Note 20)		
Contingencies (Note 21)		
Subsequent event (Note 25)		
	$ 2,374	$ 2,371

See accompanying notes.

Approved by the board:

Director

Director

notes to consolidated financial statements

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 24 and the pro forma information in Note 8, 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 to the current year's presentation. The Corporation's significant accounting policies are summarized below:

Foreign Currency

The United States (U.S.) dollar is the unit of measurement for the majority of the Corporation's business transactions and accordingly, the Corporation adopted the U.S. dollar as its reporting currency. The Corporation's Canadian and South America Retail 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 the rates in effect at the time of the transaction. The gain or loss on translation is charged to the cumulative translation adjustment account that is part of shareholders' equity. The Corporation's Profertil joint venture interest is considered integrated and is translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year end exchange rates and items included on the statements of operations and cash flows are translated at rates in effect at the time of the transaction. Non-monetary assets and liabilities are translated at historical rates. The gain or loss on translation is charged to the statements of operations. Approximate exchange rates used in translation are as follows:

	2001	2000	1999
Period end			
U.S. dollar	**1.00**	1.00	1.00
Argentina peso	**1.70***	1.00	1.00
Canadian dollar	**1.59**	1.50	1.44
Period average			
U.S. dollar	**1.00**	1.00	1.00
Argentina peso	**1.00***	1.00	1.00
Canadian dollar	**1.55**	1.49	1.49

*See Note 4 – Argentine Charges

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. Management reviews the valuation and amortization of goodwill, comparing the forecasted undiscounted future cash flows of the related acquired business to the book value of the net acquired business. Goodwill is written down to fair value when declines in value are considered to be other than temporary.

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

Wholesale inventories include both direct and indirect production costs and freight to transport the product from the production facility to the final warehouse facility. Inventory is valued at the lower of moving weighted average cost and net realizable value.

Retail inventories are recorded at the lower of purchased cost or net realizable value, and include the cost of delivery to move the product to the respective farm centre.

Capital Assets

Capital assets are recorded 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.

notes to consolidated financial statements

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 oil and gas properties is determined using the unit of production method based on the estimated proven reserve life. Depletion of other resource properties is based on engineering estimates. 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 undiscounted future cash flows, and any impairment is reflected in the statements of operations. 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 against income when the cost of site restoration exceeds the salvage value of the asset. The charge against 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 in the period of the impairment.

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 regulations relating to current operations and other discontinued mining operations. These regulations include requirements for future site decommissioning, restoration and reclamation.

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 substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed or be settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period during which the change is considered substantively enacted. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Stock Based Compensation
The Corporation has a stock option plan, which is described in Note 19. It is the Corporation's policy to issue stock options at the market price on the last business day prior to 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

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 utilizes derivatives and other financial instruments to manage exposure to changes in cash flows related to natural gas supply and foreign exchange. Gains and losses on contracts that are designated as hedges and calculated to be effective are recognized in inventory in the same period as the hedged transaction, and then included in the cost of product when the related inventory is sold. For these cash flow hedges, effectiveness is achieved if the changes in the cash flows of the derivatives substantially offset the changes in the cash flows of the hedged position and the expected timing in the cash flows is similar.

The Corporation utilizes derivatives and other financial instruments to manage exposure to changes in the fair value of long-term debt due to fluctuations in interest rates. Gains and losses on contracts that are designated as hedges and calculated to be effective are recognized as an adjustment to interest expense in the same period as the hedged transaction. For these fair value hedges, effectiveness is achieved if the changes in the fair value of the derivative substantially offset the changes in the fair value of the long-term debt.

Unrealized gains and losses on contracts that are designated as hedges and calculated to be effective are not recognized on the consolidated balance sheet. If a derivative that qualified as a hedge is settled early or de-designated, the gain or loss at that date will be recognized when the gain or loss on the hedged transaction is recognized. Any premiums paid or received with respect to derivatives that are hedges are deferred and amortized to income over the term of the hedge.

Facility 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. Unamortized costs that will be charged to production costs within one year of the balance sheet date are included in prepaid expenses, and all other costs are included in other assets.

Idle Facility Costs

Costs incurred when a facility is shut down due to market conditions or a facility failure are charged to other expenses.

2. CHANGES IN ACCOUNTING POLICY AND ACCOUNTING DEVELOPMENTS

The following table outlines the changes made to Canadian GAAP by the Canadian Institute of Chartered Accountants (CICA) that affect the 1999-2001 and future reporting periods:

Section and effective date	Description of change	Effect on the Corporation
Section 3461 **Employee future benefits** January 1, 2000	This standard requires the recognition of expenses relating to any obligation to provide certain benefits to retired employees.	The Corporation 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 net earnings in 1999 decreased $2-million.
Section 3500 **Earnings per share** January 1, 2001	The new standard requires the treasury stock method for calculating diluted earnings per share. Under this method all options with an average share price less than or equal to the average share price during the period are considered outstanding. All convertible securities are converted at the average share price during the period or the share price referenced on the conversion within the issuance. This method no longer requires the calculation of supplementary fully diluted earnings per share.	In 2001, the Corporation retroactively adopted this new accounting standard with restatement of all previous periods. This new standard resulted in diluted earnings per share of $0.62 and $0.46 for 2000 and 1999, respectively. This compares to fully diluted earnings per share of $0.63 for 2000 and $0.46 for 1999, as previously reported.

notes to consolidated financial statements

Section and effective date	Description of change	Effect on the Corporation
Section 1581 **Business combinations** July 1, 2001	This standard allows only the purchase method of accounting for business combinations. It also requires the specific identification and allocation of the purchase price to intangible assets and goodwill, separately. This section is to be applied prospectively.	The Corporation adopted this section prospectively July 1, 2001.
Section 3062 **Goodwill and other intangible assets** January 1, 2002	This new standard requires intangibles to be separated into finite or indefinite life assets. Finite life intangibles are amortized over their useful lives with an annual review of the amortization method and useful life. Indefinite life intangibles and goodwill are not amortized and are tested for impairment annually. The annual impairment test is a two part test which compares the carrying amount of the reporting unit to the fair value. If the carrying amount exceeds the fair value, the goodwill or indefinite life intangible is written down to fair value with a charge to earnings. This section is to be applied prospectively starting with fiscal years beginning on or after January 1, 2002. Transitional provisions require that previously reported earnings and earnings per share calculations are recalculated and then reconciled to the amounts previously disclosed.	The Corporation will adopt this section beginning January 1, 2002 and will discontinue amortizing goodwill. If this standard had been in effect for the periods from 1999 to 2001, net earnings would have been $64, $84 and $(43), respectively. Basic earnings per share would have been $0.49, $0.67 and $(0.47), respectively. This reflects approximately $4-million annually in before tax goodwill amortization which would not have been recorded.
Section 3870 **Stock-based compensation** January 1, 2002	The new section requires that stock based compensation to employees be measured and recognized based on the fair value of the equity instruments. For awards to employees that settle in cash, compensation cost should reflect the difference between the market price and the value price specified in the award.	The Corporation has retroactively adopted this section as of December 31, 2001. In Note 19, the pro forma net earnings and pro forma earnings per share amounts calculated by the fair value based method are disclosed.
Accounting Guideline 13 **Hedging relationships** July 1, 2002	This accounting guideline sets forth the criteria required for a derivative instrument to qualify as a hedging instrument. Included in the recommendations are the requirements for the Corporation to put in place formal documentation which identifies management's strategy and objective of the transaction and outlines how the Corporation will test the effectiveness of the hedged item in relation to the instrument.	The Corporation adopted FAS 133 in the U.S. beginning January 1, 2001 that has similar requirements to this accounting guideline and as such the Corporation is already in compliance with this guidance.

3. OTHER EXPENSES (INCOME)

	2001	2000	1999
North America Wholesale			
Potash resource taxes	**$ 12**	$ 10	$ 2
Capital and other taxes	**4**	4	4
Idle facility costs	**15**	–	–
Environmental provisions	**5**	3	3
Interest income	**(1)**	(6)	(3)
Inventory write offs	**–**	–	5
	35	11	11
North America Retail			
Interest income	**(16)**	(16)	(12)
Realty and state taxes	**4**	4	4
Provision for doubtful accounts	**5**	6	5
	(7)	(6)	(3)
South America Wholesale	**4**	1	(1)
South America Retail	**3**	1	(2)
Other			
Environmental provisions	**3**	2	2
Restructuring charges	**–**	–	11
Other	**10**	15	2
	13	17	15
	$ 48	$ 24	$ 20

4. ARGENTINE CHARGES

On January 6, 2002, the Government of Argentina cancelled the long-standing convertibility law of one Argentina peso for one U.S. dollar. In its place, the Government created a “commercial peso”, to be exchanged at 1.40 pesos for one U.S. dollar, and a “free floating peso”. Subsequently, the government announced that the commercial peso would be used only to convert U.S. dollar bank deposits and all remaining transactions and balances would be based on a free-floating system. The Government also passed legislation referred to as the “contract index law”, which resulted in an initial payment on a one U.S. dollar equals one peso basis for all U.S. dollar denominated monetary balances including working capital items.

The conditions which caused these events to occur in January 2002 existed at the December 31, 2001 balance sheet date and the financial results for the December 31, 2001 period have been adjusted accordingly. At December 31, 2001 the Corporation has translated the monetary items of its South America Retail and Profertil Joint Venture operations at a rate of 1.70 pesos to one U.S. dollar. This rate was established on January 11, 2002, which was the first day of trading for the free-floating peso in relation to the U.S. dollar.

The impact of this translation for the Corporation’s South America Wholesale operations was a $20-million unrealized foreign exchange loss recorded against net earnings. For the Corporation’s South America Retail operations the impact was a $23-million foreign currency charge to the cumulative translation adjustment account, a component of shareholders’ equity.

The Corporation has also recorded a charge of $29-million against net earnings at December 31, 2001, made up primarily of accounts receivable in South America Retail. This reflects the estimated impact of the contract index law legislating conversion of all U.S. dollar debts to pesos on a one to one basis, representing forced conversion of a portion of the Corporation’s U.S. dollar assets in Argentina.

5. 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 services and agronomic consulting. The fifth non-operating segment is Other, which includes corporate overhead and inter-segment eliminations. Net sales between segments and countries are accounted for at prices which approximate fair market value and are eliminated on consolidation.

Segmented Net Sales, Expenses, Net Working Capital, Capital Assets, Assets and Capital Expenditures

	2001					
	North America		South America			
	Wholesale	Retail	Wholesale	Retail	Other	Total
Net sales - external customers	$ 1,086	$ 831	$ 63	$ 83	$ –	$ 2,063
- internal customers	74	–	8	–	(82)	–
Total net sales	1,160	831	71	83	(82)	2,063
Cost of product	931	574	43	58	(84)	1,522
Gross profit	229	257	28	25	2	541
Expenses:						
Selling, general and administrative	34	193	7	16	22	272
Depreciation, depletion and amortization	96	20	13	5	7	141
Other (income) expense – net	35	(7)	4	3	13	48
Argentine Charges - Peso devaluation	–	–	20	–	–	20
- U.S. dollar forced conversion	–	–	2	27	–	29
Earnings (losses) before interest expense and income taxes	$ 64	$ 51	$ (18)	$ (26)	$ (40)	$ 31
Net working capital	$ 267	$ 37	$ (30)	$ 45	$ (196)	$ 123
Capital assets	$ 1,087	$ 106	$ 262	$ 15	$ 24	$ 1,494
Total assets	$ 1,625	$ 316	$ 346	$ 73	$ 14	$ 2,374
Capital expenditures	$ 126	$ 14	$ 18	$ 3	$ 3	$ 164

notes to consolidated financial statements

	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 (loss) before interest expense and income taxes	$ 166	$ 47	$ (4)	$ (1)	$ (45)	$ 163
Net working capital	$ 205	$ 81	$ (144)	$ 73	$ (206)	$ 9
Capital assets	$ 1,061	$ 112	$ 256	$ 27	$ 28	$ 1,484
Total assets	$ 1,557	$ 340	$ 328	$ 120	$ 26	$ 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 (loss) before interest expense and income taxes	$ 128	$ 43	$ 1	$ (7)	$ (34)	$ 131
Net working capital	$ 299	$ 41	$ (169)	$ 63	$ (60)	$ 174
Capital assets	$ 779	$ 116	$ 195	$ 31	$ 28	$ 1,149
Total assets	$ 1,233	$ 299	$ 257	$ 126	$ 44	$ 1,959
Capital expenditures	$ 80	$ 18	$ 132	$ 1	$ 3	$ 234

Net Sales and Gross Profit by Business Segment and Product Line

	2001			2000			1999		
	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	**$ 323**	**$ 239**	**$ 84**	$ 246	$ 173	$ 73	$ 165	$ 133	$ 32
Urea	**304**	**253**	**51**	299	216	83	200	155	45
Other	**150**	**135**	**15**	92	76	16	57	46	11
	777	**627**	**150**	637	465	172	422	334	88
Phosphate	**179**	**173**	**6**	196	177	19	255	195	60
Potash	**138**	**80**	**58**	151	81	70	145	80	65
Sulphate and other products	**66**	**51**	**15**	61	44	17	65	47	18
	1,160	**931**	**229**	1,045	767	278	887	656	231
North America Retail									
Fertilizers	**386**	**278**	**108**	352	254	98	357	257	100
Chemicals	**336**	**245**	**91**	358	267	91	345	260	85
Other products and services	**109**	**51**	**58**	105	47	58	92	39	53
	831	**574**	**257**	815	568	247	794	556	238
South America Wholesale									
Nitrogen	**68**	**41**	**27**	–	–	–	–	–	–
Other products and services	**3**	**2**	**1**	12	10	2	34	28	6
	71	**43**	**28**	12	10	2	34	28	6
South America Retail									
Fertilizers	**57**	**38**	**19**	47	32	15	46	34	12
Other products and services	**26**	**20**	**6**	22	18	4	14	14	–
	83	**58**	**25**	69	50	19	60	48	12
Other	**(82)**	**(84)**	**2**	(68)	(69)	1	(59)	(61)	2
Total	**$ 2,063**	**$ 1,522**	**$ 541**	$ 1,873	$ 1,326	$ 547	$ 1,716	$ 1,227	$ 489

Net Sales by Market Destination and Assets by Country

	2001			2000			1999		
	Net sales	**Capital assets**	**Goodwill**	Net sales	Capital assets	Goodwill	Net sales	Capital assets	Goodwill
Canada	**$ 383**	**$ 545**	**$ –**	$ 423	$ 586	$ –	$ 383	$ 606	$ –
United States	**1,385**	**673**	**45**	1,249	615	49	1,167	317	52
Argentina	**121**	**276**	**–**	76	283	–	94	226	–
Other	**174**	**–**	**–**	125	–	–	72	–	–
	$ 2,063	**$ 1,494**	**$ 45**	$ 1,873	$ 1,484	$ 49	$ 1,716	$ 1,149	$ 52

notes to consolidated financial statements

6. INCOME TAXES

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

	2001	2000
Loss carryforwards expiring through 2008	**$ 36**	$ 20
Site restoration and reclamation	**30**	29
Financial reserves and accruals	**13**	6
Employee future benefits	**12**	8
Debt retirement and other financing	**5**	9
Other	**3**	–
Future income tax assets before valuation allowance	**99**	72
Valuation allowance	**(1)**	(7)
Future income tax assets, net of valuation allowance	**98**	65
Depreciation and amortization	**228**	207
Deferred income	**13**	42
Other	**19**	13
Future income tax liabilities	**260**	262
Net future income tax liabilities	**$ 162**	$ 197

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rate of 44 percent (2000 – 45 percent; 1999 – 45 percent) were the following:

	2001	2000	1999
Earnings (loss) before income tax:			
Canadian	**$ (22)**	$ 48	$ 20
Foreign	**(21)**	78	74
	$ (43)	$ 126	$ 94
Statutory rate	**44%**	45%	45%
Income tax at statutory rates	**(19)**	57	42
Differences in foreign tax rates	**(10)**	(15)	(10)
Manufacturing and processing allowance	**5**	(2)	1
Argentine Charges	**22**	–	–
Resource royalties and allowances	**4**	3	(1)
Other	**–**	1	–
Income tax provision	**$ 2**	$ 44	$ 32
Current:			
Canadian	**$ 26**	$ (5)	$ 35
Foreign	**2**	14	25
	28	9	60
Future:			
Canadian	**(33)**	27	(28)
Foreign	**7**	8	–
	(26)	35	(28)
	$ 2	$ 44	$ 32

7. EARNINGS (LOSS) PER COMMON SHARE

The following table summarizes the computation of net earnings (loss) per share:

	2001	2000	1999
		Restated (Note 2)	Restated (Note 2)
NUMERATOR:			
Net earnings (loss)	$ (45)	$ 82	$ 62
Preferred securities charges net of tax [(a)]	(12)	(9)	(8)
Numerator for basic earnings (loss) per share	(57)	73	54
Preferred securities charges net of tax [(a)]	–	9	8
Numerator for diluted earnings (loss) per share	$ (57)	$ 82	$ 62
DENOMINATOR:			
Weighted average denominator for basic common shares	115	112	113
Dilutive instruments:			
Stock options using the treasury stock method	–	1	–
Preferred securities converted to common shares			
$175-million, eight percent [(b),(c)]	–	18	20
$50-million, six percent [(b),(d)]	–	1	–
Denominator for diluted earnings per share	115	132	133
Basic earnings (loss) per share	$ (0.49)	$ 0.65	$ 0.47
Diluted earnings (loss) per share	$ (0.49)	$ 0.62	$ 0.46

(a) Preferred securities charges net of tax

Under Canadian GAAP the preferred securities (Note 18) are considered senior equity instruments, and the preferred securities charges that are charged to retained earnings are deducted from net earnings (loss) for the computation of basic earnings (loss) per share. For diluted earnings (loss) per share, these preferred securities charges are added back when the senior equity instrument is not anti-dilutive to basic earnings (loss) per share.

(b) Anti-dilution

The Corporation excludes potential common share equivalents from the calculation of diluted earnings (loss) per share when these instruments are considered anti-dilutive.

(c) $175-million, eight percent preferred securities

The conversion of this series of preferred securities is based on the average trading price of the Corporation's common shares during the period.

(d) $50-million, six percent preferred securities

This series of preferred securities is converted to common shares at the fixed conversion price of $11.9677 per common share.

8. 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 and 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.

notes to consolidated financial statements

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 non-core assets	(16)
Total net assets	$ 315

Payments under the Earn-out arrangement are capitalized as part of the capital assets and are amortized over the remaining life of the assets. As at December 31, 2001, an additional $19-million was accrued in respect of Earn-out amounts payable in 2002.

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. 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
Net revenues	$ 2,143
Net earnings in accordance with Canadian GAAP	86
Basic earnings per share in accordance with Canadian GAAP	$ 0.67
Net earnings in accordance with U.S. GAAP	74
Basic earnings per share in accordance with U.S. GAAP	$ 0.66

9. ACCOUNTS RECEIVABLE

	2001	2000
North America Wholesale		
Trade accounts	**$ 102**	$ 122
Allowance for doubtful accounts	**(1)**	(1)
Rebates and other non-trade accounts	**20**	5
	121	126
North America Retail		
Trade accounts	**41**	69
Allowance for doubtful accounts	**(7)**	(7)
Rebates and other non-trade accounts	**14**	12
	48	74
South America Wholesale	**9**	11
South America Retail		
Trade accounts	**46**	64
Allowance for doubtful accounts	**(8)**	(6)
	38	58
Other	**2**	6
	$ 218	$ 275

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. The fees and expenses for this program are calculated based on the prevailing commercial paper rate. 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 sells an eligible amount of those receivables to the designated 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. Receivables sold, and fees and expenses incurred, on this program were as follows:

	2001	2000
North America Wholesale receivables sold	$ 21	$ 35
North America Retail receivables sold	83	56
	$ 104	$ 91
Average North America Wholesale receivables sold during the year	$ 30	$ 3
Average North America Retail receivables sold during the year	68	61
	$ 98	$ 64
Fees and expenses paid	$ 4	$ 4

10. INVENTORIES

	2001	2000
North America Wholesale		
Fertilizers	$ 172	$ 123
Operating supplies	70	76
Raw materials	26	24
	268	223
North America Retail		
Fertilizers	51	54
Chemicals	63	49
Other	7	7
	121	110
South America Wholesale	6	2
South America Retail	5	12
	$ 400	$ 347

Wholesale — Fertilizers include the Corporation's produced product as well as work in process. Operating supplies include catalysts 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. Inventories include storage and transportation costs to move the product from production facilities to storage locations.

Retail — The cost of fertilizer, seed and chemical inventories represents the purchase price plus transportation to the farm centre.

11. CAPITAL ASSETS

	2001			2000		
	Cost	Accumulated depreciation and depletion	Net book value	Cost	Accumulated depreciation and depletion	Net book value
Land	$ 28	$ –	$ 28	$ 37	$ –	$ 37
Buildings and improvements	303	119	184	462	110	352
Building under capital lease	15	2	13	15	1	14
Machinery and equipment	2,004	790	1,214	1,459	722	737
Resource properties	39	18	21	39	16	23
Construction in progress	34	–	34	321	–	321
	$ 2,423	$ 929	$ 1,494	$ 2,333	$ 849	$ 1,484

Included in capital assets is interest capitalized during 2001 of $1-million (2000 – $20-million; 1999 – $16-million).

notes to consolidated financial statements

12. OTHER ASSETS

	2001	2000
South America value-added tax and other costs	$ 73	$ 86
Receivable under environmental indemnity agreements	11	12
Long-term receivables	20	26
Long-term investments	13	11
Other	15	15
	$ 132	$ 150

The long-term portions of value-added taxes are related to the investment in South America Retail and the Corporation's share of the Profertil joint venture. Value-added taxes are accumulated on the balance sheet, as costs are incurred and are recovered against future taxes payable.

13. GOODWILL

	2001	2000
Cost	$ 67	$ 67
Accumulated amortization	22	18
	$ 45	$ 49

Included in depreciation, depletion and amortization in the statement of operations for 2001 is amortization of goodwill of $4-million (2000 – $3-million; 1999 – $4-million).

14. BANK INDEBTEDNESS

	2001	2000
Short-term financing [a]	$ –	$ 163
$300-million credit facility [b]	186	–
$75-million credit facility [c]	20	–
Profertil joint venture [d]	5	145
	$ 211	$ 308

The weighted average interest rate for bank indebtedness in 2001 was 5 percent (2000 – 8 percent; 1999 – 7 percent).

(a) Short-term financing

The Corporation's $200-million short-term financing facility, which was used to purchase the Unocal assets, was repaid and terminated in May 2001. Agrium U.S. Inc., a subsidiary of the Corporation, guaranteed this facility. Interest rates on the facility were the London interbank offered rate (LIBOR) or a base rate established by the bank plus variable spreads, at the election of the Corporation.

(b) Agrium Inc.

The Corporation entered into a $300-million, 364-day syndicated revolving credit facility in May 2001. This facility contains a 2.5-year term-out provision exercisable at the Corporation's option. Under this option the Corporation can convert the facility into a term lending arrangement after one year. Agrium U.S. Inc., a subsidiary of the Corporation, guarantees this facility. Interest rates are at either the LIBOR plus a spread, bankers' acceptance rate plus a spread or a base rate established by the bank plus variable spreads, at the election of the Corporation. The loan agreements require the Corporation to maintain certain financial ratios and other covenants.

This facility replaces the unsecured four-year term facility of $100-million and the C$35-million or $25-million demand operating facility previously in place. Interest rates on the $100-million term facility were the LIBOR or a base rate established by the bank plus variable spreads, at the election of the Corporation. Interest rates on the demand operating facility were based on the prevailing bankers' acceptance rate 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. This facility bears interest at prevailing market rates. The loan agreements require the Corporation to maintain certain financial ratios and other covenants.

(c) 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 4, 2004. This facility is guaranteed by the Corporation and requires the Corporation to maintain certain financial ratios and to comply with other covenants.

d) Profertil joint venture

In 1999, Profertil completed a bridge financing of up to $285-million, which was repaid with proceeds from the syndicated 10-year term credit agreement (Note 16(e)) in March 2001. The Corporation's share of amounts outstanding under the bridge facility was $143-million at December 31, 2000.

Profertil utilizes limited short-term borrowings from local financial institutions at prevailing interest rates to fund working capital requirements. The Corporation's share of amounts outstanding was $5-million at December 31, 2001 (2000 – $2-million).

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2001	2000
North America Wholesale		
Trade	$ 55	$ 40
Customer rebates	11	10
Accrued liabilities	112	92
Deferred hedging gains (Note 22)	–	75
	178	217
North America Retail		
Trade	98	86
Accrued liabilities	29	26
	127	112
South America Wholesale	11	11
South America Retail	7	7
Other		
Accrued interest payable	13	10
Dividends payable	6	6
Accrued liabilities	7	7
	26	23
	$ 349	$ 370

16. LONG-TERM DEBT

	2001	2000
Unsecured		
6.86% senior notes due December 29, 2003 to 2007 [a]	$ 75	$ 75
7.06% senior notes due December 29, 2004 to 2010 [b]	100	100
7% notes due February 1, 2004 [c]	75	75
7.7% debentures due February 1, 2017 [c]	100	100
7.8% debentures due February 1, 2027 [c]	125	125
8.25% debentures due February 15, 2011 [c]	125	–
Secured		
Capital lease obligation [d]	14	15
Profertil joint venture – non-recourse [e]	145	–
Profertil joint venture – other [f]	8	16
Other	2	2
	769	508
Principal repayments due within one year	7	1
	$ 762	$ 507

(a) The notes have five equal annual principal repayments commencing December 29, 2003. These notes are guaranteed by Agrium U.S. Inc., a subsidiary of the Corporation, and require the Corporation to maintain certain financial ratios and meet other covenants.

(b) The notes have seven equal annual principal repayments commencing December 29, 2004. These notes are guaranteed by Agrium U.S. Inc., a subsidiary of the Corporation, and require the Corporation to maintain certain financial ratios and meet other covenants.

(c) These notes and debentures require the Corporation to meet certain financial ratios and other covenants.

(d) The capital lease obligation is comprised of the corporate head office building lease (Note 11), 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 $25-million, of which $11-million represents interest. Annual payments in each of the next five years are included in Note 20.

(e) In 2000, Profertil S.A. entered into a syndicated credit agreement, the majority of which was drawn in March 2001, to repay the $285-million bridge financing facility that expired in March 2001. The Corporation's share of amounts outstanding under the Credit Agreement at December 31, 2001 is $145-million, of which $4-million is repayable within one year. The facility available at December 31, 2001 under the credit agreement is broken into tranches of $85-million, $74-million, and $134-million. The two smaller tranches accrue interest at the LIBOR rate plus a spread. The $134-million tranche accrues interest at a fixed rate. Principal plus accrued interest is repayable in 20 semi-annual installments commencing June of 2001. The facility matures December 31, 2010.

This facility became non-recourse to the joint venture partners once completion guarantees on the facility had been released on November 30, 2001. The Corporation has pledged its shares in the joint venture to the bank as security in the event of default. The joint venture partners have also entered into an agreement which limits the transfer of the ownership interests in Profertil for a period of six years commencing from the completion date, which was November 30, 2001.

(f) The Profertil joint venture – other financing is primarily comprised of a peso-denominated value-added tax loan that has a four-year repayment term with monthly interest plus principal repayments. Interest is calculated at prevailing market rates. The loan is secured by long-term value-added taxes (Note 12).

17. OTHER LIABILITIES

	2001	2000
Site restoration and reclamation [(a)]	**$ 90**	$ 89
Employee future benefits [(b)]		
Pensions	**10**	5
Other post-retirement benefits	**23**	23
Other	**4**	3
	$ 127	$ 120

(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 2001, the Corporation accrued $8-million (2000 – $46-million; 1999 – $5-million) for anticipated future expenditures.

Expenditures relating to restoration and reclamation were $3-million in 2001 (2000 – $5-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 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:

	2001	2000	1999
Defined benefit plan			
Service cost for benefits earned during the year	$ 3	$ 3	$ 3
Interest cost on projected benefit obligations	6	5	4
Expected return on plan assets	(5)	(5)	(5)
Net amortization and deferral	–	1	1
Net expense	4	4	3
Post-retirement plans			
Service cost for benefits earned during the year	1	1	1
Interest cost on projected benefit obligations	2	2	2
Net expense	3	3	3
Defined contribution plans	7	7	6
Total expense	$ 14	$ 14	$ 12

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

	2001	2000	1999
(percent)			
Pension plans			
Discount rate	7	7	8
Long-term rate of return on assets	8	8	8
Rate of increase in compensation levels	5	5	5
Other post-retirement plans			
Discount rate	7	7	7
Health care cost trend rate	8	8	9

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 $2-million respectively.

notes to consolidated financial statements

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	
	2001	2000	**2001**	2000
Change in benefit obligations				
Balance, beginning of year	**$ 81**	$ 77	**$ 23**	$ 21
Foreign exchange on Canadian obligations	**(4)**	–	**–**	–
Interest and service cost	**9**	8	**3**	3
Acquisitions	**–**	3	**–**	–
Actuarial loss (gain)	**5**	(3)	**(2)**	(1)
Transfer from CAI Retirement Plan [(a)]	**10**	–	**–**	–
Benefits paid	**(5)**	(4)	**(1)**	–
Balance, end of year	**$ 96**	$ 81	**$ 23**	$ 23
Change in plan assets				
Fair value, beginning of year	**$ 78**	$ 73	**$ –**	$ –
Foreign exchange on Canadian assets	**(3)**	–	**–**	–
Actual return on plan assets	**(6)**	6	**–**	–
Employer contributions	**2**	5	**–**	–
Transfer from CAI Retirement Plan [(a)]	**10**	–	**–**	–
Benefits paid	**(5)**	(6)	**–**	–
Fair value, end of year	**$ 76**	$ 78	**$ –**	$ –
Unfunded status	**20**	3	**23**	23
Unrecognized net (loss) gain	**(12)**	2	**–**	–
Accrued employee future benefits	**$ 8**	$ 5	**$ 23**	$ 23
Other assets – prepaid employee future benefits	**$ (2)**	$ –	**$ –**	$ –
Other liabilities – employee future benefits liability	**10**	5	**23**	23
	$ 8	$ 5	**$ 23**	$ 23

(a) The assets and liabilities attributable to benefits accrued prior to May 1, 1993, under the Cominco American Incorporated Plan (CAI) were transferred to the Corporation in 2001. These assets and liabilities were part of the spin-off of the fertilizer assets that formed the initial public offering to create the Corporation in 1993.

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

18. SHARE CAPITAL

	2001		2000		1999	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
(millions)						
Common shares						
Issued and outstanding, beginning of year	**115**	**$ 375**	112	$ 347	115	$ 359
Repurchased for cash	**–**	**–**	–	–	(3)	(12)
Issued on exercise of stock options	**–**	**1**	–	3	–	–
Issued on purchase of Unocal assets	**–**	**–**	3	25	–	–
Outstanding, end of year	**115**	**$ 376**	115	$ 375	112	$ 347
Preferred securities						
Issued and outstanding, beginning of year, net of issuance costs	**9**	**$ 221**	7	$ 171	7	$ 171
Issued on purchase of Unocal assets	**–**	**–**	2	50	–	–
Outstanding, end of year	**9**	**$ 221**	9	$ 221	7	$ 171
Total	**124**	**$ 597**	124	$ 596	119	$ 518

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 right to defer the charges for up to 20 consecutive quarterly 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 Fertilizer assets. The 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 charges, principal and redemption payments, and consequently, both the eight percent preferred securities and the six percent convertible preferred securities are classified as equity under Canadian GAAP.

19. STOCK BASED COMPENSATION

The Corporation offers stock options, stock appreciation rights (SAR's) and deferred share units (DSU's) to employees and directors as part of compensation for services rendered.

Stock Options
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, 2001, the Board of Directors was authorized to grant options on up to approximately nine million (2000 – nine million; 1999 – eight million) common shares on which approximately eight million (2000 – 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, to a maximum of 100,000 options per director or officer, 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 and 25 percent on the fourth anniversary date.

Stock option transactions for the respective years were as follows:

	2001		2000		1999	
	Options outstanding	**Weighted average exercise price**	**Options outstanding**	**Weighted average exercise price**	**Options outstanding**	**Weighted average exercise price**
	(millions)	(C$)	(millions)	(C$)	(millions)	(C$)
Outstanding, beginning of year	**7**	**$ 15.52**	6	$ 16.40	5	$ 17.62
Granted	**1**	**20.21**	1	12.47	1	12.53
Exercised	**–**	**13.05**	–	16.38	–	11.18
Cancelled	**–**	**18.52**	–	17.43	–	19.18
Outstanding, end of year	**8**	**$ 16.20**	7	$ 15.52	6	$ 16.40
Exercisable, end of year	**5**	**$ 16.44**	4	$ 17.11	3	$ 17.20

notes to consolidated financial statements

Fair Value of Stock Option Compensation

The following is the pro forma net earnings (loss) and basic earnings (loss) per share amounts had the Corporation charged the fair value of stock based compensation to net earnings (loss) in each period:

	2001		2000		1999	
	As reported	**Pro forma**	**As reported**	**Pro forma**	**As reported**	**Pro forma**
Net earnings (loss)	**$ (45)**	**$ (48)**	$ 82	$ 77	$ 62	$ 57
Earnings (loss) per common share						
Basic	**$ (0.49)**	**$(0.51)**	$ 0.65	$ 0.60	$ 0.47	$ 0.43

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

	2001	2000	1999
Expected dividend yield	**0.9%**	0.9%	0.9%
Expected stock price volatility	**38%**	42%	35%
Risk-free interest rate	**6%**	6%	6%
Expected life of the options (years)	**10**	10	10

The weighted fair value average price of options granted in the years indicated was as follows: 2001 – C$11.25; 2000 – C$7.06; and 1999 – C$6.40.

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2001:

	Options outstanding			**Options excercisable**	
Range of exercise prices	**Number outstanding at year end**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at year end**	**Weighted average exercise price**
(C$)	(millions)	(years)	(C$)	(millions)	(C$)
Less than $11.85	1	7	$ 11.14	1	$ 10.07
11.86 to 12.85	1	6	12.06	1	12.05
12.86 to 13.85	1	7	13.14	–	13.11
13.86 to 14.85	–	9	14.02	–	14.04
14.86 to 15.85	–	8	15.22	–	15.20
15.86 to 16.85	–	10	16.24	–	–
16.86 to 17.85	–	8	17.52	–	17.50
17.86 to 22.15	5	6	19.35	3	18.96
1.92 to 22.15	8	7	$ 16.20	5	$ 16.44

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.

Stock Appreciation Rights

The Corporation has a Stock Appreciation Rights (SARs) plan whereby 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 shares. The payment is based on the Corporation's common stock price reaching 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, 2001, the target prices on the SARs were above the market price of the Corporation's common shares and thus no payments were required under the plan. An expense will be recorded when the market price of the stock exceeds the price associated with payment. SAR transactions for the respective years were as follows:

	2001		2000		1999	
	SARs outstanding	**Weighted average issue price**	**SARs outstanding**	**Weighted average issue price**	**SARs outstanding**	**Weighted average issue price**
(millions)						
Outstanding, beginning of year	**1**	**$ 9.01**	1	$ 8.94	–	$ –
Granted	**1**	**11.36**	–	10.00	1	8.94
Outstanding, end of year	**2**	**$ 9.51**	1	$ 9.01	1	$ 8.94

The potential expense, based on SARs outstanding at December 31, 2001, would be $3-million if the share price reached $15, an additional $6-million if the share price reached $22.50, an additional $11-million if the share price reached $33.75 and an additional $19-million if the share price reached $50.

Director's Deferred Share Unit Plan

Effective January 1, 2002, the Corporation implemented a Director's Deferred Share Unit Plan. Under this plan directors of the Corporation may elect to have a portion or all of their remuneration paid in DSU's. The number of DSU's issued is calculated by dividing the director's remuneration by the fair market value of the Corporation's common shares on the conversion date. This amount and subsequent changes in the common share price in relation to the DSU's issue price will be recorded as compensation expense and included in selling, general and administrative expenses.

20. COMMITMENTS

	2002	2003	2004	2005	2006
Operating expenses					
Operating commitments	$ 28	$ 26	$ 23	$ 20	$ 18
Natural gas, sulfuric acid, power and other payments	327	159	118	112	92
Profertil natural gas and other	25	25	25	25	25
	380	210	166	157	135
Other					
Long-term debt and capital lease repayments	7	27	121	50	52
Total	$ 387	$ 237	$ 287	$ 207	$ 187

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 2001 were $23-million (2000 – $25-million; 1999 – $23-million).

The Corporation has also entered into a number of agreements with suppliers to guarantee supply of raw materials required in the production processes at its wholesale facilities. Amongst these are a number of long-term fixed base-price natural gas and co-generation power agreements at the Kenai, Profertil and Carseland 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, 2001, adjusted for transportation differentials to each production facility.

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 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.

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The Carseland facility entered into a power co-generation agreement in 2001 that expires December 31, 2021. The minimum commitment under this agreement is to purchase 60 megawatts of power per hour (MWh) for the first ten years of the agreement and 20 MWh for the remainder of the term. The price for the power is based on a fixed charge adjusted for inflation and a variable charge based on the cost of natural gas, which is provided to the facility for power generation.

Profertil has three 12-year natural gas purchase contracts. One is with the other 50 percent partner in the Profertil joint venture. The contracts are fixed base price 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) crude oil in U.S. dollars per barrel.

The Corporation has entered into an agreement to deliver a minimum of 70,000 tonnes of purified phosphoric acid annually from its Conda, Idaho, facility. The agreement expires December 31, 2016.

21. CONTINGENCIES

Unocal Fertilizer Asset acquisition

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 a payment for each of the six years following the closing of the acquisition on September 30, 2000. The payment is 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. At December 31, 2001, the Corporation's financial statements include $19-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 included in capital assets.

The Corporation has withheld payment of the $19-million from Unocal on the basis that this liability has been set off against other amounts currently owing by Unocal and is under dispute. The Corporation believes that no payment is due to Unocal in the event that they cannot meet their obligation under the Kenai gas contract. The parties also disagree on the calculation of the Earn-out to the extent of $8-million based on different views of the application of a reference price adjustment factor.

The Corporation and Unocal are in discussions with respect to these issues and a number of other disputed matters arising from the purchase of Unocal's fertilizer assets, including environmental liabilities and Unocal's gas supply and deliverability obligations under the Kenai Gas Contract. To facilitate these negotiations, the parties have entered into a standstill agreement pursuant to which neither party shall commence litigation with respect to matters in dispute until after March 15, 2002.

Environmental

The Corporation also has contingent liabilities in respect of existing operations and discontinued mining activities 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.

Litigation

The Corporation, in the normal course of business, is subject to legal proceedings being brought against it and its subsidiaries. The amounts are not reasonably estimable, due to uncertainty as to the final outcome, and management does not believe these proceedings in aggregate will have a material adverse effect on the Corporation's consolidated financial position or results of operations.

22. FINANCIAL INSTRUMENTS

The Corporation is subject to the risks and uncertainties inherent in the fertilizer business. Financial results are subject to fluctuations in fertilizer, natural gas, power and other raw material supply prices, and fluctuations in foreign exchange and interest rates over which it has limited control. In addition the Corporation is subject to credit risks and the risks of conducting business in an international environment. The Corporation manages certain of these risks and uncertainties through the use of derivative instruments.

Price Risk Management

Natural Gas Derivatives

The Corporation purchases substantially all of its natural gas requirements through indexed priced contracts with suppliers other than gas supply agreements for its facilities in Alaska and Argentina. The natural gas supply price risk on indexed contracts is managed through the use of natural gas price swaps and natural gas price option contracts. The Corporation has the following derivative instruments related to natural gas supply price risks outstanding at December 31, 2001:

	Period covered	Notional volumes	Weighted average contract	Fair value gain (loss)	Financial statement gain (loss)
		(million Mmbtu)	(U.S.$/Mmbtu)	(millions of U.S. dollars)	(millions of U.S. dollars)
Designated hedges					
Natural gas price swaps	January-October 2002	10	$ 4.94	$ (21)	
De-designated hedges					
Natural gas price swaps	January-October 2002	16	$ 4.99	$ (36)	$ (10)
Non-hedging natural gas derivative instruments					
Natural gas price swaps – sold	January-October 2002	23	$ 2.76	$ 1	$ 1
Natural gas price swaps – purchased	January-October 2002	3	$ 2.30	$ 2	$ 2
Natural gas basis swaps[a]	January 2002-October 2005	4	n/a	$ –	$ –
Puts – sold	January 2002-October 2003	17	$ 2.49	$ (4)	$ (4)
Puts – purchased	January-April 2002	10	$ 3.66	$ 11	$ 11
Calls – sold	January-April 2002	9	$ 4.56	$ –	$ –
Calls – purchased	January-April 2002	9	$ 4.56	$ –	$ –

(a) The basis swap requires the Corporation to purchase notional volumes of natural gas based on the NYMEX index and to receive notional volumes of natural gas based on the SUMAS index.

During 2001, the Corporation de-designated certain commodity derivatives that were previously designated as hedges. In conjunction with the de-designation of these hedges, the Corporation entered into arrangements that substantially reversed the impact of the hedges on a prospective basis. The unrealized loss at the date of de-designation for these commodity derivatives was $26-million, which will be recognized as an adjustment to the cost of natural gas purchased as was forecast when the original hedges were put in to place. The result of the de-designation and new arrangements referred to above do not change the timing of the recognition of the accrued loss in the Consolidated Financial Statements but precluded any further significant change in the amount of the loss.

Realized and unrealized gains and losses on derivatives not designated as hedges, including contracts de-designated, as described above, are included in the statement of operations each period.

All unrealized losses on commodity derivatives designated as hedges will be recognized against the forecasted cost of gas purchased and included in inventory in 2002. It is expected that the inventory produced in relation to this natural gas supply will be sold in 2002 and that the related inventory costs, including the unrealized losses, will be included in cost of product.

The Corporation had the following derivative instruments related to natural gas supply price risks outstanding at December 31, 2000:

	Period covered	Notional volumes	Weighted average contract	Unrealized gain (loss)
		(million Mmbtu)	(U.S.$/Mmbtu)	(millions of U.S. dollars)
Designated hedges				
Natural gas price swaps	April-October 2001	26	$2.44	$ 82

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In 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 gain was deferred and recorded in accounts payable at December 31, 2000. In 2001 this deferred gain was recorded against natural gas supply costs in inventory and transferred to cost of sales as the inventory was sold.

During 2001 net realized gains of $58-million (2000 – $109-million), including the $75-million described above, was allocated to inventory. At December 31, 2001, $12-million of net realized losses (2000 – $16-million net gain) remains in inventory, until the related inventory sells. During 2001 $70-million of net realized gains (2000 – $93-million) were recorded as a component of cost of product.

Foreign Exchange Derivatives

The Corporation is exposed to foreign exchange rate fluctuations on its Canadian dollar cash flow. The Company enters into forward exchange contracts and foreign exchange options to manage Canadian dollar foreign exchange exposure by establishing the foreign exchange rate for the cash flows. At December 31, 2001, the Corporation had sold forward a notional amount of $24-million (2000 - $19-million) at an average rate of 1.5738 (2000 – $1.4682) and had entered into a collar on a notional amount of $36-million (2000 – nil) establishing the range the Corporation will pay for Canadian dollars between $1.5700 and $1.5870, for a period of January to December 2002. At December 31, 2001, and 2000, these instruments had an unrealized loss of less than $1-million.

During 2001 the Corporation realized losses of $1-million on settled foreign exchange contracts (2000 – $1-million).

Interest Rate Derivatives

The Corporation is exposed to interest rate fluctuations on its fixed rate long-term debt. At December 31, 2001, the Corporation had entered into interest rate swaps, on a notional $50-million of long-term debt, for a period of three years ending October 24, 2004, swapping an average fixed rate of 3.875%, which they will receive, for a floating rate of LIBOR-BBA, which they will pay. At December 31, 2001, these instruments had an unrealized gain of less than $1-million.

Power, Sulphuric Acid and Other Normal Purchases

The Corporation purchases a portion of its power requirements through the use of fixed price supply contracts. These contracts are treated as normal purchases and sales. Purchase commitments are included and summarized in Note 20.

Fair value and Carrying Value of Financial Instruments

	2001		2000	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Unsecured long-term debt	**$ 600**	**$ 530**	$ 475	$ 450
Preferred securities	**221**	**201**	221	180
Derivative financial instruments				
Foreign currency option and forwards	**–**	**–**	–	–
Interest rate fixed for floating SWAP	**–**	**–**	–	–
Natural gas SWAPs and options	**–**	**(47)**	–	82

The fair value of long-term debt, including the current portion and preferred securities, 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 Management

Wholesale in both North and South America sell mainly to large agribusinesses representing a small number of customers. Letters of credit are used to mitigate risk.

Retail in both North and South America serve large customer bases dispersed over wide geographic areas in both the United States and Argentina. This geographic diversity, coupled with a concentration of effort on the large financially stable entities, mitigates risk.

Credit exposure, as it relates to any derivatives and other financial instruments described as hedging, is managed by dealing with creditworthy counterparties in accordance with established credit approval practices. At December 31, 2001, no significant credit exposure exists with any counterparty.

23. JOINT VENTURE OPERATIONS

The Corporation has a 50 percent interest in the Profertil nitrogen joint venture. A contractual agreement exists between the Corporation and the joint venture partner, which establishes joint control, and therefore the Corporation's interest 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:

	2001	2000
Balance sheet		
Cash and cash-equivalents	**$ 13**	$ –
Accounts receivable	**9**	11
Inventories and prepaid expenses	**8**	3
Capital assets	**262**	256
Other assets	**54**	58
	$ 346	$ 328
Bank indebtedness	**$ 5**	$ 145
Accounts payable and accrued liabilities	**55**	13
Long-term debt	**147**	15
Future income taxes	**(6)**	(4)
	$ 201	$ 169
Investment in joint venture	**$ 145**	$ 159
Statement of operations		
Gross profit	**$ 28**	$ 2
Selling, general and administrative expenses	**7**	4
Depreciation and amortization	**13**	1
Argentine Charges - Peso devaluation (Note 4)	**20**	–
- U.S. dollar forced conversion (Note 4)	**2**	–
Other expenses	**4**	1
Loss before interest and taxes	**(18)**	(4)
Interest expense	**16**	–
Income taxes	**(4)**	(1)
Net loss	**$ (30)**	$ (3)
Statement of cash flows		
Operating activities	**$ (6)**	$ (2)
Investing activities	**(39)**	(99)
Financing activities	**58**	100
Decrease in cash and cash-equivalents	**$ 13**	$ (1)

Commitments presented in Note 20 include the Corporation's 50 percent share in the commitments of the joint venture.

notes to consolidated financial statements

24. 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

	2001	2000	1999
Net earnings (loss) – Canadian GAAP	$ (45)	$ 82	$ 62
Adjustments:			
Deferred start-up costs [a]	–	–	(5)
Preferred securities charges [b]	(17)	(15)	(14)
Tax	5	6	8
Other net of tax	–	(1)	3
Net earnings (loss) – U.S. GAAP	$ (57)	$ 72	$ 54
Other comprehensive income			
Natural gas derivatives [d]			
Cumulative effect of SFAS 133	(105)	–	–
Realized and unrealized losses	(37)	–	–
Translation adjustments	(56)	(23)	30
Comprehensive income (loss) – U.S. GAAP [c]	$ (255)	$ 49	$ 84
Earnings (loss) per common share – U.S. GAAP			
Basic	$ (0.49)	$ 0.64	$ 0.46
Diluted	$ (0.49)	$ 0.61	$ 0.46

Consolidated Statements of Cash Flows

	2001	2000	1999
Operating after changes in non-cash working capital – Canadian GAAP	$ 87	$ 256	$ 160
Deferred start-up costs [a]	–	–	(3)
Preferred securities charges paid [b]	(12)	(9)	(8)
Operating after changes in non-cash working capital – U.S. GAAP	$ 75	$ 247	$ 149
Investing – Canadian GAAP	$ (200)	$ (463)	$ (263)
Other assets [a][b]	–	–	3
Investing – U.S. GAAP	$ (200)	$ (463)	$ (260)
Financing – Canadian GAAP	$ 146	$ 121	$ 94
Preferred securities charges paid [c]	12	9	8
Financing – U.S. GAAP	$ 158	$ 130	$ 102
Cash and cash-equivalents – end of year			
Canadian and U.S. GAAP	$ 51	$ 18	$ 104

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. As discussed in (d) below, SFAS No. 133 is effective for the Corporation January 1, 2001, and both the cumulative effect from prospective adoption and the current period recognition of derivatives at fair value result in differences between the balance sheets under U.S. and Canadian GAAP. 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 18, 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 under U.S. GAAP. At December 31, 2001, long-term debt would increase by $225-million (2000 – $225-million), other assets would increase by $6-million (2000 – $6-million), future income taxes would increase by $2-million (2000 – $2-million), and shareholders' equity would decrease by $221-million (2000 – $221-million).

(c) 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.

(d) For derivatives designated as cash flow hedges, changes in the fair value of the derivative that are effective in offsetting the hedged risk are recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of the change in fair value is recognized in earnings each period. On initial adoption of SFAS No. 133 on January 1, 2001, additional assets of $90-million and liabilities of $8-million were recorded for U.S. GAAP purposes to reflect the fair value of derivatives designated as hedges. As at January 1, 2001, other comprehensive income included gains of $173-million and applicable taxes of $68-million as the cumulative effect on adoption of SFAS No. 133. The gains included the realized gain of $75-million (included in accounts payable for Canadian GAAP), other unrealized gains of $82-million relating to cash flow hedges for forecasted purchases of natural gas and $16-million of realized gain that is included in inventory for Canadian GAAP.

At December 31, 2001, additional liabilities of $47-million were recorded for U.S. GAAP purposes to reflect the fair value of derivatives designated as cash flow hedges. Other comprehensive income included a loss of $59-million and applicable taxes of $22-million, including the unrealized loss of $47-million and a $12-million realized loss included in inventory for Canadian GAAP. These are included in other comprehensive income and relate to forecasted natural gas purchases in 2002.

(e) Under U.S. GAAP, ownership in a joint venture where the venturer does not own more than 50 percent and have a significant influence over the operating activities of the joint venture is to be accounted for using the equity method. Under Canadian GAAP, joint ventures are proportionately consolidated. As the net assets and earnings of the Corporation would be the same under both methods, this difference has not been adjusted for. Note 23 provides the detail of the joint venture to make this adjustment.

Supplemental Schedules of U.S. GAAP Financial Statements

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

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

Years ended December 31	**2001**	2000	1999
Sales	**$ 2,174**	$ 1,973	$ 1,810
Direct freight	**111**	100	94
Net sales	**2,063**	1,873	1,716
Cost of product	**1,522**	1,326	1,227
Gross profit	**541**	547	489
Expenses			
Selling, general, administrative and other expenses	**369**	276	268
Depreciation, depletion and amortization	**141**	109	90
Earnings before interest expense and income taxes	**31**	162	131
Interest	**91**	52	51
Earnings (loss) before income taxes	**(60)**	110	80
Income taxes	**(3)**	38	26
Net earnings (loss)	**$ (57)**	$ 72	$ 54
Retained earnings – beginning of period	**311**	252	231
Repurchase of common shares	**–**	–	(20)
Common share dividends declared	**(13)**	(13)	(13)
Retained earnings – end of period	**$ 241**	$ 311	$ 252

notes to consolidated financial statements

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

Years ended December 31	**2001**	2000	1999
Net earnings (loss)	**$ (57)**	$ 72	$ 54
Other comprehensive income			
Natural gas derivatives [(d)]			
Cumulative effect of SFAS 133	**(105)**	–	–
Unrealised and realised losses	**(37)**	–	–
Foreign currency translation adjustments	**(56)**	(23)	30
Comprehensive income (loss)	**$ (255)**	$ 49	$ 84

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

Years ended December 31	**2001**	2000	1999
Operating			
Net earnings (loss)	**$ (57)**	$ 72	$ 54
Items not affecting cash			
Depreciation, depletion and amortization	**141**	109	90
Argentine Charges - Peso devaluation	**20**	–	–
- U.S. dollar forced conversion	**29**	–	–
Future income taxes (reduction)	**(26)**	35	(27)
Cash provided by operating activities	**107**	216	117
Changes in non-cash working capital	**(32)**	31	32
Cash provided by operating activities after changes in non-cash working capital	**75**	247	149
Investing			
Capital assets	**(164)**	(179)	(234)
Acquisition	**(19)**	(246)	–
Other assets	**(32)**	(48)	(46)
Other	**15**	10	20
Cash used in investing activities	**(200)**	(463)	(260)
Financing			
Common shares	**1**	3	(32)
Bank indebtedness	**(97)**	130	151
Issue of long-term debt	**267**	10	–
Repayment of long-term debt	**–**	–	(4)
Common share dividends paid	**(13)**	(13)	(13)
Cash provided by financing activities	**158**	130	102
Increase (decrease) in cash and cash-equivalents	**33**	(86)	(9)
Cash and cash-equivalents – beginning of year	**18**	104	113
Cash and cash-equivalents – end of year	**$ 51**	$ 18	$ 104

Supplemental Consolidated Balance Sheets – U.S. GAAP

Years ended December 31	**2001**	2000
ASSETS		
Current assets [d]	**$ 691**	$ 688
Capital assets	**1,494**	1,484
Other assets	**133**	150
Goodwill	**45**	49
	$ 2,363	$ 2,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities [d]	**$ 627**	$ 679
Long-term debt	**988**	732
Other liabilities	**127**	120
Deferred income taxes	**140**	197
	1,882	1,728
SHAREHOLDERS' EQUITY		
Common shares	**376**	375
Retained earnings	**241**	311
Other comprehensive income	**(136)**	(43)
	481	643
	$ 2,363	$ 2,371

25. SUBSEQUENT EVENT

On March 5, 2002, the Corporation entered into a "bought deal" financing with a syndicate of Canadian Underwriters to issue $110-million of common shares at $9.85 per common share. Concurrent with this financing the credit facilities described in Note 14 (b) and (c) will be reduced from $375-million to $281-million, and certain related covenants will be amended. The underwriters have an overallotment option to purchase additional common shares at the same issue price for a period of 30 days from the date of closing the offering. If the option is fully exercised the total amount of the issue will be $124-million.