management's discussion and analysis

The following management's discussion and analysis is in U.S. dollars except where otherwise stated and should be read in conjunction with the consolidated financial statements and related notes on pages 46-75. The Summary of Year-Over-Year Changes in Net Earnings Table on page 22; the Selected Quarterly Information – Seasonality of Earnings and Cashflow Table on page 23; and the Sensitivity Table on page 25 form part of the management's discussion and analysis.

Our activities are divided geographically, and by function, into five segments. The four operating segments are: North America Wholesale, North America Retail, South America Wholesale and South America Retail. The fifth segment, Other, includes our corporate functions and inter-segment eliminations.

2001 IN REVIEW

The year 2001 was a disappointment financially for Agrium and the North American fertilizer industry. We were comfortable with the investment analysts' consensus early in 2001 of net earnings for the year of $1.21 per common share and we were on our way to achieving those results after a good first quarter, but ultimately we experienced our worst year since going public in 1993. Before considering the impact of losses due to the devaluation of the Argentine peso and the forced conversion of U.S. dollar receivables into pesos, (Argentine Charges), net earnings for 2001 were $4-million, down from $82-million ($0.65 per common share) and $62-million ($0.47 per common share) in 2000 and 1999 respectively. The Argentine Charges, resulted in additional losses of $49-million and a consolidated **net loss** of $45-million ($0.49 per common share).

Consolidated earnings before interest expense and income taxes (EBIT) were $31-million compared to $163-million in 2000 and $131-million in 1999. Together with the Argentine Charges, poor results from our North America Wholesale operations were the primary driver behind these poor results. **North America Wholesale** was impacted by an unprecedented combination of factors. Poor weather created the worst growing conditions in years, volatile gas prices made production management difficult and selling prices were heavily influenced by gas prices, record nitrogen imports and reduced sales volumes. These factors contributed to North America Wholesale recording EBIT of $64-million compared to $166-million in 2000 and $128-million in 1999.

The table below summarizes the year-over-year changes in net earnings:

Summary of Year-Over-Year Changes in Net Earnings

(millions of U.S. dollars)	2001	2000	1999
Net earnings previous period	**82**	62	119
North America Wholesale			
Nitrogen pricing and volumes	**96**	108	(55)
Nitrogen manufacturing costs	**(140)**	(49)	(20)
Unocal Fertilizer Asset acquisition	**21**	22	–
Phosphate	**(13)**	(41)	(13)
Potash	**(12)**	4	(3)
Depreciation	**(25)**	(14)	–
Facility shut down costs	**(15)**	–	–
North America Retail EBIT*	**4**	4	7
Restructuring costs	**–**	–	(11)
Interest costs	**(37)**	–	–
Other	**–**	(3)	7
Tax impact on variances	**43**	(11)	31
Argentine Charges	**(49)**	–	–
	(45)	82	62

**Earnings before interest expense and income taxes (EBIT)*

Both our **South America Wholesale** and **South America Retail operations** were severely impacted by the Argentine Charges. These losses are the result of two distinct events. Based on a year-end exchange rate of 1.70 pesos to the U.S. dollar, losses of $20-million have been incurred as a result of the devaluation of the peso. In addition, losses totalling $29-million have resulted from legislation by the Argentine government which has substituted peso denominated monetary assets for U.S. dollar denominated monetary assets. In our South America Retail operation there was an additional $23-million unrealized foreign currency charge to the cumulative translation adjustment account, a component of shareholders' equity.

Prior to recording the Argentine Charges, our retail operation in Argentina recorded EBIT of $1-million compared to losses before interest expense and income taxes of $1-million in 2000 and $7-million in 1999. Our wholesale operation, comprising our 50 percent share in the Profertil S.A. (Profertil) nitrogen facility, recorded EBIT of $4-million in its first year of production, also before Argentine Charges, compared to losses of $4-million in 2000 and EBIT of $1-million in 1999.

EBIT from our **North America Retail** business was $51-million, its fifth successive record year, and an increase of nine percent over 2000 and 19 percent over 1999.

Interest expense of $74-million for 2001 increased by $37-million over 2000 and 1999 with the start up of Profertil and the discontinuance of interest capitalization, interest on the financing incurred to purchase the Unocal Fertilizer Assets, and as a result of increased working capital levels.

Mainly as a result of high inventory levels, **cash flow provided by operating activities after changes in working capital** for 2001 was $87-million compared to $256-million in 2000 and $160-million in 1999. The high inventory value was due to our North America Wholesale business where low fertilizer demand increased inventory and high natural gas input costs increased the average price per tonne. Generally, our working capital levels are driven by the seasonal nature of the fertilizer business. Inventory builds prior to the spring and fall planting seasons, and cash collections generally occur after planting. In some areas such as Argentina, collections occur after harvest in their fall. In managing our working capital levels we utilize an accounts receivable securitization facility in both our U.S. retail and wholesale operations. This facility allows us to sell to a financial institution up to $125-million dollars of eligible receivables throughout the year. This reduces volatility in our working capital levels throughout the North American fertilizer cycle.

The following table of selected quarterly information illustrates the seasonality of our earnings and cash flow:

Selected Quarterly Information – Seasonality of Earnings and Cashflow

(millions of U.S. dollars)	2001					2000					1999				
	Q1	**Q2**	**Q3**	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Net sales	**$ 381**	**$ 803**	**$ 410**	**$ 469**	**$ 2,063**	$ 310	$ 700	$ 378	$ 485	$1,873	$ 289	$ 675	$ 355	$ 397	$1,716
Net earnings (loss)	**$ 7**	**$ 45**	**$ (17)**	**$ (80)**	**$ (45)**	$ (4)	$ 51	$ 13	$ 22	$ 82	$ –	$ 54	$ 3	$ 5	$ 62
Net earnings per share															
Basic	**$ 0.04**	**$ 0.37**	**$ (0.17)**	**$ (0.72)**	**$ (0.49)**	$ (0.06)	$ 0.44	$ 0.10	$ 0.17	$ 0.65	$ (0.01)	$ 0.46	$ 0.01	$ 0.02	$ 0.47
Diluted	**$ 0.03**	**$ 0.33**	**$ (0.17)**	**$ (0.72)**	**$ (0.49)**	$ (0.06)	$ 0.42	$ 0.10	$ 0.16	$ 0.62	$ (0.01)	$ 0.40	$ 0.01	$ 0.02	$ 0.46
Cash provided by operating activities	**$ 38**	**$ 61**	**$ 17**	**$ 3**	**$ 119**	$ 21	$ 70	$ 54	$ 79	$ 224	$ 19	$ 70	$ 14	$ 24	$ 127

Capital asset additions of $164-million, excluding the accrued contingent purchase consideration of $19-million for the Unocal Fertilizer Assets, were below both 2000 and 1999 levels, which included construction of Profertil, as we cut back our capital program in the latter half of 2001 in order to conserve cash resources.

LIQUIDITY AND CAPITAL RESOURCES

During 2001, we completed the following financing transactions:

- Issued $125-million 8.25 percent debentures due February 15, 2011, and used the proceeds to retire the majority of the bridge financing facility related to the acquisition of the Unocal Fertilizer Assets;
- Repaid the Profertil bridge financing facility, which expired March 30, 2001, utilizing funds available under a long-term project financing expiring December 31, 2010;
- Obtained the release of completion guarantees on the Profertil plant on November 30, 2001, resulting in the project financing becoming non-recourse to Agrium;
- Increased our unsecured syndicated working capital credit facilities from $200-million to $375-million. This facility will be reduced to $281-million and certain covenants will be amended concurrent with the completion of the financing referred to below.

Our debt-to-debt plus equity ratio, including bank indebtedness at December 31, 2001, was 57 percent compared to 48 percent at the end of 2000, and 47 percent at the end of 1999. This is higher than our target ratios but liquidity should improve in 2002 as working capital requirements should be substantially less than in 2001 due both to the current low natural gas cost environment and lower inventory levels. In March 2002, we 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. 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. If the option is fully exercised the total amount of the issue will be $124-million.

Unused lines of credit at year-end consisted of $165-million under our syndicated working capital facilities. To use these facilities certain financial ratios must be maintained along with compliance with other covenants. These facilities are expected to meet peak working capital requirements going into the spring season.

Planned capital expenditures of $79-million for 2002 are substantially lower than recent years and contain no new investment projects. We also have annual operating commitments for 2002 of approximately $380-million which are summarized in Note 20 to the Consolidated Financial Statements. These commitments consist primarily of natural gas and power, and include $248-million which can be re-sold based on prevailing prices if not required in our operations. With the exception of funds held abroad to meet foreign debt payments, Profertil is required to bring U.S. dollars back to Argentina within 120 days (in the case of fertilizers) and convert them to pesos at the market rate.

EXPECTATIONS FOR 2002

We believe we are well positioned to take advantage of an anticipated recovery in the fertilizer industry. Our plans for 2002 are cautiously optimistic.

We expect each of our North and South America Wholesale operations to have improved results in 2002 and our Retail operations to have results consistent with 2001. At this low point in the cycle, we intend to conserve resources until there is evidence of a market improvement and we feel the time is prudent to reinstate investment to continue our growth. We have significantly reduced discretionary spending budgeted for 2002, and have taken a number of steps to reduce both production costs and corporate overhead.

We continue to monitor the effect of devaluation and economic uncertainty in Argentina, which, depending on the outcome, may impact our 2002 results. Based on the current trading rate of approximately two pesos to one U.S. dollar, an additional $4-million in losses relating primarily to long-term valued-added tax (VAT) would be incurred in 2002, based on December 31, 2001, balances. In the longer-term, however, we continue to believe the fundamentals for the Argentina agricultural sector remain good. In 2002, we will mitigate risk in light of this evolving economic environment. We believe devaluation should be positive in the long-term to our South America Wholesale business by reducing input costs while still receiving revenue based directly or indirectly on international, U.S. dollar based prices.

This table illustrates the effect of changes in key variables on our net earnings, and is based on actual levels of activity in 2001. It is not intended to be used to forecast results, as a change in one factor may compound or offset another and levels of activity in future years may differ from those in 2001. In addition, these sensitivities may only be valid within a limited range of values.

	Sensitivity		
Impact Factor	Increase in Factor	Net Earnings Impact (millions of U.S. dollars)	Earnings* per Share (dollars per share)
North America Wholesale			
Nitrogen			
Price of ammonia	U.S.$5.00/tonne	5	0.05
Price of urea	U.S.$5.00/tonne	7	0.06
Cost of natural gas	U.S.$0.10/MMBtu	(5)	(0.04)
Phosphate			
Price of phosphate (MAP & DAP equivalent)	U.S.$5.00/tonne	3	0.02
Potash			
Price of potash	U.S.$5.00/tonne	4	0.04
Exchange rate from C$ to U.S.$	C$0.01	1	0.01

**based on average outstanding shares at December 31, 2001.*

Our South America Retail operation has succeeded at developing the granular urea market in Argentina to place Profertil product domestically and we will continue to evaluate options for this business in 2002.

In North America we are monitoring our markets very closely in the event demand does not meet expectations and will institute facility shutdowns in order to prevent inventory build-up. We will also investigate opportunities for asset rationalization in 2002 to ensure that we are positioned to successfully take advantage of the volatility in this market.

RISKS AND UNCERTAINTIES

The Corporation balances risks and rewards facing its operations by utilizing a variety of risk mitigation strategies and tools which include insurance, derivative instruments, fixed-price raw material contracts, partnering with local companies in foreign countries and non-recourse project financing. In some cases, to ensure security of supply of raw materials, the Corporation engages in the production of key raw materials such as phosphate rock. Because the fertilizer business is essentially an international commodity business, the Corporation attempts to do business in U.S. dollars wherever possible in order to mitigate currency exposure.

REPORTING STANDARDS

The Canadian Institute of Chartered Accountants continues to develop and revise current Canadian accounting standards, which have tended toward harmonization of Canadian and U.S. generally accepted accounting principles. Note 2 to the Consolidated Financial Statements outlines the impact the new standards will and have had on our operations in the 1999 to 2001 period. Our accounting policies fully comply with both Canadian and U.S. standards and all significant accounting policies are clearly defined in Note 1 of the Consolidated Financial Statements.

OUR NORTH AMERICA WHOLESALE BUSINESS (NAW)

Our North America Wholesale business is the foundation of our Company. The opportunities in this business are improving the efficiency and technology of our facilities and distribution networks. The following table outlines our accomplishments in 2001 and goals for the future.

Theme	Area	2001	2002 and Beyond
Focus on Our Base Business	**ASSETS**	• Kapuskasing, Ontario, phosphate mine running at capacity • Cogeneration power projects on stream in Alberta and Alaska • Disposition of non-performing assets	• Continue rationalization of production assets in response to changing global market fundamentals • Continue to drive down costs through application of best practices • Explore options for diversifying low-cost gas supply in Alaska
	MARKETS	• Moving further into industrial markets • Worldwide sales from Kenai, Alaska, nitrogen facility	• Grow share of key agricultural and industrial markets • Leverage off existing assets to trade in product • Decrease risk through diversification of product and market mix
	BUSINESS PROCESS	• Unocal Fertilizer Assets integration complete • Achieved risk mitigation objectives • Implemented "Easiest To Do Business With" program	• Continue to improve asset management
	PEOPLE	• New incentive program implemented • Key Performance Indicators (KPIs) established Company-wide	• Continue to build High Performance Culture • Further enhance link between compensation and growth in shareholder value
Growth Initiatives		• Conda, Idaho, purified phosphoric acid (PPA) project on stream in the third quarter	• Examine opportunities around the world
Financial Performance		• EBIT of $64-million	• Improve financial flexibility, margins and reduce costs

The wholesale fertilizer market in North America provides a strong base to support our global expansion. We are the largest nitrogen producer in the Western Hemisphere and a significant producer of phosphates, potash and sulphur. We are also ideally positioned to serve Western Canada, the Northern Tier States and the Pacific Northwest. We benefit from our proximity to low-cost inputs and to key markets, combined with our extensive distribution infrastructure. We are also global marketers of nitrogen and potash from our North American facilities.

2001 IN REVIEW

Disappointing results in our North America Wholesale business segment were the primary reason for Agrium's overall lower earnings in 2001. Poor weather conditions across North America created the worst growing conditions in many years. Severe drought occurred in Western Canada and the Pacific Northwest, while the western Corn Belt and the eastern half of the U.S. Northern Plains received abnormally high rainfall. These conditions, as well as concerns over rising input costs, caused many growers to plant less nitrogen-intensive crops, or to leave land fallow. Low grain prices were another factor which affected all products, while high domestic nitrogen prices not only resulted in reduced demand, but also attracted record imports into North American markets. Like nitrogen, demand for phosphate and potash fertilizers was also lower.

As a result of volatile high natural gas prices, the main raw material for the production of nitrogen fertilizers, a high percentage of production capacity in North America was shut down leading up to the 2001 spring season. Throughout the winter of 2000-2001, our strategy in our North America Wholesale business was to continue production in anticipation of normal 2001 spring demand, despite prevailing record spot natural gas prices. This was because our natural gas hedge position provided a substantial cushion against high natural gas costs which account for approximately 80 percent of the cost of producing ammonia at a natural gas price of approximately $3.00/MMBtu. We anticipated that high gas prices would result in the shut-in of significant levels of unhedged production in North America and that this would create supply shortages and put upward pressure on nitrogen prices. This view initially proved to be correct, and in late 2000 and early 2001, industry-wide shutdowns did occur in North America. Amid fears that fertilizer supplies would be tight during the spring planting season, nitrogen prices rose to record levels, but toward the end of the first quarter, natural gas prices declined, enabling most North American producers to restart their plants in time for the spring season. By this time, the high nitrogen prices in North America had attracted record imports, compounding the oversupply situation.

The resultant build up of inventories was accompanied by deteriorating weather conditions not only in North America but also in other key agricultural regions of the world. This, combined with low commodity prices, acreage shifts to less nitrogen-intensive crops and grower concerns over rising input costs, led to a significant decrease in demand and consequently lower fertilizer prices. In 2001, the U.S. Gulf spot ammonia price fell from $314 per tonne in January to $184 per tonne in July. The spot price of urea dropped from $218 per tonne to $116 per tonne during the same period.

We came out of the peak season with large quantities of high-cost inventory because of the dramatic reduction in demand. Nitrogen inventories were reduced as a result of the shut-down of three production facilities and reduced production at most of the others. This resulted in idle facility costs of approximately $15-million and negatively impacted unit production costs at facilities operating at reduced rates.

These factors contributed to North America Wholesale recording an EBIT of $64-million compared to $166-million in 2000 and $128-million in 1999.

RECENT DEVELOPMENTS IN NORTH AMERICA WHOLESALE

In the challenging financial environment of 2001, we were able to achieve a number of goals and make progress on others to position us for the future.

We completed co-generation power projects at our Carseland and Kenai facilities that will secure our Alberta and Alaskan power requirements at competitive prices under long-term agreements. We realized full production of low-cost phosphate rock at our Kapuskasing facility. We completed the PPA project at our Conda facility, providing a long-term stable cash flow from monthly sales to new industrial markets. We also closed our Henry, Illinois, specialty product business, which had become unprofitable, resulting in a one-time non-cash charge to depreciation, depletion and amortization, totalling $7-million before tax ($5-million after tax).

During the year we made progress on our initiative to become the Easiest Company to Do Business With, which we launched in 2000. This includes order tracking, enhanced customer service and extended hours for pick-up.

We continue to focus on optimizing our base business assets. Our asset management initiative, started in 1999, is designed to ensure that we follow best practices throughout the life-cycle of a facility, from design to dismantling. These practices are expected to reduce maintenance costs, improve equipment reliability, increase on-stream factors and improve utilization of materials and services.

We continue to refine environmental, health and safety (EH&S) management systems throughout our wholesale operations. We have always maintained high standards, and are now developing and implementing EH&S systems, modeled on international best practices. This is expected to eliminate differences among facilities which resulted from our acquisitions.

OUR NITROGEN BUSINESS

Nitrogen is the largest segment of our North America Wholesale business and we are the largest producer in North America. More than 55 percent of our nitrogen (N) production capacity is located in Alberta, Canada, near abundant supplies of natural gas. Alberta natural gas has historically traded at a discount to the New York Mercantile Exchange (NYMEX), providing us with a production cost advantage. A further 30 percent of our North American nitrogen (N) production comes from our Kenai, Alaska,

facility, which has a reserve-dedicated natural gas contract at a fixed base-price adjusted for increases in ammonia and urea pricing. Product from Kenai, Alaska, is sold to agricultural markets in the Pacific Rim, including Korea, Thailand and Mexico. Both agricultural and industrial sales from Kenai, Alaska, occur throughout the year, not concentrated in the spring and fall application seasons.

In 2001, our nitrogen business experienced volatile gas and selling prices. Per-tonne margins were $32, compared to $41 in 2000 and $25 in 1999, and volumes were materially lower, excluding production from the Unocal Fertilizer Assets. Compounding the domestic situation were weak international prices due to adverse weather conditions, additional capacity coming on stream and the global economic downturn, which impacted industrial demand.

We continually evaluate demand and shut down or reduce production rates at facilities when market conditions warrant. We currently have suspended production at Redwater 1, Alberta, the smaller of our two ammonia facilities, at our urea facility in Fort Saskatchewan, Alberta, and the small ammonia facility at Finley, Washington.

As the nitrogen business becomes increasingly global in scope, we frequently investigate opportunities to optimize our asset base and adjust our product offering. We also see opportunities in growing our asset base through new production, which will most likely be concentrated in the low-cost trapped gas areas of the world. One opportunity for adjusting our product offering is by increasing our nitrogen solutions capabilities to take advantage of an emerging product opportunity.

OUR PHOSPHATE BUSINESS

Our phosphate business is focused in Western Canada and the Pacific Northwest, where we have an extensive distribution infrastructure. Our plant at Redwater, Alberta, located alongside our nitrogen facility, is the only phosphate production facility in Canada.

As with our nitrogen business, our phosphate business was impacted by poor weather in our key markets in 2001. Prices remained low but were relatively stable compared to 2000. Our per-tonne margins in 2001 were $7, compared to $21 per-tonne in 2000 and $55 per tonne in 1999. Compared to 2000 and 1999, per-tonne costs increased due to higher ammonia input costs and greater fixed costs caused

by operating facilities at reduced rates. However, our costs fell significantly throughout the year as we resolved certain operational problems. In the latter part of 2001, we resolved the start-up problems at our Kapuskasing phosphate rock mine. Our Conda facility ran at reduced rates for the first half of 2001 because one of three digester units failed in October 2000. The plant did not achieve full production capacity until a new digester came on stream when the PPA expansion was completed in mid-2001. During the second half of 2001, Conda experienced significantly lower production costs.

The new PPA unit at Conda was built by Astaris LLC and Agrium and is operated by Agrium. The unit has a production capacity of 80,000 tonnes per year and is operating under a supply agreement which expires in 2016.

Further opportunities in our phosphate business include optimization of rock handling capabilities at Redwater, Alberta, and expansion of the business to gain further economies of scale.

At our Conda, Idaho, phosphate facility, in conjunction with other Idaho phosphate producers, we have agreed to work with regulators to seek solutions to run-off of selenium deposits contained in the phosphate rock reserves.

OUR POTASH BUSINESS

Our potash mine at Vanscoy, Saskatchewan, accounts for approximately eight percent of North American capacity, or three percent of world capacity. We market potash internationally through Canpotex Ltd., a marketing company owned by the three Saskatchewan producers, IMC Global Inc., Potash Corporation of Saskatchewan Inc. and Agrium.

International demand dropped in 2001 because many customers were left with high potash inventories at the end of 2000. Furthermore, a consortium of Russian producers, International Potash Company (IPC), gained market share from Canpotex Ltd. as a result of aggressive pricing. This resulted in a slight decline in margins to $43 per tonne in 2001, compared to $47 per tonne and $45 per tonne in 2000 and 1999 respectively. The decline in margins was also due to production curtailments required to manage inventories, which led to fixed operating costs being spread over fewer production tonnes.

There is currently ample potash capacity to meet world demand. The opportunity for the low-cost producers in Saskatchewan, Canada, is to work with government to reduce taxation levels in the province and other costs to ensure global competitiveness. We are also currently working with shippers to reduce the cost of transportation to domestic and offshore markets.

EXPECTATIONS FOR 2002

We expect that an improvement in market demand, resulting from a return to more typical weather conditions and lower natural gas prices, will provide us with improved 2002 results for our North America Wholesale business. A small increase in grain prices and higher corn acreage, also forecast for 2002, should increase demand and prices. In nitrogen, we expect lower natural gas costs to result in lower nitrogen production costs. This is despite losses from our 2002 natural gas hedging program which are expected to add an average of $0.54 per MMBtu to our North American gas requirements of approximately 240,000 MMBtu per day. We expect our Alberta power costs to be C$30 per MegaWatt hour (MWh) lower in 2002, which will result in a $16-million reduction in production costs.

We are closely monitoring our working capital and have developed processes to better anticipate regional spring sales demand. This will allow us to adjust production in response to changing market conditions.

In phosphate, the outlook for 2002 is for prices to increase marginally and costs to decline, as both our Conda, Idaho, and Kapuskasing, Ontario, facilities run at capacity, increasing volumes and reducing unit costs. Ammonia input costs should also decline substantially because of lower natural gas costs.

In 2002, potash use and sales are expected to improve as customer inventories are reduced.

RISKS AND UNCERTAINTIES FACING THE WHOLESALE BUSINESS

Our North America Wholesale business is subject to the normal risks and uncertainties associated with operating facilities and transporting products to market. Where it is cost-effective, we carry insurance against these risks. However, insurance may not provide adequate coverage in certain unforeseen circumstances, or due to the impact of recent events, may not be available at acceptable premiums. Business results are also substantially affected by weather conditions in our primary market areas and to other risks normally associated with commodity industries, such as fluctuating grain prices, fertilizer prices, natural gas costs, electrical power costs and foreign exchange rates.

A significant increase in the cost of natural gas that is not hedged, and cannot be recovered through an increase in prices, could have a major effect on the profitability of our nitrogen-based fertilizer business.

We manage our exposure to fluctuating natural gas and power prices by using derivative commodity instruments and longer-term fixed-price natural gas supply contracts. We regularly evaluate hedging techniques to ensure we maintain an appropriate balance between the cost of such programs and the underlying business risk.

We purchase natural gas from a number of suppliers, primarily under one-year contracts but also under several longer-term contracts. Natural gas prices under these contracts are fixed or market-indexed. Should North American natural gas prices increase significantly similar to levels experienced in early 2001, production costs would rise relative to offshore production.

The Kenai gas contract between Union Oil Company of California (Unocal) and Agrium is a reserve-dedicated contract which is subject to risks relating to the exploration, development and production of the reserves. Unocal has advised Agrium that it has experienced downward revisions in its reserves, which has also reduced anticipated reserve growth. Unocal's most recent reserve estimates indicate that it may only be able to supply approximately 80 percent of the facility's gas requirements in 2004, declining to approximately 50 percent of its requirements in 2006. These estimates do not include possible gas reserves that may arise from exploration and development of other gas resources pursuant to the Kenai, Alaska, gas contract. Agrium has not had an opportunity to audit Unocal's recent reserve estimates.

Agrium and Unocal are in discussions with respect to this possible shortfall in dedicated reserves. Unocal has other reserves in the area that are not dedicated under the gas contract that could supply the Kenai, Alaska, facility. In addition, Agrium is in discussions with other gas producers in the Cook Inlet area of Alaska to supply a portion of Agrium's natural gas requirements at the Kenai, Alaska, facility. While Agrium believes that gas supply arrangements with other entities in the area will provide a more secure and diversified gas supply at acceptable prices, no assurance can be given that such arrangements can be implemented.

Challenges to our nitrogen business include more restrictive legislation governing the sale and distribution of our products, potential regulations limiting nitrogen application in sensitive areas due to run-off concerns, and environmental laws that would restrict production rates.

Past and present wholesale operations, including discontinued mining operations of predecessor corporations, are also affected by wide-ranging and increasingly stringent environmental legislation that will require site decommissioning, restoration and reclamation in the future.

OUR NORTH AMERICA RETAIL BUSINESS (NAR)

Our North America Retail business, with 225 farm centres, is one of the largest independent retailers in the United States. Our operations serve the Northwest, California, Northeast and Midwest, which insulates the business from unfavorable crop prices or adverse weather conditions in any single region. We provide a full range of agricultural products and services, including fertilizers, chemicals, seed, custom application, agronomic consulting and marketing services.

In recent years, retail sales have been affected by the emergence of genetically modified seeds. These seeds require fewer chemicals and as a result, chemical sales have declined. However, unlike traditional non-hybrid seeds, they may be used for only one growing season due to licensing provisions and genetics. The associated increase in volume of seed sales, despite slightly lower prices and margins, has resulted in increased seed revenues. Another recent trend in the retail business is grower consolidation, which has increased the purchasing power of individual growers. This trend has tended to favour larger retail chains offering full service. These chains have been able to expand sales and lower costs, resulting in stable to growing gross margins.

The goals and opportunities for North America Retail include acquisitions, improving the efficiencies and technologies of farm centres and providing new and improved services to growers. North America Retail's goal is to create collaborative relationships with customers by offering value-added services and products that enhance the customers' success.

The following table outlines our accomplishments in 2001 and our goals for the future.

Theme	Area	2001	2002 and Beyond
Focus on Our Base Business	**ASSETS**	• Closed seven less-profitable farm centres	• Evaluate the performance of all farm centres to improve our asset base
	MARKETS	• Increased seed sales by 32 percent • Continued installation of C-Probes for irrigation management	• Evaluate the concept of providing stable returns to our customers through value-added sales packages
	BUSINESS PROCESSES	• Implemented new business-to-business and e-commerce services	• Continue business-to-business with more companies in 2002
Growth Initiatives		• Acquired seven farm centres	• Optimize our asset base by purchasing farm centres within our existing markets
Financial Performance		• Retail recorded five consecutive years of record EBIT	• Continue to improve EBIT and return on investment

2001 IN REVIEW

Our North America Retail operation continues to be a major success story with five consecutive years of record EBIT and consistent cash flow generation. In addition to earnings, investment returns have increased consistently over the past five years. Results in 2001 emphasized the importance of being geographically diversified. While the Northwest experienced adverse weather conditions and below average operating results, excellent performance in the Midwest, Northeast and California enabled North America Retail to achieve a record EBIT of $51-million: the fifth consecutive record. The success factors were: purchasing fertilizer inventory in advance of market based price increases, maintaining chemical margins, increasing seed sales, maintaining commitment to a high level of services and controlling selling expenses.

EXPECTATIONS FOR 2002

In 2002, North America Retail expects to continue its record of consistent financial performance. Improved financial performance is expected in the Northwest and California. Moisture levels, energy prices and potato markets in these regions are encouraging. Growers' financial conditions should improve because of lower fuel, fertilizer and chemical prices and decreasing interest rates.

North America Retail's commitment to delivering new pest and disease resistant traits through seeds will continue in 2002. Since 1997, our seed business has grown over 130 percent. Private label soybeans and alfalfa have contributed to the profitability of these sales. In 2002, we will add to this by preparing for the sale of private label corn seed.

Grower consolidation to take advantage of economies of scale is a continuing trend. We target our progressive customers to ensure our services meet their needs. Our goal is to do business with growers who will be in business for the long term. As our current customers increase their acreage, we grow with them. Focusing on internal growth and strategic acquisitions will ensure our long-term future.

Each year we closely monitor farm centre performance, optimizing assets wherever possible and seeking growth opportunities to take advantage of our economies of scale. This exchange of non-productive assets for performing assets is a capital-effective way of improving overall financial performance.

RISKS AND UNCERTAINTIES FACING THE RETAIL BUSINESS

The primary risk facing any retail organization is the failure to accurately identify market trends. The current market trend of genetically modified seeds is expected to continue to reduce future chemical sales. North America Retail's commitment to seed marketing should enhance its ability to capitalize on this trend. Our geographic diversification will reduce our exposure to the common risks of adverse weather and low crop prices within particular regions. North America Retail is also subject to similar environmental risks as our North America Wholesale business.

SOUTH AMERICA

Our operations in Argentina include joint ownership of our wholesale business (Profertil) with Repsol-YPF and a wholly-owned retail operation, Agroservicios Pampeanos (ASP). In 1995, we chose Argentina as our first investment outside of North America because of its potential for agricultural growth. ASP currently has 18 full service retail outlets, supported by two satellite outlets.

Although farm sizes and crop mix are similar to those in the U.S., fertilizer application rates are much lower, which makes this an attractive emerging market. Our strategy was to introduce bulk blending and high-volume application services to Argentine growers through retail outlets. After developing these markets, our strategy was to complete construction of a nitrogen production facility to supply these needs. The Profertil nitrogen facility achieved commercial production in 2001.

The end of 2001 brought a great deal of instability to Argentina's faltering economy, which has been in a deep recession since 1997. On January 6, 2002, the Argentine Congress passed legislation cancelling the "Convertibility Law" which pegged the Argentine peso to the U.S. dollar. In addition to creating a free floating peso, the legislation abrogated existing contractual relationships, specifying payment in U.S. dollars or U.S. dollar equivalents, forcing payment in pesos at below market rates and thereby effectively expropriating a significant portion of Agrium's U.S. dollar based monetary assets in Argentina.

Further decrees issued since January 6, 2002, eliminated the protection that Agrium had from currency fluctuations through transacting business principally on a U.S. dollar basis. The legislation effectively prohibited the conversion of U.S. dollar amounts to the equivalent market value in Argentine pesos. While negotiation provisions referenced in the Government Decrees may result in an exchange rate which partially reflects market rate, the loss has been calculated as if all U.S. dollar monetary assets, excluding cash and bank debt, are converted to pesos at a one-to-one conversion rate. Cash held in Argentine banks and amounts owing to Argentine banks were translated at a rate of 1.40 pesos to one U.S. dollar. This reflected the rate of conversion which was legislated for the banking system. The year-end rate of

1.70 pesos to one U.S. dollar was then used to convert these balances for financial statement purposes. This loss is reflected separately in the Consolidated Statements of Operations.

The following table highlights 2001's achievements and the goals for the years to come.

Theme	Area	2001	2002 and Beyond
Focus on Our Base Business	**ASSETS**	• Urea production reached design capacity in 2001 • Operating control of the facility transferred from the contractor mid-2001 • Urea facility is the largest single-train urea plant in the world	• Maximize outputs and look for de-bottlenecking opportunities
	MARKETS	• For 2001, 54 percent of Profertil's sales were domestic, and 46 percent were offshore • Profertil continued to build domestic markets	• Flexibility to increase domestic sales which carry higher margins • Optimize the margins of our international nitrogen sales from Profertil
	BUSINESS PROCESSES	• Reduced costs by reorganizing head office in Buenos Aires	
	PEOPLE	• Replaced almost all expatriate positions with Argentine staff	• Continue to strengthen ASP/Profertil teams
Growth Initiatives			• Evaluate opportunities to improve long-term viability of South America Retail
Financial Performance		• EBIT of $4-million in South America Wholesale before Argentine Charges of $22-million • EBIT of $1-million in South America Retail before Argentine Charges of $27-million • Bank tests for long-term credit facility were achieved • Financing became non-recourse in fourth quarter	• Devaluation of Argentine peso expected to reduce some input costs

OUR SOUTH AMERICA WHOLESALE BUSINESS (SAW)

The Profertil nitrogen complex is located at Bahia Blanca, Argentina, on a deep-water port providing access to global fertilizer markets. Its production capacity is 1.1 million tonnes of urea and 70,000 tonnes of ammonia, annually. Natural gas for the facility is secured under three 12-year natural gas contracts at prices comparable to those of other global producers. One is with Repsol-YPF, a 50 percent owner 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 Caribbean granulated urea and the quarterly average of West Texas Intermediate oil price in U.S. dollars per barrel. This facility, and a deep-water import terminal at San Nicholas, Argentina, comprises our South America Wholesale Operations.

YEAR IN REVIEW

2001 was a transitional year for South America Wholesale in Argentina. We overcame the mechanical, operational and environmental challenges encountered during the start-up, relocated our Buenos Aires office to the facility location to operate more efficiently, and successfully completed the performance tests to meet the non-recourse financing requirements. We closed the year with EBIT of $4-million, which was lower than expected due to production start-up issues and low international pricing. This does not take into account devaluation losses of $20-million nor the forced conversion of U.S. dollar monetary items of $2-million. However, this was a start-up year in which operating control over the facility did not pass from the contractor until June of 2001. In 2002, we expect Profertil to contribute positively to earnings after interest expense and income taxes.

EXPECTATIONS IN 2002

Our ultimate goals are to continue to grow the domestic market so all production from Profertil can be sold domestically by 2007 and take advantage of higher margins in the domestic market. In 2002, we can mitigate short-term risk through export sales. However, with the exception of funds held abroad to meet foreign debt payments, Profertil is required to bring U.S. dollars back to Argentina within 120 days (in the case of fertilizers) and convert them to pesos at the market rate.

The biggest challenge to Profertil is the immediate impact of the current Argentine economic reforms on our business. In the event we can not achieve import parity pricing in Argentina we can export product, thereby mitigating some of the risk of operating in an environment of currency volatility. The devaluation in Argentina and the relocation of our administrative office to Bahia Blanca is expected to have a favorable benefit to our cost structure.

OUR SOUTH AMERICA RETAIL BUSINESS (SAR)

ASP, our retail operation in Argentina, is modeled after our North America Retail business. South America Retail's goal is to create collaborative relationships with customers by offering value-added products and services to enhance the customers' success. In order to accomplish this, we built 18 retail outlets between 1995 and 1997. The outlets have an average service radius of 50 kilometers, which reduces transportation costs and increases ease of delivery. We also introduced the North American practice of providing agronomic services to help growers benefit from soil testing, balanced fertilization and sound agricultural practices. The adoption of granular urea, a premium-priced fertilizer product now produced by Profertil, helped increase total fertilizer consumption in Argentina from 1.2 million tonnes of product in 1995 to approximately 1.7 million tonnes of product in 2001, confirming our initial assessment of the region's growth potential.

YEAR IN REVIEW

Despite heavy rains in key markets during the spring planting season, South America Retail operations generated EBIT of $1-million before taking into account the impact of the Argentine Charges, the first time in its five-year history in Argentina that South America Retail has shown a positive EBIT.

EXPECTATIONS IN 2002

Working capital requirements continue to be an issue due to the limited credit available to growers. Because receivables are usually not collected until after harvest, we must extend credit to growers for as long as 180 days. Although sales have historically been contracted in U.S. dollars, enforcing payment in U.S. dollars may not be feasible in the future, given legislation passed in early 2002. Therefore, new security arrangements need to be developed to support extended payment terms to ensure the viability of our South America Retail business. However, 64 percent of Argentina's grain production is exported for U.S. dollars and therefore grain prices should reflect international, or U.S. dollar based, prices. The industry should emerge stronger from the devaluation of the Argentine peso as some input costs will be lower.

We still have many challenges to overcome in this business. Argentina offers opportunities for growth as fertilization rates increase. We have chosen to expand by establishing satellite retail outlets that allow us to test and build market share prior to making the capital outlay for any new full-scale farm centres. To be successful this business must achieve additional benefits of economies of scale while ensuring it can function effectively in the current economic environment.

RISKS AND UNCERTAINTIES FACING WHOLESALE AND RETAIL OPERATIONS IN ARGENTINA

Our facilities in Argentina, and any future expansion there and internationally are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, credit, expropriation and other economic, political and regulatory policies of governments. We attempt to mitigate these risks through entering contractual arrangements in U.S. dollars where possible, and through non-recourse financing arrangements, but these strategies can afford only limited protection against these risks. Also with the exception of foreign debt payments, transfer of funds outside of Argentina currently requires the permission of the Central Bank in Argentina, and there is no assurance such restrictions on currency transferability will expire in the near-term.

Profertil is primarily influenced by international markets and has built and financed the construction of the facility using U.S. dollar based contracts. It uses the U.S. dollar as its functional currency and therefore is exposed to currency gains and losses on peso denominated transactions. ASP operates in the domestic agricultural environment and uses the peso as its functional currency, exposing it to any gains or losses on U.S. dollar denominated transactions.

The Argentina devaluation and continued instability may mean further foreign exchange losses could occur if exchange rates do not stabilize at year-end rates. We believe this environment will be extremely challenging in the short term, but we are still optimistic for the medium and long term. We feel that agriculture will be a significant factor in the country's ability to recover from this crisis, as Argentina is one of the world's largest agricultural exporters and agriculture is one of Argentina's largest exporting industries. We will continue to cautiously pursue our goals in this market.

OTHER

'Other' includes corporate functions and inter-segment eliminations. Before interest expense and taxes, the loss in 'Other' for 2001 was $40-million, a slight improvement from 2000.

SUPPLEMENTARY DISCLOSURE

Earnings before interest expense and income taxes (EBIT) is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings (loss), EBIT is a useful supplementary measure as it provides investors with an indication of earnings available prior to debt service and income taxes. The Corporation's method of calculating EBIT may differ from other companies and accordingly EBIT may not be comparable to measures used by other companies. Investors should be cautious, however, that EBIT not be construed as an alternate to net earnings (loss) determined in accordance with GAAP as an indicator of the Corporation's performance.

FORWARD-LOOKING STATEMENTS

Except for statements of historical fact, the statements in this annual report constitute forward-looking statements under applicable securities legislation. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of Agrium's business and operations, plans and references to the future results of Agrium. These forward-looking statements are based on certain assumptions and analysis made by Agrium in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions

of Agrium is subject to a number of risks and uncertainties, including, but not limited to: general economic, market and business conditions, which will, among other things, impact demand for Agrium's products; industry capacity; weather conditions; seasonality; the ability of Agrium to implement its business strategy; changes in, or the failure to comply with, government regulations (especially safety and environmental laws and regulations); fluctuations in commodity, feedstock and fertilizer prices or other input costs; results of Agrium's risk mitigation strategies, including gas or energy hedging programs and insurance coverage; uncertainty as to the feedstock reserves owned or under contract or otherwise available to Agrium; feedstock price increases that cannot be recovered through fertilizer price increases; fluctuations in foreign currency exchange rates; the ability of Agrium to deliver fertilizer to markets; competitive actions by other companies, including increased competition from other fertilizer producers; the integrity and reliability of Agrium's capital assets; Agrium's level of capital expenditures; the ability and willingness of parties with whom Agrium has material relationships to perform their obligations to Agrium including but not limited to key customers, suppliers, personnel and counterparties to financial instruments; the ability of Agrium to integrate any assets it may acquire or the performance of those assets; the opportunities (or lack thereof) that may be presented to and pursued by Agrium and the companies, partnerships or joint ventures in which Agrium has equity investments; labour unrest; conditions in and policies relating to the agriculture industry; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those relating to economic, political and regulatory policies of local governments and laws and policies of Argentina, the United States and Canada; government restrictions on currency requirements regarding currency reporting; the risks attendant with mining operations; the potential impact of increased competition in the markets Agrium operates within; and other factors, many of which are beyond the control of Agrium and the companies, partnerships or joint ventures in which Agrium has equity investments. Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by Agrium will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Agrium. Agrium does not undertake any obligation to update forward-looking statements even if circumstances or management's estimates or opinions should change. Investors should not place undue reliance on forward-looking statements.