

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

Principles of consolidation and preparation of financial statements

These consolidated financial statements are prepared and reported in U.S. dollars in accordance with accounting principles generally accepted in Canada (Canadian GAAP) and, except as outlined in note 23, are in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

The consolidated financial statements include the accounts of the Corporation and its subsidiaries and the Corporation's proportionate share of revenues, expenses, assets and liabilities of Profertil S.A. (see note 22). Intercompany transactions and balances are eliminated.

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.

Cash and cash equivalents

Cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are stated at cost, which approximates fair value.

Inventories

Wholesale inventories, consisting primarily of fertilizers, operating supplies and raw materials, include both direct and indirect production costs and freight to transport the product from the production facility to the final warehouse facility. Fertilizers include the Corporation's completed 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. Wholesale inventory is valued at the lower of weighted average cost and net realizable value.

Retail inventories are recorded at the lower of purchased cost and 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 replacements and betterments. Cost is defined as expenditures incurred up to the commencement of commercial production.

Depreciation is calculated using the straight-line method based on the estimated service lives of the respective assets, ranging from three to 25 years.

Management reviews capital assets on an ongoing basis to determine if circumstances indicate impairment in the carrying value or changes in the estimated useful life of the asset. If an impairment has occurred, an impairment charge is recognized as an asset impairment expense in the amount that the carrying value of the asset exceeds its fair value. Where the estimated useful life changes, depreciation is adjusted prospectively.

Facility costs

Costs incurred during the shutdown of a production facility for periodic scheduled maintenance (a turnaround) are deferred and 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. Costs incurred during an extended facility shut down, due to market conditions or facility failure, are charged to other expense.

Other assets

Other assets include value-added tax, long-term receivables, deferred financing costs and investments in associated companies.

Value-added tax assets relate to South America operations and are accumulated on the balance sheet as costs are incurred and are recovered against future value-added taxes collected by the Corporation and due to the government.

Notes to the consolidated financial statements

Investments in companies where the Corporation has the ability to exercise significant influence, which is generally 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 are accounted for using the cost method.

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 defined contribution pension plans. 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 pension plan and post-retirement benefit costs are determined annually by independent actuaries and include current service costs and a provision for the amortization of prior service costs.

The Corporation has additional non-contributory defined benefit and defined contribution plans for senior management, which provide supplementary pension 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. Employee future benefit costs for current service are charged to earnings in the year incurred. 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 remediation

Environmental costs that relate to current operations may be expensed or capitalized. Expenditures that relate to existing conditions caused by past operations, and that do not contribute to current or future revenue generation, are expensed. Environmental costs are capitalized if the costs extend the life of the property, increase its capacity and/or mitigate or prevent contamination from future operations. Costs are recorded when environmental remediation efforts are probable and the costs can be reasonably estimated based on current law and existing technologies. Estimated costs are based on management's best estimate of undiscounted future costs.

Asset retirement obligations

The Corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is measured at fair value and is adjusted to its present value in subsequent periods through accretion expense. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

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 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.

Revenue recognition

Revenue is recognized when the product is delivered to the customer or when the risks and rewards of ownership are otherwise transferred to the customer. Transportation costs are recovered from the customer through product or service pricing.

Stock-based compensation

The Corporation has several stock-based compensation plans, which are described in note 17. Beginning in 2003, the fair value of stock options and performance share units (PSUs) are expensed over the vesting period. For stock options issued prior to 2003, pro-forma disclosure of the effect on net earnings (loss) and earnings (loss) per share had the fair value been expensed is provided. The liability for stock options that have been expensed is recorded in contributed surplus until the options are exercised. Deferred Share Units (DSUs) to directors and Stock Appreciation Rights (SARs) to employees are expensed to cost of product or selling, general and administration expense when DSUs are issued or SARs thresholds are achieved.

Notes to the consolidated financial statements

Derivative financial instruments

Derivative financial instruments are used by the Corporation to manage its exposure to commodity price and foreign exchange rate fluctuations. The Corporation enters into natural gas options and swaps to manage exposure to changes in cash flows related to fluctuation in the market prices for natural gas consumed in operations. The Corporation enters into forward exchange contracts and foreign currency options to manage exposure to changes in cash flows in its Canadian operations related to changes in the Canadian/U.S. dollar exchange rate.

These derivative contracts are initiated within the guidelines of the Corporation's risk management and hedging policies, which require specific authorization for approval and commitment of contracts. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction.

Hedge accounting is used when there is a high degree of correlation between changes in value of the derivative instrument and the cash flows of the hedged item. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are highly correlated to the cash flows of the hedged item. Changes in time value are excluded from the assessment of the hedge correlation.

Derivative contracts accounted for as hedges are not recognized in the consolidated balance sheets. Gains or losses on these contracts, including realized gains and losses on hedging derivative contracts settled prior to maturity, are recognized when the related hedge transaction is recognized. Any portion of the gains or losses that is not highly correlated to the cash flows of the hedged item is recognized in other expenses each period. If correlation ceases, the Corporation discontinues hedge accounting and the gain or loss previously deferred is carried forward and recognized when the hedged transaction is recognized. Any future changes in the market value of the derivative contract are recognized in other expenses in the period of change.

Derivative contracts that do not qualify as hedges are marked to market. Any changes in the market value of the derivative contracts are recorded in other expenses when those changes occur. The fair value of these instruments is recorded as accounts receivable or payable.

Foreign currency translation

The Corporation's Canadian operations are considered self-sustaining and are translated into U.S. dollars using the current rate method. Under this method, assets and liabilities are translated at period-end exchange rates and items included in the statements of operations and retained earnings and cash flows are translated at the rates in effect at the time of the transaction. The gain or loss on translation is charged to cumulative translation adjustment in shareholders' equity.

The Corporation's South America operations are considered integrated and are 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 statement of operations as other expense. While South America Wholesale has always been integrated, prior to October 1, 2003, South America Retail was considered self-sustaining and translated into U.S. dollars using the current rate method. Foreign currency translation of South America Retail operations was prospectively changed from the current rate method due to a significant change in economic facts and circumstances. The functional currency changed from the Argentine peso to U.S. dollars. The circumstances supporting the change include the transacting of sales in U.S. dollars and the reduction in banking restrictions in Argentina. From the effective date of change, the exchange gains and losses deferred in the cumulative translation adjustment remain unless there is a return in the Corporation's investment. The non-monetary balance sheet values at October 1, 2003, became the historic values going forward.

The increase in the cumulative translation adjustment of \$95-million (2002 – \$33-million decrease) comprises of unrealized currency translation adjustments that arise on the translation to U.S. dollars of assets and liabilities of the Corporation's self-sustaining operations.

Notes to the consolidated financial statements

2. CHANGES IN ACCOUNTING POLICIES

Stock-based compensation

In the fourth quarter of 2003, the Corporation expensed stock options on a prospective basis effective January 1, 2003. Prospective adoption requires that the fair value of compensation cost related to stock options granted in 2003 be expensed in the financial statements over the vesting period. For stock options granted prior to 2003, the Corporation will continue to provide pro forma disclosure of the effect on net earnings (loss) and earnings (loss) per share had the fair value been expensed.

Asset retirement obligations

Effective January 1, 2003, the Corporation early-adopted the new Canadian accounting standard for asset retirement obligations. Previously, when the cost of site restoration exceeded the salvage value of the asset, the Corporation accrued for site restoration costs systematically to the expected settlement amount in the year the obligation was anticipated to settle. Under the new accounting policy, the Corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is measured at discounted fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset, and the asset is depreciated over the asset's estimated useful life. The change in accounting policy was recorded retroactively. The effect of adoption on the balance sheet as at January 1, 2003 and 2002, is presented below as increases (decreases):

	2003	2002
Asset retirement cost, included in capital assets	28	28
Accumulated depreciation on capital assets	6	4
Asset retirement obligations, included in other liabilities	28	28
Accumulated accretion of asset retirement obligations, included in other liabilities	7	5
Site restoration and reclamation, formerly included in other liabilities	(15)	(9)
Long-term future income tax liabilities	2	–
Opening retained earnings	–	–

Prior period consolidated balance sheets have been restated.

Site restoration and reclamation expense recorded under the accounting policy for prior periods approximated the depreciation and accretion expense under the retroactive application of the new accounting policy. As a result, prior period statements of operations were not restated.

Goodwill and other intangible assets

Effective January 1, 2002, the Corporation adopted the new accounting standard for goodwill. This standard requires that goodwill be subject to an annual impairment test rather than being amortized. In 2002, the Corporation completed the transitional impairment test using a discounted cash flow method for the reporting unit that includes goodwill. The results of the test indicated that goodwill recorded in the Corporation's phosphate business, which was included in the reportable segment entitled "North America Wholesale", was impaired. The amount of the impairment represented the entire goodwill balance of \$45-million (\$29-million net of tax). The resulting impairment loss was recognized as a change in accounting policy and charged to retained earnings as of January 1, 2002.

Notes to the consolidated financial statements

3. OTHER EXPENSES AND ARGENTINE CHARGES

	2003	2002	2001
Interest	(5)	–	(10)
Facility costs	10	8	15
Performance incentives	9	–	–
Environmental remediation and accretion of asset retirement obligation	6	10	8
Foreign exchange and Argentine charges ^(a)	(8)	14	20
U.S. dollar forced conversion ^(b)	–	(10)	29
Other	28	20	23
	40	42	85

(a) The Corporation translates foreign exchange gains (losses) arising on U.S. dollar working capital items in Canadian and South American self-sustaining subsidiaries. Translation also includes foreign exchange gains (losses) arising on the translation of integrated subsidiaries.

(b) At December 31, 2001, a charge was recorded against working capital and was made up primarily of accounts receivable in South America Retail. This reflected the anticipated impact of the contract index law, legislating conversion of all U.S. dollar debts to Argentine pesos on a one-to-one basis, representing forced conversion of a portion of the Corporation's U.S. dollar assets in Argentina. During 2002, South America Retail collected receivables at rates better than anticipated and recovered \$10-million of the \$29-million charge recorded at December 31, 2001.

4. INCOME TAXES

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rates were the following:

	2003	2002	2001
Earnings (loss) before income taxes			
Canadian	66	(35)	(22)
Foreign	(108)	31	(21)
	(42)	(4)	(43)
Statutory rate (%)	42	43	44
Income taxes at statutory rates	(18)	(2)	(19)
Recognition of previously unrecognized tax assets	(13)	(4)	(4)
Differences in foreign tax rates	(5)	(10)	(10)
Manufacturing and processing allowance	(5)	6	5
Resource royalties and allowances	6	1	4
Foreign exchange gains relating to Canadian and Argentine operations	9	–	–
Argentine charges	–	2	22
Other	5	3	4
Income taxes	(21)	(4)	2
Current			
Canadian	(2)	(4)	26
Foreign	24	(17)	2
	22	(21)	28
Future			
Canadian	43	–	(33)
Foreign	(86)	17	7
	(43)	17	(26)
	(21)	(4)	2

Notes to the consolidated financial statements

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

	2003	2002
Future income tax liabilities		Restated (note 2)
Depreciation and amortization	190	252
Partnership deferral	60	24
Other	39	24
Total future income tax liabilities	289	300
Future income tax assets		
Loss carry forwards expiring through 2011	101	111
Asset retirement obligation and environmental liabilities	44	39
Receivable allowances and accrued liabilities	21	17
Employee future benefits	16	15
Other	16	18
Future income tax assets before valuation allowance	198	200
Valuation allowance	(41)	(65)
Total future income tax assets, net of valuation allowance	157	135
Net future income tax liabilities	132	165

5. LOSS PER SHARE

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

	2003	2002	2001
Numerator			
Net loss	(21)	–	(45)
Preferred securities charges ^(a)	(11)	(11)	(12)
Numerator for basic loss per share	(32)	(11)	(57)
Preferred securities charges ^(a)	–	–	–
Numerator for diluted loss per share	(32)	(11)	(57)
Denominator			
Weighted average denominator for basic loss per share	126	123	115
Dilutive instruments ^(b)			
Stock options ^(c)	–	–	–
Preferred securities converted to common shares			
\$175-million, eight percent ^(d)	–	–	–
\$50-million, six percent ^(e)	–	–	–
Denominator for diluted loss per share	126	123	115
Basic loss per share	(0.25)	(0.08)	(0.49)
Diluted loss per share	(0.25)	(0.08)	(0.49)

(a) Under Canadian GAAP the preferred securities (note 16) are considered equity instruments. The preferred securities charges that have been 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 impact of the equity instrument is dilutive to basic earnings (loss) per share.

(b) For diluted earnings (loss) per share, these dilutive instruments are added back only when the impact of the instrument is dilutive to basic earnings (loss) per share.

Notes to the consolidated financial statements

- (c) Stock options, using the treasury stock method, with an average share price less than or equal to the average share price during the year are considered dilutive and potential common share equivalents are considered outstanding. At December 31, 2003, there were nine million antidilutive stock options (2002 – nine million; 2001 – eight million) that could be dilutive in the future.
- (d) This series of preferred securities is redeemable at the option of the Corporation. The redemption price may be paid by delivering common shares as disclosed in note 16. At December 31, 2003, there were seven million antidilutive preferred securities (2002 – seven million; 2001 – seven million) that could be dilutive in the future.
- (e) This series of preferred securities is convertible to common shares as disclosed in note 16. At December 31, 2003, there were two million antidilutive preferred securities (2002 – two million; 2001 – two million) that were converted to common shares in January 2004.

6. ACCOUNTS RECEIVABLE

	2003	2002
Trade accounts	297	180
Allowance for doubtful accounts	(16)	(20)
Rebates and other non-trade accounts	25	25
Income and other taxes	7	-
Other	1	2
	314	187

On an ongoing basis, certain of the Corporation's U.S. subsidiaries sell their accounts receivable balances to a subsidiary of the Corporation. The subsidiary has an agreement to sell to a financial institution, on an ongoing basis, an undivided percentage interest in this designated pool of receivables, on a non-recourse basis, in an amount not to exceed \$125-million. The Corporation has granted a security interest to the financial institution for the sold receivables. The fees and expenses are calculated based on the receivables sold and the prevailing commercial paper rate. The agreement expires in December 2007 and may be terminated earlier by either Agrium with proper notice or the financial institution provided certain conditions are met.

Servicing of the receivables sold is performed by a U.S. subsidiary of the Corporation which charges a fee of two percent of the pool balances. At December 31, 2003, the accounts receivable balances sold were \$-nil (2002 – \$114-million).

Average monthly receivables sold, fees and expenses incurred on this program for the years ended December 31, were as follows:

	2003	2002	2001
Average monthly receivables sold	50	98	98
Fees and expenses paid	1	3	4

7. INVENTORIES

	2003	2002
North America Wholesale		
Fertilizers	98	110
Operating supplies	72	67
Raw materials	25	24
	195	201
North America Retail		
Fertilizers	63	47
Chemicals	76	70
Other	15	15
	154	132
South America Wholesale	7	7
South America Retail	12	13
	368	353

Notes to the consolidated financial statements

8. CAPITAL ASSETS

	2003			2002 Restated (note 2)		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	28	–	28	28	–	28
Buildings and improvements	308	157	151	305	132	173
Machinery and equipment	2,020	1,020	1,000	2,035	871	1,164
Other	110	29	81	81	24	57
	2,466	1,206	1,260	2,449	1,027	1,422

In the fourth quarter of 2003, the Corporation's Kenai, Alaska, nitrogen facility in the North America Wholesale business unit was determined to be impaired in the amount of \$235-million (\$140-million net of tax). The asset impairment was calculated as the difference between the carrying amount and the fair value of the Alaskan nitrogen facility. The impairment loss was proportionately allocated to reduce the cost base of the asset categories above.

9. OTHER ASSETS

	2003	2002
South America value-added tax and other costs	34	49
Long-term receivables	9	10
Long-term investments	12	13
Other	16	13
	71	85

10. BANK INDEBTEDNESS

Agrium Inc.

The Corporation has a \$225-million, 364-day syndicated revolving credit facility due in May 2004. This facility contains a 1.5-year term-out provision exercisable at the Corporation's option. Under this option the Corporation can convert the facility into a term lending arrangement following expiration of the 364-day revolving period. Agrium U.S. Inc., a subsidiary of the Corporation, guarantees this facility. Interest rates are at either 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.

Agrium U.S. Inc.

The Corporation's wholly owned subsidiary, Agrium U.S. Inc., has a base revolving credit facility of up to \$56-million, which expires December 4, 2004. This facility is guaranteed by the Corporation and requires the Corporation to maintain certain financial ratios and other covenants.

Profertil S.A.

Profertil has access to limited short-term borrowings from Argentine financial institutions at prevailing interest rates, based on LIBOR, to fund working capital requirements.

Notes to the consolidated financial statements

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2003	2002
Trade	161	172
Accrued liabilities	229	152
Accrued interest payable	14	16
	404	340

12. LONG-TERM DEBT

	2003	2002
Recourse debt		
Unsecured		
6.86% senior notes due December 29, 2004 to 2007 ^{(a)(c)}	60	75
7.06% senior notes due December 29, 2004 to 2010 ^{(b)(c)}	100	100
7% debentures 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	125
Secured		
Profertil S.A. – other	3	5
Other	20	16
	608	621
Principal repayments due within one year	105	17
	503	604
Non-recourse debt		
Secured		
Profertil S.A. ^(d)	127	140
Principal repayments due within one year	16	8
	111	132

(a) The notes have four remaining equal annual principal repayments, with the next repayment due December 29, 2004. These notes are guaranteed by Agrium U.S. Inc. and require the Corporation to maintain certain financial ratios and other covenants.

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

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

(d) The Corporation's share of amounts outstanding under the credit agreement at December 31, 2003, is \$127-million of which \$15-million is repayable within one year. At December 31, 2003, amounts outstanding under the credit agreement are broken into tranches of \$115-million, \$73-million and \$64-million, of which the Corporation's share is 50 percent. The two smaller tranches accrue interest at the LIBOR rate plus a spread. The \$115-million tranche accrues interest at a fixed rate. Principal plus accrued interest is repayable in 14 semi-annual installments. The facility matures December 31, 2010.

This facility became non-recourse to Profertil partners once completion guarantees on the facility had been released in 2001. The Corporation has pledged its shares in Profertil to the bank as security in the event of default. The joint venture partners have also entered into an agreement that 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.

Notes to the consolidated financial statements

13. OTHER LIABILITIES

	2003	2002
		Restated (note 2)
Asset retirement obligations (notes 2 and 14)	43	35
Environmental remediation	87	79
Employee future benefits (note 15)		
Pensions	13	14
Other post-retirement benefits	31	26
Other	7	6
	181	160

14. ASSET RETIREMENT OBLIGATIONS

The Corporation recognizes asset retirement obligations associated with nitrogen, phosphate and potash production facilities, marketing and distribution facilities and phosphate and potash mine assets. These obligations generally relate to dismantlement and site restoration.

A reconciliation between the opening and closing asset retirement obligation balances is provided below:

	2003	2002
		Restated (note 2)
Balance, beginning of year	35	33
Foreign exchange translation	5	-
Accretion, included in other expense	3	2
Balance, end of year	43	35

The Corporation estimates that the undiscounted cash flow required to settle the asset retirement obligation is approximately \$180-million, which will be settled between 2004 and 2080.

Notes to the consolidated financial statements

15. EMPLOYEE FUTURE BENEFITS

The Corporation's disclosures for employee future benefits for the year ended December 31, 2003, are measured with information from September 30, 2003.

Obligations and assets

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

	Defined Benefit Pension Plans			Post-retirement Benefit Plans		
	2003	2002	2001	2003	2002	2001
Change in benefit obligations						
Balance, beginning of year	105	96	81	31	23	23
Foreign exchange on Canadian obligations	10	–	(4)	2	–	–
Interest and service cost	12	11	9	5	4	3
Actuarial loss (gain)	7	3	5	3	5	(2)
Curtailement	(2)	–	–	–	–	–
Transfer from CAI Retirement Plan ^(a)	–	–	10	–	–	–
Benefits paid	(5)	(5)	(5)	(1)	(1)	(1)
Balance, end of year	127	105	96	40	31	23
Change in plan assets						
Fair value, beginning of year	67	76	78	–	–	–
Foreign exchange on Canadian assets	9	–	(3)	–	–	–
Actual return on plan assets	8	(4)	(6)	–	–	–
Employer contributions	9	–	2	–	–	–
Transfer from CAI Retirement Plan ^(a)	–	–	10	–	–	–
Benefits paid	(5)	(5)	(5)	–	–	–
Fair value, end of year	88	67	76	–	–	–
Unfunded status	39	38	20	40	31	23
Unrecognized net loss	(28)	(26)	(12)	(8)	(5)	–
Unrecognized prior service cost	–	–	–	(1)	–	–
Accrued employee future benefits	11	12	8	31	26	23
Other assets –						
prepaid employee future benefits	(2)	(2)	(2)	–	–	–
Other liabilities – pensions ^(note 13)						
	13	14	10	31	26	23
	11	12	8	31	26	23

(a) The assets and liabilities attributable to benefits accrued prior to May 1, 1993, under the Cominco American Incorporated (CAI) Retirement Plan, 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 accumulated benefit obligation at December 31, 2003, is \$111-million (\$85-million and \$80-million for 2002 and 2001 respectively). The estimated aggregate expected contribution to fund the Corporation's defined benefit plans for the next fiscal year is \$8-million to \$12-million.

Notes to the consolidated financial statements

Expense

The components of net employee future benefits expense for the Corporation's pension and post-retirement benefit plans are computed actuarially as follows:

	2003	2002	2001
Defined benefit pension plans			
Service cost for benefits earned during the year	5	4	3
Interest cost on projected benefit obligations	7	7	6
Expected return on plan assets	(6)	(6)	(5)
Net amortization and deferral	1	1	–
Net expense	7	6	4
Post-retirement benefit plans			
Service cost for benefits earned during the year	3	2	1
Interest cost on projected benefit obligations	2	2	2
Net expense	5	4	3
Defined contribution pension plans			
Total expense	10	7	7
	22	17	14

Assumptions

Significant actuarial assumptions used in calculating the future benefits obligation and the net employee future benefits expense were as follows:

(percent)	Future Benefits Obligation			Future Benefits Expense		
	2003	2002	2001	2003	2002	2001
Defined benefit pension plans						
Discount rate	6	7	7	7	7	7
Long-term rate of return on assets	8	8	8	8	8	8
Rate of increase in compensation levels	3	4	5	3	4	5
Post-retirement benefit plans						
Discount rate	6	7	7	6	7	7
Health care cost trend rate	12	8	8	12	8	8

The Corporation's assumption for the long-term rate of return on assets is based on the long-term expectations of inflation, together with the expected long-term real return for each asset class, weighted in accordance with the stated investment policy for the plan. Expectations of real returns and inflation are based on a combination of current market conditions, historical capital market data and future expectations.

Notes to the consolidated financial statements

A one-percentage point change in the assumed health care cost trend rate would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on accumulated post retirement benefit obligation as of December 31, 2003	5	(4)
Effect on total of service and interest cost	1	(1)

Asset allocation and investment strategy

Defined benefit pension plan asset allocation at December 31, 2003 and 2002, and target allocation for 2004 are as follows:

(percent)	Target Allocation	Plan Assets	
	2004	2003	2002
Asset categories			
Equity securities (a)	44 – 69	58	59
Debt securities	28 – 53	40	35
Cash and other	0 – 13	2	6

(a) Equity securities held by the plans do not include any of the Corporation's common shares.

The Corporation's investment strategy for all defined benefit plans is consistent with the 2004 target allocation of plan assets.

16. SHARE CAPITAL

	2003		2002		2001	
	Number of Shares (millions)	Amount	Number of Shares (millions)	Amount	Number of Shares (millions)	Amount
Common shares						
Issued and outstanding, beginning of year	126	484	115	376	115	375
Shares issued, net of issuance costs	–	–	11	106	–	–
Issued on exercise of stock options	1	6	–	2	–	1
Issued and outstanding, end of year	127	490	126	484	115	376
Preferred securities						
Issued and outstanding, beginning of year	9	221	9	221	9	221
Amortization of issuance costs	–	1	–	–	–	–
Issued and outstanding, end of year	9	222	9	221	9	221
Total	136	712	135	705	124	597

In March 2002, the Corporation issued 11.2 million common shares at \$9.85 per common share. The total proceeds from the issue, net of expenses, were \$106-million, and were used to pay down bank indebtedness. Concurrent with this financing, the Corporation's revolving credit facilities were reduced from \$375-million to \$281-million and certain related covenants were amended.

Notes to the consolidated financial statements

As at December 31, 2003, the Corporation has two classes of preferred securities issued and outstanding:

(a) \$175-million, unsecured eight percent redeemable 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 securities charges (the redemption price) to the date of redemption. The Corporation may, at its option, pay the redemption price or any deferred charges in cash or by issuing common shares and using the proceeds to pay the redemption price or deferred charges.

(b) \$50-million, unsecured six percent convertible redeemable preferred securities due September 30, 2030

On December 17, 2003, the Corporation issued a redemption notice on the outstanding \$50-million six percent convertible redeemable preferred securities. The holders of the securities had the right to elect conversion of the securities into common shares at a price of \$11.9677 per share for a maximum issuance of an additional 4.18 million common shares or accept redemption. The redemption price was 103 percent of the principal amount, plus accrued and unpaid securities charges.

Subsequent to December 31, 2003, all holders of the securities elected to convert the securities into common shares at the stated conversion price.

17. STOCK-BASED COMPENSATION

The Corporation offers stock options, SARs and PSUs to certain employees and DSUs to 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 officers and employees to acquire common shares. At December 31, 2003, the Board of Directors was authorized to grant options on up to 10 million common shares (2002 – 11 million; 2001 – nine million) on which nine million options (2002 – nine million; 2001 – eight million) had been granted at market value. 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. Officers of the Corporation can receive options on the basis of one option for each common share acquired by the officer in the open market, to a maximum of 100,000 options per officer, with the exercise price of each option equal to the purchase price paid for the original share. These options lapse if the officer 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:

	2003		2002		2001	
	Options Outstanding (millions)	Weighted Avg. Exercise Price (C\$)	Options Outstanding (millions)	Weighted Avg. Exercise Price (C\$)	Options Outstanding (millions)	Weighted Avg. Exercise Price (C\$)
Outstanding, beginning of year	9	16.21	8	16.20	7	15.52
Granted	1	15.59	1	15.89	1	20.21
Exercised	(1)	13.19	–	10.82	–	13.05
Cancelled	–	18.25	–	18.52	–	18.52
Outstanding, end of year	9	16.31	9	16.21	8	16.20
Exercisable, end of year	6	16.37	6	16.34	5	16.44

Notes to the consolidated financial statements

As disclosed in note 2, the Corporation began prospectively expensing the fair value of stock options granted in 2003 over their vesting period. In accordance with the prospective method of adoption, the Corporation will continue to record no compensation expense for stock options granted prior to January 1, 2003, and will continue to provide pro forma disclosure of the effect on net loss and loss per share had the fair value been expensed as follows:

(millions of U.S. dollars, except per share amounts)	2003		2002		2001	
	As Reported	Pro forma	As Reported	Pro forma	As Reported	Pro forma
Net loss	(21)	(26)	–	(6)	(45)	(51)
Loss per common share						
Basic	(0.25)	(0.29)	(0.08)	(0.14)	(0.49)	(0.54)
Diluted	(0.25)	(0.29)	(0.08)	(0.14)	(0.49)	(0.54)

In 2003, the Corporation recognized a total compensation expense of \$1-million for stock options granted in 2003.

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

	2003	2002	2001
Dividend yield (%)	1	1	1
Expected stock price volatility (%)	32	30	38
Risk-free interest rate (%)	4	5	6
Expected life of the options (years)	7	7	7

The weighted average fair value price per share of options granted in the years indicated was as follows: 2003 – C\$6.34; 2002 – C\$7.87; and 2001 – C\$11.25.

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2003:

Range of Exercise Prices (C\$)	Options Outstanding			Options Exercisable	
	Number Outstanding at Year End (millions)	Weighted Avg. Remaining Contractual Life (years)	Weighted Avg. Exercise Price (C\$)	Number Exercisable at Year End (millions)	Weighted Avg. Exercise Price (C\$)
Less than 11.86	1	5	11.37	1	11.25
11.86 to 15.85	3	7	13.97	1	12.73
15.86 to 20.15	4	5	17.84	3	18.45
20.16 to 22.15	1	6	20.59	1	20.63
8.75 to 22.15	9	6	16.31	6	16.37

Stock Appreciation Rights

The Corporation has SARs under which all regular employees hired prior to May 5, 2003, are eligible to participate. The plan provides for cash awards based on the appreciation of the Corporation's common share price over a five-year term ending May 4, 2004. SARs grants were made on May 5, 1999, to all regular employees at that date, with further grants for employees hired after that date on subsequent May 5 anniversaries up to May 5, 2003. The issuance price of the SARs was based on the closing price of the Corporation's shares on the New York Stock Exchange (NYSE) on the day preceding the relevant grant date.

Notes to the consolidated financial statements

No further grants will be made under this program subsequent to May 5, 2003. The total number of SARs grants outstanding and their issuance price are as follows:

	2003		2002		2001	
	SARs Outstanding (millions)	Weighted Avg. Issue Price	SARs Outstanding (millions)	Weighted Avg. Issue Price	SARs Outstanding (millions)	Weighted Avg. Issue Price
Outstanding, beginning of year	2	9.53	2	9.51	1	9.01
Granted	–	11.42	–	9.66	1	11.36
Cancelled	–	9.47	–	9.41	–	–
Outstanding, end of year	2	9.94	2	9.53	2	9.51

Twenty-five percent of the SARs vest and are to be paid out upon attainment of four pre-determined price hurdles of \$15.00, \$22.50, \$33.75 and \$50.00. In order to satisfy the vesting requirement, the average closing price on the NYSE over a period of 20 trading days is required to equal or exceed the relevant hurdle price. The first vesting point was reached on November 14, 2003, and eligible employees were paid 25 percent of the value of their SARs based on the difference between the issuance price of their rights and \$15.00.

The total expense for SARs in 2003 was \$3-million. A potential additional expense of \$5-million would be incurred if the share price reaches \$22.50, \$10-million if the share price reaches \$33.75 and \$17-million if the share price reaches \$50 prior to May 5, 2004.

Director's Deferred Share Unit Plans

The Corporation has two DSU Plans. Under the first plan, directors can elect to have a portion or all of their director's fees paid in DSUs. The number of DSUs issued is calculated by dividing the director's fees by the fair market value of the Corporation's common shares on the date that the fees become payable.

Effective May 2002, the Corporation also implemented a DSU Plan for directors permitting grants at the discretion of the Board of Directors. Under this plan, a specified number of DSUs may be granted to each director upon the approval of the Board of Directors.

Under both plans, the DSUs are fully vested upon being granted but are not paid until a director's departure from the Board. The issue amount and subsequent changes in the common share price in relation to the DSU's issue price are recorded as compensation expense and included in selling, general and administrative expenses.

As of December 31, 2003, the fair value of the DSUs outstanding was \$1-million (2002 – less than \$1-million).

Performance Share Unit Plan

Effective October 2003, a new PSU Plan was approved whereby executive officers and other eligible managers may receive grants of PSUs. The value of each PSU will be based on the value of the Corporation's common shares on the NYSE. When cash dividends are paid on the common shares of the Corporation, additional PSUs of equivalent value are credited to the designated employee's account.

PSUs vest on the third anniversary of the grant date, based upon the relative ranking of the Corporation's total shareholder return over a three-year performance cycle, compared against the total shareholder return over the same period of a peer group of companies. Pay-out ranges between 50 percent of the original PSUs granted, up to 150 percent of the original PSUs granted dependent on total shareholder return over the three-year period. On vesting, the value of PSUs will be payable to the holders in cash. No common shares are issuable to holders of PSUs.

As of December 31, 2003, the fair value of the PSUs outstanding was less than \$1-million.

Notes to the consolidated financial statements

18. COMMITMENTS

	2004	2005	2006	2007	2008
Cost of product					
Operating lease commitments	41	24	18	15	13
Natural gas commitments – North America	508	52	33	11	7
Power, sulphuric acid and other payments	34	23	23	22	21
Profertil natural gas and other	26	30	30	30	30
	609	129	104	78	71
Other					
Long-term debt and capital lease repayments	121	49	51	54	38
Total	730	178	155	132	109

The operating lease 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 commitments represent the minimum payments in each of the next five years under each agreement. Operating lease payments expensed in 2003 were \$39-million (2002 – \$28-million; 2001 – \$23-million).

The Corporation has entered into a number of agreements with suppliers to guarantee supply of raw materials required in the production processes at its wholesale facilities. Among these are fixed base-price natural gas agreements at the Kenai, Alaska, and Profertil facilities and a co-generation power contract for the Carseland facility, 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, 2003, adjusted for transportation differentials to each production facility.

The Alaskan nitrogen facility has a natural gas purchase contract with a supplier that expires on the earlier of July 1, 2009, and the satisfaction of the supplier's delivery obligations thereunder. 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 with the adjustment being made on July 1 each year.

The Corporation entered into a power co-generation agreement for its Carseland facility 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 10 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 firm supply, U.S. dollar denominated natural gas purchase contracts expiring in 2012. Repsol-YPF, our joint venture partner in Profertil, supplies 50 percent of this gas. These contracts, although they are denominated in U.S. dollars, are paid in pesos.

In December 2003, Profertil signed a 10-year U.S. dollar denominated contract with Repsol-YPF for the purchase of additional natural gas. Prices have been set for the period to December 31, 2006.

Notes to the consolidated financial statements

19. CONTINGENCIES

Contingent purchase price – Kenai, Alaska, nitrogen facility

As part of the cost of the Alaskan nitrogen facility and related U.S. West Coast assets acquisition, the Corporation granted to Union Oil Company of California (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 September 30, 2000, closing of the acquisition. 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 or capacity volumes of the Alaskan production facilities acquired from Unocal.

At December 31, 2003, the Corporation's financial statements included an accrual for the estimated amount due 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 Alaskan nitrogen facility and related U.S. West Coast assets included in capital assets.

The Corporation has withheld payment of Earn-out amounts which are under dispute. While the Corporation has accrued an amount that reflects an estimate of the disputed Earn-out obligation calculated on actual production, it believes that no amount is payable to Unocal in the event that Unocal fails to meet its obligations under the Alaskan gas contract. The parties also disagree on the calculation of the Earn-out based on different views of the application of a reference price adjustment factor as well as the calculation of the Earn-out based on capacity or actual production, and accordingly, additional Earn-out payments may become due if we are ultimately unsuccessful in the litigation.

On June 10, 2002, the Corporation filed a lawsuit against Unocal seeking compensatory damages and restitution, punitive damages and certain declaratory relief relating to gas supply, the Earn-out and environmental matters. Unocal contemporaneously filed suit against the Corporation claiming damages for breach of contract for non-payment of the Earn-out.

Environmental remediation

The Corporation has contingent environmental liabilities arising out of existing and discontinued operations in respect of which the Corporation has and continues to estimate the costs likely to be incurred in connection with such liabilities. Such contingent environmental liabilities differ from asset retirement obligations and accrued environmental liabilities in that the contingent environmental liabilities are not determinable, the conditions which may give rise to the expenditures are uncertain, and the future expectations of the applicable regulatory authorities are not known. The potential costs that may arise in connection with such liabilities are not included in our provisions until the source and nature of the obligation becomes clear and is reasonably estimable.

Litigation

The outcome of the Unocal dispute is uncertain, and the amounts that may be involved in the event of any determination adverse to the Corporation are not determinable at this time.

The Corporation, in the normal course of business, is also subject to other legal proceedings being brought against it and its subsidiaries. The amounts involved in such legal proceedings 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, with the following exceptions.

A personal injury claim against a subsidiary of the Corporation for a material amount was filed in the fourth quarter of 2003. In addition, there are two class action lawsuits against a subsidiary of the Corporation for unspecified damages relating to chemical application. The Corporation is investigating these lawsuits but at this time the potential exposure is indeterminable.

Notes to the consolidated financial statements

20. FINANCIAL INSTRUMENTS

Balance sheet financial instruments

The Corporation's financial instruments recognized in the consolidated balance sheets consist of cash and cash equivalents, accounts receivable, derivative contracts not accounted for as hedges, substantially all current liabilities (except for income taxes payable and future income taxes payable), long-term debt and preferred securities.

The estimated fair values of recognized financial instruments have been determined based on the Corporation's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction. The fair values of cash and cash equivalents, accounts receivable and current liabilities approximate their carrying amounts due to the short-term maturity of these instruments.

The following table summarizes estimated fair value information about the Corporation's long-term debt, preferred securities and derivative contracts not accounted for as hedges as at December 31:

Fair value and carrying amount of balance sheet financial instruments

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured long-term debt (a)	585	697	600	650
Preferred securities (a)	222	244	221	210
Derivative financial instruments				
Foreign currency option and forward contracts (b)	—	—	—	—
Natural gas swap and option contracts (b)	(1)	(1)	(1)	(1)

(a) The estimated fair value of unsecured 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 cash flows at the rate offered to the corporation for debt and securities of the same remaining maturities.

(b) The fair values of derivative instruments have been estimated using applicable market rates. These fair values approximate the amount that the Corporation would receive or pay if the instruments were closed out at these dates.

At December 31, 2003, the Corporation had entered into natural gas swap contracts that did not qualify for hedge accounting. The swap contracts represented a notional amount of seven million MMBtu of natural gas (2002 – 16 million MMBtu) with maturities in 2004 and 2005. During 2003, net realized and unrealized losses of \$5-million on natural gas swap and option contracts (2002 – \$5-million; 2001 – \$-nil) that did not qualify for hedge accounting were recorded in other expense.

At December 31, 2003, the Corporation had entered into foreign currency option contracts that did not qualify for hedge accounting. The option contracts represented an underlying amount of C\$20-million expiring at various dates in 2004 at exercise prices ranging from C\$1.3243 to C\$1.3292. During 2003, 2002 and 2001, net realized and unrealized gains of less than \$1-million that did not qualify for hedge accounting were recorded in other expense.

Unrecognized derivative financial instruments

The Corporation also enters certain derivative financial instruments, which qualify for hedge accounting and are not recognized in the consolidated balance sheets, as follows:

Natural gas supply hedges

The Corporation purchases substantially all of its natural gas requirements through indexed price contracts with suppliers other than gas supply agreements for its facilities in Alaska and Argentina. The Corporation periodically enters into natural gas swap and option contracts to protect its future earnings and cash flows from the potential adverse impact of rising natural gas prices in the indexed contracts.

The natural gas swap and option contracts do not require the payment of significant net premiums prior to settlement. On settlement, these contracts result in cash receipts or payments by the Corporation for the difference between the contract and market rates for the applicable dollars and volumes hedged during the contract term. Such cash receipts or payments offset corresponding decreases or increases in the Corporation's natural gas supply costs. Amounts received or paid on settlement 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.

Notes to the consolidated financial statements

At December 31, 2003, the Corporation had entered into natural gas option contracts which qualified for hedge accounting with an underlying amount of two million MMBtu of natural gas, maturities in 2004 and exercise prices ranging from \$6/MMBtu to \$7/MMBtu. The Corporation had entered into natural gas swap contracts that qualified for hedge accounting as at December 31, 2003. The notional amount of the natural gas swap contracts outstanding was four million MMBtu with maturities in 2004 and 2005.

During 2003, net realized gains of \$12-million on qualifying natural gas derivative contracts (2002 – \$37-million net losses) were allocated to inventory. At December 31, 2003, less than \$1-million of net realized gains (2002 – \$1-million net realized losses) remain in inventory, until the related inventory sells. During 2003, \$11-million of net realized gains (2002 – \$47-million net realized losses; 2001 – \$70-million net realized gains) were recorded as a component of cost of product.

Foreign exchange hedges

The Corporation enters into foreign currency option and forward contracts to fix the exchange rate or a range of exchange rates used to convert a portion of the Canadian operation's U.S. dollar denominated revenues into Canadian dollars. These revenues are converted into Canadian dollars for purposes of paying the Canadian operation's Canadian dollar denominated operating costs.

The foreign currency option and forward contracts do not require the payment of significant net premiums prior to settlement. On settlement, these contracts result in cash receipts or payments by the Corporation for the difference between the contract and market rates for the applicable dollars hedged during the contract term. Such cash receipts or payments are recognized in the statement of operations.

At December 31, 2003, the Corporation had entered into foreign currency options that qualified for hedge accounting. The underlying amount of the options was C\$40-million with exercise prices ranging from C\$1.3243 to C\$1.3292 and expiring at various dates in 2004. During 2003, net realized gains on foreign currency options and forward contracts of \$7-million (2002 – net realized gains of less than \$1-million; 2001 – net realized losses of less than \$1-million) were recorded in the statement of operations.

Fair values of unrecognized financial instruments

The fair values of derivative financial instruments that qualify for hedge accounting are the estimated amount that the Corporation would receive (pay) to terminate the contracts. Such amounts were as follows at December 31:

	2003 Fair Value	2002 Fair Value	2001 Fair Value
Natural gas swap and option contracts	(1)	7	(21)
Foreign currency option and forward contracts	–	–	–

Commodity contracts

The Corporation enters into commodity contracts, including contracts with fixed or adjustable pricing terms, as a normal course of business. The contracts outstanding at December 31, 2003, are disclosed in note 18. No amounts are recognized in the financial statements related to these contracts until such time as the associated volumes are received.

Counterparty credit risk

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

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.

The Corporation may be exposed to certain losses in the event that counterparties to the derivative financial instruments are unable to meet the terms of the contracts. The Corporation's credit exposure is limited to those counterparties holding derivative contracts with positive fair values at the reporting date. The Corporation manages this counterparty credit risk by entering into agreements only with investment grade counterparties in accordance with established counterparty credit approval practices.

Notes to the consolidated financial statements

21. SEGMENTATION

The Corporation's activities are divided geographically and then by functional area into five reportable segments. The segments include four primary operating segments and a fifth non-operating segment for corporate and inter-segment eliminations. 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 three primary nutrients: nitrogen, phosphate and potash. Retail comprises the sale of fertilizers, chemicals, seed, custom application services and agronomic consulting. Net sales between segments and countries are accounted for at prices that approximate fair market value.

Segmented net sales, expenses, net working capital, capital assets, total assets and capital expenditures

2003	North America		South America		Other	Total
	Wholesale	Retail	Wholesale	Retail		
Net sales – external customers	1,377	923	107	92	–	2,499
– internal customers	88	–	9	–	(97)	–
Total net sales	1,465	923	116	92	(97)	2,499
Cost of product	1,106	642	34	75	(97)	1,760
Gross profit	359	281	82	17	–	739
Expenses						
Selling, general and administrative	35	208	4	14	25	286
Depreciation and amortization	99	18	15	1	7	140
Asset impairment	235	–	–	–	–	235
Royalties and other taxes	11	5	–	–	1	17
Other expenses and Argentine charges	28	(14)	–	–	26	40
Earnings (loss) before interest expense and income taxes	(49)	64	63	2	(59)	21
Net working capital	465	176	30	43	(297)	417
Capital assets	896	88	238	7	31	1,260
Total assets	1,553	401	324	70	(75)	2,273
Capital expenditures	73	12	3	1	10	99

Notes to the consolidated financial statements

2002 <small>Restated (note 2)</small>	North America		South America		Other	Total
	Wholesale	Retail	Wholesale	Retail		
Net sales – external customers	1,094	849	60	80	–	2,083
– internal customers	78	–	4	–	(82)	–
Total net sales	1,172	849	64	80	(82)	2,083
Cost of product	976	593	28	50	(83)	1,564
Gross profit	196	256	36	30	1	519
Expenses						
Selling, general and administrative	24	191	4	8	19	246
Depreciation and amortization	102	20	18	1	7	148
Royalties and other taxes	13	5	–	–	1	19
Other expenses and Argentine charges	17	(12)	16	(4)	25	42
Earnings (loss) before interest expense and income taxes	40	52	(2)	25	(51)	64
Net working capital	310	71	(23)	47	(87)	318
Capital assets	1,054	96	248	6	18	1,422
Total assets	1,537	326	314	64	(50)	2,191
Capital expenditures	41	10	–	–	1	52

2001 <small>Restated (note 2)</small>	North America		South America		Other	Total
	Wholesale	Retail	Wholesale	Retail		
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	925	574	43	58	(84)	1,516
Gross profit	235	257	28	25	2	547
Expenses						
Selling, general and administrative	33	193	7	16	19	268
Depreciation and amortization	96	20	13	5	7	141
Royalties and other taxes	16	5	–	–	1	22
Other expenses and Argentine charges	26	(12)	26	30	15	85
Earnings (loss) before interest expense and income taxes	64	51	(18)	(26)	(40)	31
Net working capital	267	37	(30)	45	(196)	123
Capital assets	1,111	106	262	15	24	1,518
Total assets	1,649	316	346	73	14	2,398
Capital expenditures	126	14	18	3	3	164

Notes to the consolidated financial statements

Net sales and gross profit by business segment and product line

	2003			2002			2001		
	Net Sales	Cost of Product	Gross Profit	Net Sales	Cost of Product	Gross Profit	Net Sales	Cost of Product	Gross Profit
North America Wholesale									
Nitrogen									
Ammonia	382	286	96	242	222	20	323	239	84
Urea	423	323	100	330	292	38	304	253	51
Other	168	136	32	140	135	5	150	135	15
	973	745	228	712	649	63	777	627	150
Phosphate	261	217	44	239	202	37	179	173	6
Potash	160	99	61	158	91	67	138	80	58
Sulphate and other products	71	45	26	63	34	29	66	45	21
	1,465	1,106	359	1,172	976	196	1,160	925	235
North America Retail									
Fertilizers	402	292	110	366	265	101	386	278	108
Chemicals	399	288	111	361	266	95	336	245	91
Other products and services	122	62	60	122	62	60	109	51	58
	923	642	281	849	593	256	831	574	257
South America Wholesale									
Nitrogen	111	31	80	61	26	35	68	41	27
Other products and services	5	3	2	3	2	1	3	2	1
	116	34	82	64	28	36	71	43	28
South America Retail									
Fertilizers	66	59	7	53	31	22	57	38	19
Other products and services	26	16	10	27	19	8	26	20	6
	92	75	17	80	50	30	83	58	25
Other — inter-segment eliminations	(97)	(97)	—	(82)	(83)	1	(82)	(84)	2
Total	2,499	1,760	739	2,083	1,564	519	2,063	1,516	547

Net sales by market destination and assets by country

	2003			2002			2001		
	Net Sales	Capital Assets	Goodwill	Net Sales	Capital Assets	Goodwill	Net Sales	Capital Assets	Goodwill
Canada	580	641	—	403	537	—	383	552	—
United States	1,557	374	—	1,425	630	—	1,385	690	45
Argentina	162	245	—	118	255	—	121	276	—
Other	200	—	—	137	—	—	174	—	—
	2,499	1,260	—	2,083	1,422	—	2,063	1,518	45

Notes to the consolidated financial statements

22. PROFERTIL

The Corporation has a 50 percent ownership interest in Profertil S.A. (Profertil), a joint venture with Repsol-YPF S.A. This investment is recorded as “South America Wholesale” operating segment in note 21. A contractual agreement exists between the Corporation and the joint venture partner, which establishes joint control over Profertil, and therefore the Corporation’s interest is accounted for using the proportionate consolidation method.

A summary of the Corporation’s 50 percent interest in the joint venture at December 31 is as follows:

Balance Sheets	2003	2002	
Assets			
Cash and cash equivalents	44	18	
Accounts receivable	18	5	
Inventories and prepaid expenses	8	7	
Capital assets	238	248	
Other assets	18	36	
	326	314	
Liabilities			
Accounts payable and current portion of long-term debt	39	52	
Income and other taxes	2	1	
Long-term debt <small>(note 12)</small>	114	135	
Future income taxes	(2)	(3)	
	153	185	
Proportionate share of net assets of joint venture	173	129	
Statement of Operations			
	2003	2002	2001
Net sales	116	64	71
Cost of product	34	28	43
Gross profit	82	36	28
Selling, general and administrative expenses	4	4	7
Depreciation	15	18	13
Other expenses and Argentine charges	–	16	26
Earnings (loss) before interest expense and income taxes	63	(2)	(18)
Interest expense	16	15	16
Income taxes	4	–	(4)
Proportionate share of net earnings (loss) of joint venture	43	(17)	(30)
Statement of Cash Flows			
	2003	2002	2001
Operating activities	25	27	(6)
Investing activities	17	(5)	(39)
Financing activities	(15)	(17)	58
Proportionate share of increase in cash of joint venture	27	5	13

Consolidated retained earnings of the Corporation include losses from Profertil in the amount of \$6-million for the year ended December 31, 2003 (2002 – \$49-million).

Commitments presented in note 18 include the Corporation’s 50 percent share in the commitments of Profertil.

Notes to the consolidated financial statements

23. DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA AND THE UNITED STATES

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. If U.S. GAAP were applied, the net loss in each year would be adjusted as follows:

Consolidated Statements of Operations	2003	2002	2001
Net loss based on Canadian GAAP	(21)	–	(45)
Adjustments			
Preferred securities charges, net of tax ^(a)	(11)	(11)	(12)
Deferred tax on foreign exchange translation of preferred securities ^(a)	(5)	–	–
Other	(1)	1	–
Net loss before cumulative effect of change in accounting policy	(38)	(10)	(57)
Cumulative effect of change in accounting policy, net of tax ^(e)	–	(29)	–
Net loss based on U.S. GAAP	(38)	(39)	(57)
Basic and diluted loss per common share based on U.S. GAAP			
Loss before cumulative effect of change in accounting policy	(0.30)	(0.08)	(0.49)
Net loss per share	(0.30)	(0.31)	(0.49)

U.S. GAAP requires the disclosure of a statement of comprehensive income. Comprehensive income generally includes net earnings plus the results of certain shareholders' equity changes not reflected in the statement of operations.

Consolidated Statements of Comprehensive Income	2003	2002	2001
Net loss based on U.S. GAAP	(38)	(39)	(57)
Change in foreign currency translation adjustment ^(d)	95	(32)	(56)
Change in minimum pension liability adjustment, net of tax ^(c)	(4)	(6)	–
Change in unrealized gains (losses) on derivative instruments, net of tax ^(b)	(5)	35	75
Change in realized gains (losses) on derivative instruments included in inventory, net of tax ^(b)	2	5	(7)
Cumulative effect of change in accounting policy, net of tax ^(b)	–	–	(105)
Comprehensive income (loss) based on U.S. GAAP	50	(37)	(150)

The cumulative effect of these adjustments on shareholders' equity of the Corporation is as follows:

	2003	2002
Shareholders' equity based on Canadian GAAP	821	764
Preferred securities ^(a)	(222)	(221)
Deferred tax on foreign exchange translation of preferred securities ^(a)	(5)	–
Unrealized gains (losses) on derivative instruments, net of tax ^(b)	(1)	5
Realized gains (losses) on derivative instruments included in inventory, net of tax ^(b)	1	(1)
Additional minimum pension liability, net of tax ^(c)	(10)	(6)
Other	(3)	(4)
Shareholders' equity based on U.S. GAAP	581	537

Notes to the consolidated financial statements

Description of significant differences

- (a) Preferred securities – Under Canadian GAAP, the preferred securities are classified as shareholders' equity and the related annual carrying charges are recorded as a distribution from retained earnings. Under U.S. GAAP, the \$175-million preferred securities would be classified as long-term debt, the \$50-million preferred securities would be classified as the current portion of long-term debt and the related carrying charges would be recognized as interest expense. Temporary differences arising as a result of the foreign exchange translation of the long-term debt would be recognized as deferred income tax expense. Under U.S. GAAP, in the statement of cash flows, cash flows under the heading "financing" would have increased by \$17-million (2002 – \$17-million; 2001 – \$17-million) and cash flows under the heading "operating" would have decreased by \$17-million (2002 – \$17-million; 2001 – \$17-million).
- (b) Derivative instruments and hedging activities – The Corporation accounts for its derivative instruments under Canadian GAAP as described in note 20. Under U.S. GAAP, generally all derivative instruments must be recognized as assets or liabilities on the balance sheet and measured at fair value. Any portion of the change in fair value of a derivative instrument that qualifies as a cash flow hedge is initially included in the determination of comprehensive income. The gain or loss is subsequently included in earnings in the same period as the hedged item. Any portion of the change in fair value of a derivative instrument that does not qualify for hedge accounting is recognized in earnings immediately.
- (c) Unfunded employee benefits – Under U.S. GAAP an additional minimum liability is recognized if the unfunded employee benefits Accumulated Benefit Obligation exceeds the accrued benefit obligation that is recorded in the balance sheet. This additional liability is recorded as a reduction to other comprehensive income.
- (d) Foreign currency translation adjustment – Under Canadian GAAP, foreign exchange gains and losses on translation of self-sustaining foreign operations are included as a separate component of shareholders' equity referred to as cumulative translation adjustment. Under U.S. GAAP, such foreign currency translation gains and losses are recorded as comprehensive income.
- (e) Change in accounting policies – Effective January 1, 2002, the Corporation adopted a new standard under each of Canadian GAAP and U.S. GAAP for Goodwill and Other Intangible Assets. The Canadian standard mirrors the U.S. standard except that, under U.S. GAAP, the goodwill impairment calculated on initial adoption of the new policy was charged against earnings in the current period. Under Canadian GAAP, the transitional adoption of the policy was recorded against opening balance of retained earnings in the period of adoption.
- (f) Joint ventures – 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. Net assets and earnings of the Corporation would be the same under either method. Note 22 provides the details of the joint venture as included under Canadian GAAP.