

THIS DISCUSSION AND analysis of results of operations and financial activities should be read in conjunction with the Consolidated Financial Statements and related notes. Amounts are stated in millions of US dollars unless otherwise indicated.

## **BASIS OF PRESENTATION**

The Corporation conducts its operations through wholesale and retail operations in North and South America. In North America, wholesale operations ("Wholesale") include the manufacture, distribution and sale of fertilizers and related products to customers in Canada, the United States and export markets. Retail operations ("Retail") include the purchase, distribution and marketing of agricultural inputs, primarily fertilizers and chemicals, and the provision of a range of application and tailored agronomic services to growers in the United States. In South America, the Corporation is currently engaged in retail and wholesale operations in Argentina and is also participating in a joint venture for the construction and operation of a major nitrogen facility scheduled to come on stream in mid-year 2000. Results of wholesale operations in Argentina are not sufficiently material to warrant separate disclosure from Argentina retail operations at this time. All of these business segments are supported by various Corporate functions which together with inter-segment eliminations are disclosed as "Other Unallocated".

Certain statements in this discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. A number of factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, fluctuations in the supply and demand of fertilizer, changes in gas and other input costs, changes in capital and foreign exchange markets, unexpected agricultural or environmental conditions and government policy changes.

## **SIGNIFICANT EVENTS**

### **CORPORATE RESTRUCTURING**

At the end of the second quarter, 1999, the Corporation completed a detailed review of its business processes and its selling, general and administrative cost structure. This review, which commenced in late 1998, culminated in a Corporate restructuring eliminating the New Products and International Business Units, and a reorganization of the Corporation's marketing, transportation and Corporate activities in the third quarter of 1999. Savings from the Corporate restructuring were effective immediately. A supply chain optimization and Retail operations' review are currently entering implementation phase and are expected to be completed by the first quarter of 2001. Annual savings over 1998 levels from all these initiatives are expected to exceed \$35 million in the year 2000 and increase thereafter. Restructuring and severance costs totalling \$11 million before tax have been charged to earnings in 1999.

### **KAPUSKASING MINE**

The Kapuskasing phosphate rock mine and mill came on stream in mid-year 1999 although mechanical problems and required process changes have delayed the achievement of full production rates. Resolution of these problems is expected by the end of the second quarter, 2000.

### **CONDA PLANT EXPANSION**

In October 1999, the Corporation entered into an agreement to lease and operate an industrial grade purified phosphoric acid ("PPA") unit to be built by FMC Corporation ("FMC") in Agrium's Conda phosphate fertilizer complex. FMC is committed to purchase the PPA under a long-term supply agreement. Start-up of the project is anticipated in mid-year 2001.

### **PROFERTIL**

In late 1998, the Corporation increased its interest in the Profertil joint venture from 33% to 50%. The Corporation and joint venture partner YPF S.A. (a subsidiary of Repsol S.A.) ("YPF") each purchased one-half of former partner Perez Companc's one-third holding in the venture. The plant was approximately 90% complete at December 31, 1999 and start-up is anticipated to be on schedule for mid-year 2000.

### **UNOCAL FERTILIZERS**

In January 2000, the Corporation entered into an agreement with Union Oil Company of California ("Unocal") to acquire its nitrogen-based production and distribution businesses for approximately \$325 million, including working capital at the time of closing, and future considerations. This purchase will expand and strengthen the Corporation's nitrogen business in the Western United States and internationally and will provide significant synergies in the Corporation's operating and administrative cost structure. Completion of the acquisition is subject to the fulfillment of certain conditions including obtaining all necessary regulatory approvals.

## RESULTS OF OPERATIONS

### 1999 COMPARED TO 1998

#### Consolidated

The following table summarizes the results of operations of the Corporation for the years ended December 31, 1999 and 1998:

	1999				1998					
	Wholesale	Retail	South America	Other*	Total	Wholesale	Retail	South America	Other*	Total
Net sales										
– external customers	\$ 828	\$ 794	\$ 94	\$ –	\$ 1,716	\$ 934	\$ 821	\$ 50	\$ –	\$ 1,805
– internal customers	59	–	–	(59)	–	59	–	–	(59)	–
Total net sales	887	794	94	(59)	1,716	993	821	50	(59)	1,805
Cost of product	652	557	76	(61)	1,224	659	585	37	(59)	1,222
Gross profit	235	237	18	2	492	334	236	13	–	583
Selling	18	169	15	–	202	21	172	12	–	205
General and administrative	19	6	4	12	41	23	6	3	17	49
Depreciation and amortization	56	22	7	8	93	55	23	6	8	92
Other (income) expense	10	(3)	(2)	15	20	5	(1)	1	–	5
Earnings (loss) from operations										
before undernoted items:	\$ 132	\$ 43	\$ (6)	\$ (33)	136	\$ 230	\$ 36	\$ (9)	\$ (25)	232
Interest					37					40
Earnings before income taxes					99					192
Income taxes					35					71
Net earnings – after restructuring charges					\$ 64					\$ 121
Net earnings – before restructuring charges					\$ 70					\$ 121
Cash provided by operations – after restructuring charges					\$ 132					\$ 208
Cash provided by operations – before restructuring charges					\$ 138					\$ 208

\* Other Unallocated

Market conditions for the wholesale fertilizer industry were difficult in 1999. Fertilizer and grain prices were at multi-year lows worldwide, and nitrogen prices remained depressed due to the combination of China's continuing absence from international urea markets and the Former Soviet Union supplying the market with urea at low prices. Nitrogen margins were further adversely impacted by increased natural gas prices. Phosphate prices also came under pressure due to anticipated new global production and to reduced demand in North America as a result of farmers facing difficult economic conditions. North American potash demand also declined due to wet weather in the spring application season but prices remained in line with previous years due to stable international demand.

The Corporation's 1999 results of operations reflect these difficult conditions. Net earnings for the year ended December 31, 1999 were \$70 million (\$0.55 per share) before one-time restructuring charges of \$11 million (\$6 million after taxes or \$0.06 per share), compared to \$121 million (\$0.96 per share) in 1998, a decrease of \$51 million (\$0.41 per share). Cash provided by operating activities before changes in non-cash working capital and one-time restructuring charges was \$138 million (\$1.15 per share) in 1999, a decrease of \$70 million (\$0.53 per share) compared to \$208 million (\$1.68 per share) in 1998.

#### Gross profit

Gross profit of \$492 million for 1999 declined by \$91 million from \$583 million in 1998, due primarily to lower Wholesale margins on most products as discussed above. 1999 gross profit from Retail operations was virtually unchanged from 1998, while gross profit in South America increased slightly with the start-up of wholesale activity.

#### Selling, general and administrative

Selling, general and administrative expenses of \$243 million for 1999 decreased by \$11 million from 1998 due to the Corporate restructuring which occurred mid-year 1999 resulting in closure of the Saskatoon and Spokane offices and a reduction of approximately 162 staff. The full impact of the restructuring will not be realized until 2000.

#### Depreciation and amortization

Depreciation and amortization of \$93 million for 1999 remained virtually unchanged from 1998, as the impact of new capital invested and foreign exchange on Canadian dollar denominated assets was offset by other capital assets becoming fully depreciated.

### Other (income) expense

Other (income) expense increased by \$15 million compared to 1998. The primary reasons for the increase relate to Corporate restructuring charges of \$11 million, higher provisions for receivables and environmental expenses, and lower interest and other miscellaneous income. 1998 included costs totalling \$9 million associated with discontinuing the Corporation's agricultural biological business, write-offs of costs associated with the development of a proposed urea plant in Vietnam and the R21 precision agriculture project which were partially offset by interest and other miscellaneous income.

### Interest

Interest expense for 1999 decreased from 1998 as a result of other interest expense on short-term bank indebtedness being capitalized on major development projects in 1999. Substantially all of the Corporation's long-term debt is at fixed rates.

### Income taxes

The Corporation changed its policy for accounting for income taxes in the fourth quarter of 1998, adopting the liability method of accounting for income taxes under the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants effective January 1, 1998. Previously, the Corporation and its subsidiaries used the deferral method of accounting for income taxes. As a result of this change, capital assets increased by \$17 million and the future income tax liability increased by \$17 million at January 1, 1998. There was no impact on retained earnings.

The Corporation's effective tax rate decreased from 37% in 1998 to 35% in 1999, primarily reflecting lower foreign tax rates offset by a decrease in the Canadian manufacturing and processing allowance.

### Cash provided by operating activities

Cash provided by operating activities before changes in non-cash working capital of \$132 million was \$76 million lower than 1998 levels due primarily to lower earnings offset by lower cash taxes payable.

### NORTH AMERICA - WHOLESALE

The following table summarizes Wholesale net sales, cost of sales, gross profit, sales volumes and margin by product line for the years ended December 31, 1999 and 1998:

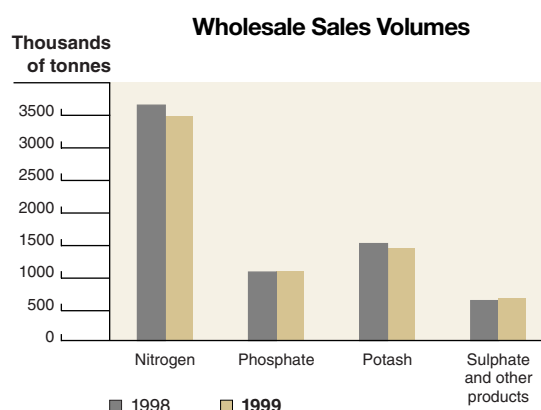
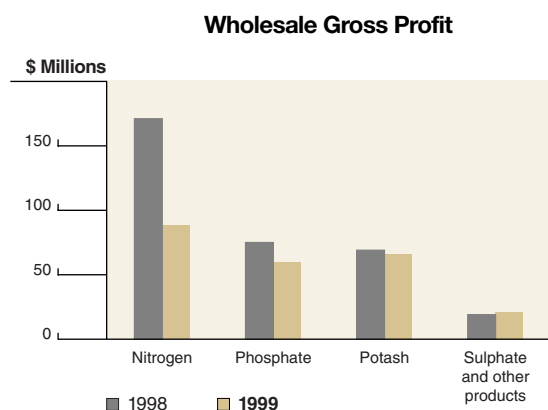
	1999					1998				
	**Net Sales	Cost of Sales	Gross Profit	Tonnes (000s)	Margin (\$/Tonne)	**Net Sales	Cost of Sales	Gross Profit	Tonnes (000s)	Margin (\$/Tonne)
Nitrogen	\$ 422	\$ 334	\$ 88	3,479	\$ 25.29	\$ 501	\$ 330	\$ 171	3,652	\$ 46.82
Phosphate*	255	195	60	1,082	55.45	262	187	75	1,062	70.62
Potash	145	79	66	1,432	46.09	160	91	69	1,504	45.88
Sulphate and other products	65	44	21	665	31.58	70	51	19	561	33.87
	<b>\$ 887</b>	<b>\$ 652</b>	<b>\$ 235</b>	<b>6,658</b>	<b>\$ 35.30</b>	<b>\$ 993</b>	<b>\$ 659</b>	<b>\$ 334</b>	<b>6,779</b>	<b>\$ 49.27</b>

\* Phosphate is comprised of 134,000 P<sub>2</sub>O<sub>5</sub> equivalent tonnes of liquid phosphate and 948,000 tonnes of dry phosphate in 1999 (1998: 149,000 and 913,000 tonnes respectively).

\*\* Net sales includes sales to internal customers of \$59 million\452,000 tonnes for the year ended December 31, 1999 (1998: \$59 million\400,000 tonnes).

### Overall

Wholesale gross profit for 1999 decreased by \$99 million (30%) from 1998, primarily as a result of lower margins for nitrogen and phosphate products. Nitrogen margins were impacted by both lower product selling prices and the cost of natural gas feedstock, the latter increasing an average of 23% over 1998 levels in spite of the positive impact of hedging programs. In addition, lower nitrogen sales volumes in Western Canada due to dry weather in the fall season and voluntary production curtailments through extended turnarounds also contributed to the decrease. Phosphate margins have also been affected by lower selling prices and mechanical and process problems encountered during the start-up phase of the Kapuskasing project which have restricted initial production rates.



**Nitrogen**

Gross profit of \$88 million from nitrogen products (ammonia, urea, ammonium nitrate and other) for 1999 represents a decrease of \$83 million (49%) from 1998 due mainly to lower selling prices, increases in the cost of natural gas and lower sales volumes. Selling prices in North America remained low throughout most of 1999, but started to recover somewhat in the latter part of the year due to several plant closures worldwide and to increasing demand generally. Margins were also affected by higher natural gas costs, the primary feedstock in the production of nitrogen fertilizers, although the full impact has been mitigated by the Corporation's hedging programs as discussed in the Outlook (Wholesale) section.

**Phosphate**

Phosphate gross profit of \$60 million for 1999 was \$15 million (20%) lower than 1998, due to lower selling prices combined with increased costs as a result of mechanical and process problems and lower than anticipated throughput at Kapuskasing. Phosphate selling prices came under pressure in 1999 due to anticipated new global production from Australia, India and elsewhere and to reduced demand in North America as farmers continued to face difficult economic circumstances.

**Potash**

Gross profit from potash operations of \$66 million in 1999 decreased by \$3 million (4%) from 1998. The decrease was due to lower sales volumes in the United States as a result of wet weather during the spring application season. Production volumes in 1999 were also lower than 1998 due to an extended turnaround to complete underground maintenance programs and to manage inventory levels.

**Sulphate and other products**

Other products include ammonium sulphate, other commission sales and special products. Gross profit of \$21 million was \$2 million (11%) higher than 1998, primarily due to higher sales volumes.

**Expenses**

Wholesale selling, general and administrative expenses of \$37 million for 1999 declined by \$7 million (16%) compared to 1998 due to the reorganization and restructuring of Wholesale operations in the current year. Depreciation and amortization remained virtually unchanged from 1998, as the impact of new capital invested and foreign exchange on Canadian dollar denominated assets was offset by other capital assets becoming fully depreciated. Other (income) expense of \$10 million for 1999 increased by \$5 million from 1998 due to higher stores inventory write-offs and offsetting gains on sale of investments in non-core assets included in the prior year.

**NORTH AMERICA - RETAIL**

The following table summarizes Retail net sales, cost of sales and gross profit by major product line for the years ended December 31, 1999 and 1998:

	1999			1998		
	Net Sales	Cost of Sales	Gross Profit	Net Sales	Cost of Sales	Gross Profit
Gross profit						
Fertilizers	\$ 357	\$ 257	\$ 100	\$ 377	\$ 277	\$ 100
Chemicals	345	297	48	361	308	53
Other products and services	92	3	89	83	–	83
	<b>\$ 794</b>	<b>\$ 557</b>	<b>\$ 237</b>	<b>\$ 821</b>	<b>\$ 585</b>	<b>\$ 236</b>

1999 Retail sales were lower than 1998, due to lower nitrogen fertilizer prices and reduced chemical prices and volumes. Despite lower net sales, gross profit increased over 1998 due to higher fertilizer sales volumes, improved fertilizer margins due to reduced costs and higher seed revenues. 1999 earnings from operations increased by \$7 million from 1998 as a result of the increase in gross profit, lower selling expenses and reduced depreciation and amortization expenses. Both gross profit and earnings from operations for 1999 were records for Retail.

**SOUTH AMERICA**

The following table summarizes South America's combined wholesale and retail net sales, cost of sales and gross profit by major product line for the years ended December 31, 1999 and 1998:

	1999			1998		
	Net Sales	Cost of Sales	Gross Profit	Net Sales	Cost of Sales	Gross Profit
Gross profit						
Fertilizers	\$ 80	\$ 67	\$ 13	\$ 44	\$ 37	\$ 7
Other products and services	14	9	5	6	–	6
	<b>\$ 94</b>	<b>\$ 76</b>	<b>\$ 18</b>	<b>\$ 50</b>	<b>\$ 37</b>	<b>\$ 13</b>

Sales and gross profit in South America in 1999 were higher than in 1998 primarily due to the commencement of wholesale operations and improved fertilizer margins. On October 1, 1999, the Corporation's interest in these wholesale operations was sold to the Profertil S.A. joint venture with YPF, in which the Corporation retains a 50% interest. 1999 other (income) expense includes provisions of \$2 million for receivables offset by \$5 million of interest income.

#### OTHER UNALLOCATED

Other Unallocated includes the Corporate functions and eliminations of product transfers from Wholesale to Retail. Other Unallocated losses from operations increased from \$25 million in 1998 to \$33 million in 1999 primarily due to restructuring charges of \$11 million, increased environmental provisions and reduced interest income as a result of lower cash balances. 1998 includes write-offs of \$9 million associated with discontinuing the Corporation's agricultural biological business, write-offs of costs associated with the development of a proposed urea plant in Vietnam and the R21 precision agriculture project. These write-offs were offset by interest and other miscellaneous income.

#### 1998 COMPARED TO 1997

##### Consolidated

The following table summarizes the results of operations of the Corporation for the years ended December 31, 1998 and 1997:

	1998					1997				
	Wholesale	Retail	South America	Other*	Total	Wholesale	Retail	South America	Other*	Total
Net sales										
– external customers	\$ 934	\$ 821	\$ 50	\$ –	\$ 1,805	\$ 1,072	\$ 830	\$ 36	\$ –	\$ 1,938
– internal customers	59	–	–	(59)	–	52	–	–	(52)	–
Total net sales	993	821	50	(59)	1,805	1,124	830	36	(52)	1,938
Cost of product	659	585	37	(59)	1,222	671	600	28	(53)	1,246
Gross profit	334	236	13	–	583	453	230	8	1	692
Selling	21	172	12	–	205	29	163	12	–	204
General and administrative	23	6	3	17	49	22	8	3	16	49
Depreciation and amortization	55	23	6	8	92	55	23	3	4	85
Other (income) expense	5	(1)	1	–	5	(6)	1	–	–	(5)
Earnings (loss) from operations										
before undernoted items:	\$ 230	\$ 36	\$ (9)	\$ (25)	232	\$ 353	\$ 35	\$ (10)	\$ (19)	359
Interest					40					46
Earnings before income taxes					192					313
Income taxes					71					128
Net earnings					\$ 121					\$ 185
Cash provided by operations					\$ 208					\$ 399

\* Other Unallocated

1998 was a challenging year compared to 1997 with low grain prices, low fertilizer prices and erratic weather patterns around the world. The fertilizer industry experienced continuing low nitrogen prices due primarily to China's absence from the global market. The 1998 results of operations reflected these conditions.

Net earnings for the year ended December 31, 1998 were \$121 million (\$0.96 per share), compared to \$185 million (\$1.43 per share) in 1997, a decrease of \$64 million (\$0.47 per share). Cash provided by operating activities before changes in non-cash working capital was \$208 million (\$1.68 per share) in 1998, a decrease of \$191 million (\$1.42 per share) compared to \$399 million (\$3.10 per share) in 1997.

##### Gross profit

Gross profit of \$583 million for 1998 declined by \$109 million from \$692 million in 1997, due primarily to lower Wholesale margins resulting from lower selling prices for nitrogen products, but partially offset by higher Retail margins.

##### Selling, general and administrative

Selling, general and administrative expenses of \$254 million for 1998 were virtually unchanged from 1997. Increased expenses from expansion of Retail and South American operations were largely offset by synergies arising from the 1996 merger with Viridian Inc.

##### Depreciation and amortization

Depreciation and amortization of \$92 million for 1998 increased by \$7 million from 1997, mainly as a result of the full-year impact of 1997 expansion of retail operations in Argentina and increased Corporate amortization costs.

**Other (income) expense**

Other (income) expense increased by \$10 million compared to 1997. The primary reasons for the increase relate to costs associated with discontinuing the Corporation's agricultural biological business, write-offs of costs associated with the development of a proposed urea plant in Vietnam and the R21 precision agriculture project. These costs totalled \$9 million. Other cost increases were substantially offset by increased interest income from investment of surplus cash. 1997 amounts were comprised of non-recurring revenue items, including the proceeds of a business interruption insurance claim.

**Interest**

Interest expense for 1998 decreased by \$6 million compared to 1997, due to the use of proceeds from the issue of preferred securities to reduce bank indebtedness.

**Income taxes**

The Corporation's effective tax rate decreased from 41% in 1997 to 37% in 1998, primarily reflecting lower foreign tax rates and the relative impact of differences between accounting income before tax and income subject to tax.

**Cash provided by operating activities**

Cash provided by operating activities before changes in non-cash working capital of \$208 million was \$191 million lower than 1997 levels due primarily to lower earnings and higher cash taxes payable resulting from previously deferred taxes becoming currently payable.

**NORTH AMERICA - WHOLESALE**

The following table summarizes Wholesale net sales, cost of sales, gross profit, sales volumes and margin by product line for the years ended December 31, 1998 and 1997:

	1998					1997				
	**Net Sales	Cost of Sales	Gross Profit	Tonnes (000s)	Margin (\$/Tonne)	**Net Sales	Cost of Sales	Gross Profit	Tonnes (000s)	Margin (\$/Tonne)
Nitrogen	\$ 501	\$ 330	\$ 171	3,652	\$ 46.82	\$ 633	\$ 337	\$ 296	3,630	\$ 81.54
Phosphate*	262	187	75	1,062	70.62	279	195	84	1,135	74.01
Potash	160	91	69	1,504	45.88	140	89	51	1,484	34.37
Sulphate and other products	70	51	19	561	33.87	72	50	22	619	35.54
	\$ 993	\$ 659	\$ 334	6,779	\$ 49.27	\$ 1,124	\$ 671	\$ 453	6,868	\$ 65.96

\* Phosphate is comprised of 149,000 P<sub>2</sub>O<sub>5</sub> equivalent tonnes of liquid phosphate and 913,000 tonnes of dry phosphate in 1998 (1997: 136,000 and 999,000 tonnes respectively).

\*\* Net sales includes sales to internal customers of \$59 million\400,000 tonnes for the year ended December 31, 1998 (1997: \$52 million\333,000 tonnes).

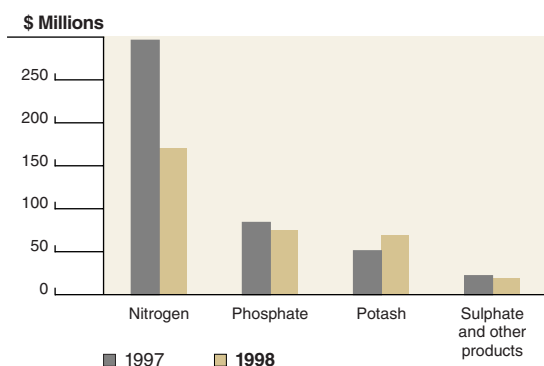
**Overall**

Wholesale gross profit for 1998 decreased by \$119 million (26%) from 1997, primarily as a result of lower selling prices for nitrogen products, but partially offset by higher potash sales volumes and margins.

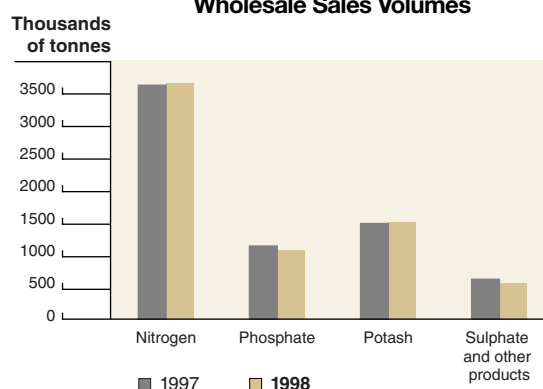
**Nitrogen**

Gross profit of \$171 million attributable to nitrogen products (ammonia, urea, ammonium nitrate and other) for 1998 represents a decrease of \$125 million (42%) from 1997, due mainly to lower selling prices. The Corporation continued to have an advantage over its US-based competitors because of lower natural gas input costs and gas usage efficiencies at its Alberta nitrogen production facilities, where the majority of its capacity is located.

**Wholesale Gross Profit**



**Wholesale Sales Volumes**



**Phosphate**

Phosphate gross profit of \$75 million for 1998 was \$9 million (11%) lower than 1997, due to lower sales volumes as well as higher raw material costs. Higher phosphate rock costs at the Redwater phosphate operation were partially offset by lower costs at Conda's phosphate operation as a result of the acquisition of the Rasmussen Ridge phosphate mine from the previous supplier in late 1997.

**Potash**

Gross profit from potash operations of \$69 million in 1998 increased by \$18 million (35%) from 1997 due to a combination of increased selling prices and volumes as well as reduced unit production costs. 1998 was a record year for potash production and sales volumes as well as net sales and gross profit.

**Sulphate and other products**

Other products include ammonium sulphate, other commission sales and special products. Gross profit of \$19 million was \$3 million (14%) lower than 1997, primarily due to lower sales volumes.

**Expenses**

Wholesale selling, general and administrative expenses of \$44 million for 1998 declined by \$7 million (14%) compared to 1997 due to synergies realized as a result of the 1996 merger of the Corporation and Viridian Inc. Depreciation and amortization remained virtually unchanged from 1997. Other (income) expense of \$5 million for 1998 increased by \$11 million compared to 1997. The primary reason for the increase was that 1997 comprised mainly of non-recurring revenue items, including the proceeds of a business interruption insurance claim.

**NORTH AMERICA - RETAIL**

The following table summarizes Retail net sales, cost of sales and gross profit by major product line for the years ended December 31, 1998 and 1997:

	1998			1997		
	Net Sales	Cost of Sales	Gross Profit	Net Sales	Cost of Sales	Gross Profit
Gross profit						
Fertilizers	\$ 377	\$ 277	\$ 100	\$ 410	\$ 306	\$ 104
Chemicals	361	308	53	351	295	56
Other products and services	83	–	83	69	(1)	70
	\$ 821	\$ 585	\$ 236	\$ 830	\$ 600	\$ 230

1998 Retail sales were lower than 1997, due to the sale of non-core Canadian assets, although increased focus on higher-margin products and services resulted in a \$6 million (3%) gross profit increase. Overall, 1998 was a record year for Retail in spite of El Niño reducing California fertilizer volumes, nitrogen price decreases and a reduction in chemical volumes due to improved seed genetics.

**SOUTH AMERICA**

The following table summarizes South America's net sales, cost of sales and gross profit by major product line for the years ended December 31, 1998 and 1997:

	1998			1997		
	Net Sales	Cost of Sales	Gross Profit	Net Sales	Cost of Sales	Gross Profit
Gross profit						
Fertilizers	\$ 44	\$ 37	\$ 7	\$ 33	\$ 28	\$ 5
Other products and services	6	–	6	3	–	3
	\$ 50	\$ 37	\$ 13	\$ 36	\$ 28	\$ 8

Sales in South America in 1998 were higher than in 1997 primarily due to the commencement of wholesale operations in late 1998. Earnings from operations in 1998 were slightly higher than 1997 for the same reasons.

**OTHER UNALLOCATED**

Other Unallocated includes the Corporate functions and eliminations of product transfers from Wholesale to Retail. Losses from operations increased from \$19 million in 1997 to \$25 million in 1998 due mainly to higher Corporate amortization expense. Increased interest income from investment of surplus cash in 1998 offset the \$9 million of write-offs previously mentioned.

## INVESTING AND FINANCING ACTIVITIES

### FINANCING AND DIVESTITURES

On October 1, 1999, the Corporation sold its interest in Agrium Fertilizers S.A. (the South American wholesale operations) at book value to the Profertil S.A. joint venture with YPF, thereby retaining a 50% interest.

In September 1999, the Corporation initiated a new normal course issuer bid to repurchase up to 5% or approximately 5.6 million of its common shares. The Corporation has not repurchased any common shares under this bid to date.

In September 1998, the Corporation initiated a normal course issuer bid to repurchase up to 5% of its common shares. Under this bid, 3.7 million common shares were repurchased at an average cost of \$8.83 per share.

In April 1998, the Corporation issued \$175 million 8% unsecured preferred securities due June 30, 2047. The net proceeds of \$171 million (net of after-tax issue costs of \$4 million) were used to finance the 10% share repurchase program in 1998 as well as for general Corporate purposes.

In the third quarter of 1997, the Corporation initiated a normal course issuer bid to repurchase up to 5% of its common shares. This bid was increased to 10% in April 1998. The full amount of 12 million common shares was repurchased under this program.

On February 25, 1997, pursuant to a substantial issuer bid, the Corporation repurchased 14 million of its common shares at C\$20.00 per share, representing approximately 10% of its outstanding common shares.

On January 28, 1997, the Corporation obtained long-term financing in the form of \$75 million of 7.0% notes due 2004, \$100 million of 7.7% debentures due 2017 and \$125 million of 7.8% debentures due 2027. The net proceeds of the debt offerings were used to repay outstanding debt under the Corporation's revolving term credit facility.

### DIVIDENDS AND SECURITIES CHARGES

The Corporation has declared and paid common share dividends in each of the periods under review. The declaration and amount of future common share dividends are decided by the Board of Directors and are subject to earnings and financial requirements, covenants in debt financing agreements and other conditions prevailing at the time. The Corporation has also paid all preferred securities charges on its preferred securities since they were issued in 1998.

Cash dividends of \$13 million were paid on common shares in 1999 compared with \$14 million in 1998 and \$11 million in 1997.

Preferred securities charges of \$8 million, net of current taxes of \$6 million, were paid on outstanding preferred securities in 1999 compared to \$6 million, net of current taxes of \$4 million, paid in 1998.

### INVESTING

The following table summarizes the capital expenditures of the Corporation for the years ended December 31, 1999, 1998 and 1997:

	1999	1998	1997
North American Wholesale	\$ 80	\$ 88	\$ 78
North American Retail	18	20	26
South America	137	65	26
Other Unallocated	18	1	14
Total capital expenditures	253	174	144
Less non-cash and directly financed	(19)	-	-
	<b>\$ 234</b>	<b>\$ 174</b>	<b>\$ 144</b>

Major capital expenditures in 1999 included \$35 million for completion of development of the Corporation's Kapuskasing phosphate mine, \$136 million for construction of the Profertil nitrogen facility to be completed mid-year 2000 and \$19 million of non-cash and directly financed expenditures comprised mainly of the capitalization of the Corporate Head Office building lease.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the key financial ratios for the Corporation for the years ended December 31, 1999, 1998 and 1997:

	1999	1998	1997
Quick ratio*	0.79	1.20	1.08
Current ratio	1.37	2.06	2.10
Shareholders' equity to total assets	0.39	0.41	0.38
Book value per common share	5.29	4.80	5.01
Total asset turnover	0.92	1.05	1.19
Long-term debt to long-term debt and Shareholders' equity	0.39	0.40	0.43

\* Cash and cash-equivalents plus accounts receivable to current liabilities.

## CAPITAL RESOURCES

At December 31, 1999, the Corporation's working capital amounted to \$174 million, including cash and cash-equivalents of \$104 million. Lines of credit available under term and operating facilities aggregated \$195 million.

In February 1999, Profertil completed a bridge financing of up to \$285 million to finance the construction of a \$600 million urea and ammonia production facility. Each of the Corporation and YPF have provided several guarantees for 50% of the amounts outstanding under the bridge facility. The Corporation's 50% share of the bridge financing was \$149 million at December 31, 1999.

The Corporation has an unsecured four-year term loan facility for \$100 million. This facility was unutilized at December 31, 1999. Additional lines of credit include a C\$35 million or \$25 million demand operating loan facility. This facility was also unutilized as at December 31, 1999. The Corporation also has a C\$150 million (or an equivalent amount in US dollars) commercial paper borrowing facility. The commercial paper is rated investment-grade by the two Canadian rating agencies. At December 31, 1999, Dominion Bond Rating Service Limited ("DBRS") had assigned a rating of R-1(low) and Canadian Bond Rating Service ("CBRS") had assigned a rating of A-1. At December 31, 1999, \$30 million was issued and outstanding. The Corporation's intention is to reduce its borrowed amount authorized under Canadian bank lines by any amount drawn under this program.

In October 1995, a group of US banks agreed to provide Agrium US Inc. with an unsecured revolving credit facility with a termination date of October 5, 2000. The facility consists of a base revolving credit of up to \$70 million and an excess revolving credit of up to \$30 million for the period beginning on May 1 and ending on November 30 of each year during the term of the agreement. Agrium US Inc. may borrow at interest rates related to US prime rates or the London interbank offered rates. This facility was unutilized at December 31, 1999.

Under the terms of these arrangements, the Corporation is required to maintain various financial ratios and other covenants.

## CAPITAL REQUIREMENTS

Requirements for working capital are subject to substantial seasonal fluctuations. Typically, sales volumes are highest in the spring, with a secondary peak in the fall. Product inventories increase in the late fall, winter and summer periods. Accounts receivable are highest in late spring and early summer.

Planned capital expenditures for 2000 are approximately \$216 million, of which \$117 million relates to investment projects and \$99 million to sustaining existing operations. The Corporation's 2000 share of capital expenditures for the Profertil nitrogen joint venture project is expected to be \$65 million. Other major expenditures for 2000 include \$20 million for the Corporation's own share of investment to tie into an industrial grade PPA unit to be built by FMC at Agrium's Conda phosphate fertilizer complex.

The Corporation leases bulk tank and hopper rail cars, and most of its off-site dry storage facilities are under short- to medium-term operating leases. It also contracts third-party pipeline, truck, lake vessel and barge facilities to transport its products. The aggregate annual minimum payments under these operating leases and contracts are as follows: 2000 – \$32 million; 2001 – \$23 million; 2002 – \$21 million; 2003 – \$18 million; and 2004 – \$17 million. The Corporation does not anticipate any material interruption in its current operating leases or in its ability to lease, renew leases or contract for such facilities and services.

Excluding requirements under the Unocal transaction, management considers current debt facilities and cash flow to be more than adequate to meet capital expenditure, working capital and debt service requirements. Scheduled principal repayments on long-term debt amount to \$1 million in 2000.

## SUBSEQUENT EVENT

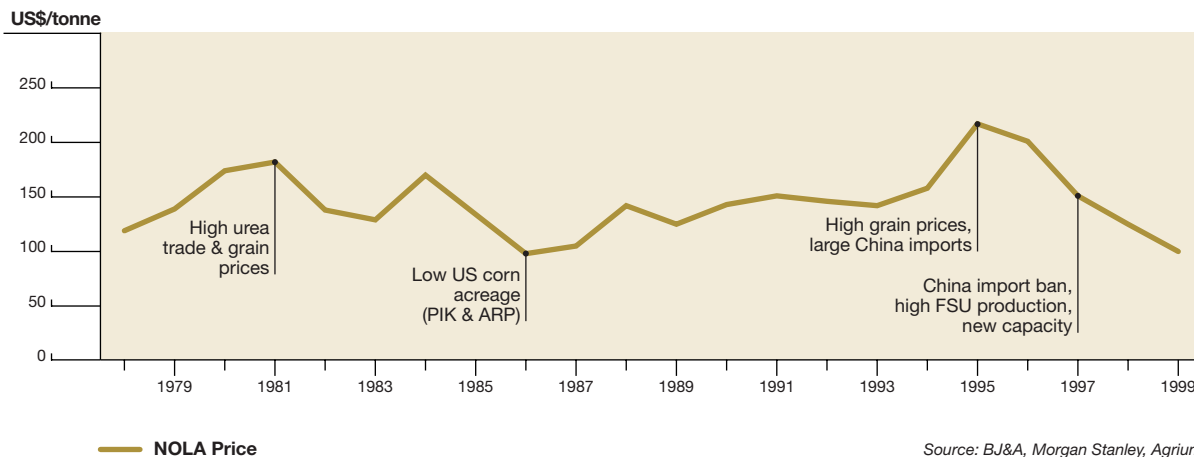
In January 2000, the Corporation signed an agreement with Unocal to acquire the nitrogen-based production and distribution businesses operated by Unocal in Alaska, Washington, Oregon and California. The consideration to be paid by the Corporation to Unocal is approximately \$325 million, including net working capital at the time of closing, estimated to be approximately \$73 million. Upon closing of the Unocal transaction ("Closing"), the consideration payable will consist of \$50 million principal amount of 6% convertible preferred securities which will be convertible into the Corporation's common shares at a 20% premium to the weighted average common share price for the 20 days preceding Closing; \$25 million of the Corporation's common shares based on 96% of the average of the closing common share price on the 20 days prior to Closing; and the balance in cash which is expected to be financed through the issue of approximately \$250 million principal amount of debentures at market rates at the time of issue, with a term of 20 years. In addition, the parties have negotiated an "Earn-Out" under which Unocal will have the opportunity to receive an annual payment for each of the six years following Closing equal to 35% of the excess of an international commodity price index for ammonia and urea over certain forecasted prices for the production volumes of the Kenai, Alaska facilities.

The facilities proposed to be acquired from Unocal include two nitrogen based fertilizer production facilities at Kenai, Alaska with annual production of approximately 590,000 net tonnes of ammonia and 1,000,000 tonnes of urea, and related storage facilities. The natural gas to supply these Alaskan facilities is provided under long-term agreements at prices below those in Western Canada or the lower 48 states. In the continental United States, the facilities proposed to be acquired include ammonia, ammonium nitrate and UAN plants at Kennewick and Finley, Washington, and Sacramento and Fresno, California and terminal and storage, dock and barge facilities at these locations and at Portland, Oregon.

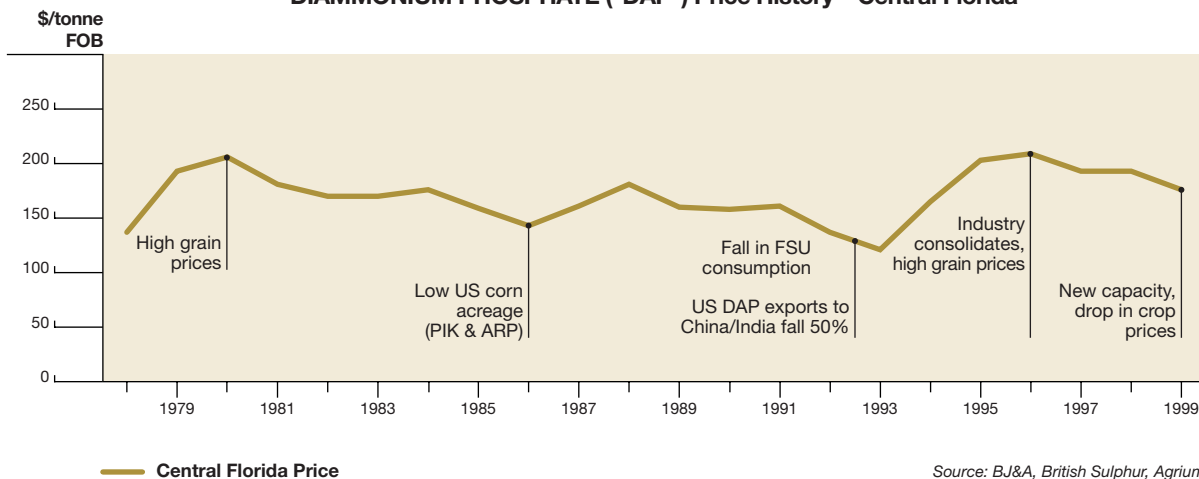
Completion of the acquisition is subject to the fulfilment of certain conditions, including obtaining all necessary regulatory approvals. The Corporation anticipates the transaction to close before the end of the second quarter, 2000.

In addition to strengthening the Corporation's position as a low cost producer of nitrogen in North America and internationally, this acquisition is considered to be accretive almost immediately upon completion of the purchase. Following signing of the agreement, Moody's and Standard & Poor's ("S & P") ratings on the Corporation's senior debt and commercial paper remained unchanged, both with stable outlook. However, DBRS and CBRS, which had previously assigned higher ratings, downgraded their ratings to be in line with Moody's and S & P.

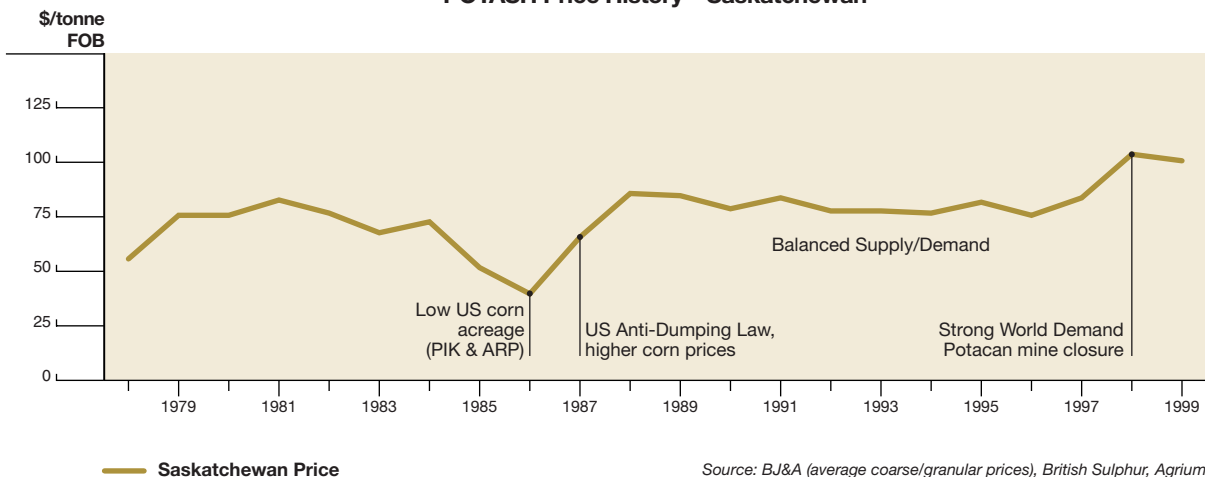
### UREA Price History – NOLA



### DIAMMONIUM PHOSPHATE (“DAP”) Price History – Central Florida



### POTASH Price History – Saskatchewan



The following table summarizes confirmation of the post closing ratings:

	Senior Unsecured Notes and Debentures	Commercial Paper	Preferred Securities
Moody's Investors Service	Baa2	–	Baa3
Dominion Bond Rating Service	BBB (high)	R-2 (high)	Pfd-3 (high)
Standard & Poor's	BBB	A-2	BB+
Canadian Bond Rating Service	A (low)	A-1 (low)	B++ (low)

In February 2000, the Corporation arranged a bridge financing of up to \$250 million non-revolving term credit facility to finance the acquisition of the Unocal assets. The termination date on this facility is October 31, 2000.

### RISKS AND UNCERTAINTIES

The Corporation is subject to the risks and uncertainties inherent in the fertilizer business. Financial results are subject to fluctuations in fertilizer prices, natural gas costs and foreign exchange rates over which the Corporation has limited control. In addition, the Corporation is subject to the normal risks of conducting business in an international environment where changes in government could potentially lead to amendments to fiscal terms.

The approximate net after-tax earnings sensitivity to fluctuations in Wholesale prices for nitrogen, phosphate and potash, the cost of natural gas, potash production volume and currency exchange rates are shown in the following table based on actual levels of operation in 1999. A change in one factor may compound or offset another. Since the table does not consider these interrelationships, it should not be used to predict results.

Factor	Increase in Factor	Net Earnings Impact (\$ Millions)
<b>Nitrogen</b>		
Price of ammonia	\$ 5.00/tonne	\$ 4
Price of urea	\$ 5.00/tonne	\$ 6
Price of ammonium sulphate	\$ 5.00/tonne	\$ 1
Price of ammonium nitrate	\$ 5.00/tonne	\$ 1
Cost of natural gas	\$ 0.10/GJ	\$(6)
<b>Phosphate</b>		
Price of phosphate (MAP and DAP equivalent)	\$ 5.00/tonne	\$ 4
<b>Potash</b>		
Price of potash	\$ 5.00/tonne	\$ 5
Production volume	100,000 tonnes/yr	\$ 3
<b>Exchange rate</b>		
From C\$ to US\$	C\$ 0.10	\$ 4

The Corporation manages its exposure to fluctuating natural gas prices through the use of derivative instruments and maintains insurance programs to protect against losses through accidental damage to its assets. The Corporation also manages its exposure to exchange rate fluctuations through the use of forward foreign exchange contracts and options. Management regularly evaluates these programs to ensure an appropriate balance is maintained between underlying business risk and the cost of such programs.

### YEAR 2000

The Corporation entered the new year with no Year 2000 ("Y2K") issues. Although the change in date has occurred, it is not possible to conclude that all aspects of the Y2K issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved. However, the Corporation does not expect any materially adverse effects of the Y2K issue to occur.

### ENVIRONMENTAL MANAGEMENT

The Corporation believes that responsible environmental management includes managing environmental, health and safety ("EH&S") risks, minimizing EH&S impacts, promoting product stewardship, communicating risks, ensuring performance, and designing and operating the Corporation's facilities responsibly. The Corporation's operations are affected by federal, provincial, state and local EH&S laws throughout Canada, the United States and Argentina. Expenditures relating to full compliance with these laws are considered to be part of the normal course of business; EH&S management is therefore integrated into the value chain and Corporate strategies. Key environmental issues that are being managed to ensure the Corporation is not unduly affected include legislation that targets non-nutritive content in fertilizers, restoration and reclamation of operating sites, public access to environmental data provided in accordance with regulations and the impact of international accords on climate change. The Corporation does not expect its expenditures for compliance to have a material adverse effect on its operations or financial condition.

## OUTLOOK

### WHOLESALE

North American fertilizer demand declined in 1999, particularly for phosphate and potash. Demand was impacted by low crop prices and reduced cereal acreage planted, as well as adverse spring weather conditions in some of the Corporation's key markets. The combination of high natural gas prices and lower nitrogen and phosphate prices eroded producer returns. As a result, a number of permanent and indefinite North American plant closures took place in the nitrogen and phosphate sectors. Numerous nitrogen facility closures also took place in parts of Europe and Asia, and more closures are expected in these regions in the year 2000.

World and North American nitrogen prices are expected to be firm during the critical spring season in 2000, although nitrogen prices may come under some pressure in the latter half of 2000. It is generally believed that nitrogen prices were at the bottom of the cycle in 1999, that prices will improve slowly over the next year or two, and accelerate thereafter. World phosphate prices dropped \$32 per tonne between June and December of 1999. Prices have firmed up slightly in January of 2000 but are expected to remain challenging over the next year. Potash prices have remained firm, buoyed partly by strong world demand.

North American application rates for phosphate and potash may show some small improvement on 1999's figures, as farmers are already in danger of "mining the soil". World grain inventories increased slightly in 1999, but remain below historical levels and are forecast to decline in 2000. The current low crop prices are largely due to a build up in grain inventories in the US, rather than excessive world stock levels. If significant production problems occur in the world next year, grain prices could increase quickly which would be positive for fertilizer demand.

Excluding production from assets under the Unocal transaction, the Corporation's 2000 production levels are expected to be largely unchanged, as no new capacity expansion is planned for the coming year in North America and the Corporation anticipates selling all of its production in the next fertilizer season. Natural gas market prices for 2000 are expected to increase from 1999, but the overall increase for the Corporation will be less due to the majority of North American requirements being hedged below current market prices, and the fixed price contract in place for gas to be supplied to the Profertil plant. Approximately 85% of the Corporation's nitrogen production is located in Alberta, Canada, where the price of natural gas continues to be lower than that of US-based competitors.

The Kapuskasing phosphate mine and mill project was commissioned on schedule in July, 1999. The mill is currently encountering start-up mechanical and process problems which have delayed achievement of full production rates now anticipated in the second quarter, 2000. When producing at full capacity, the mine is expected to supply 100% of the phosphate rock requirements for the Corporation's Redwater phosphate operations, replacing raw materials imported from Togo, West Africa at estimated cash savings of \$33 million annually. The full benefit of the savings from the Rasmussen Ridge mine, which was purchased in 1997, was realized at the Conda phosphate operations in 1999. These new sources of rock will lower the Corporation's phosphate costs, making it even more competitive in the North American phosphate market.

In October 1999, the Corporation entered into an agreement to lease and operate an industrial grade PPA unit to be built by FMC at the Corporation's Conda phosphate fertilizer complex. FMC will purchase the PPA under a long-term supply agreement. The Corporation's own investment to tie in FMC's processing facilities will be approximately \$30 million over the next two years. The project is scheduled for completion in mid-year 2001 and will provide access to a new industrial market for the Conda plant.

### RETAIL

The Corporation anticipates modest Retail expansion in the United States with the strategic acquisition of new retail outlets exceeding closure of non-performing ones. Retail margins have historically been fairly consistent year-over-year, and are not expected to change significantly in 2000.

### SOUTH AMERICA

The Corporation and YPF have identified the Southern Cone of South America as a key area for long-term strategic growth. The Profertil project is currently on schedule for completion and start-up by mid-year 2000. The bulk of the construction of the facility is covered under a lump-sum turnkey arrangement. The Corporation intends to consolidate its retail position in Argentina through modest growth in its existing retail outlets and will continue to investigate other international opportunities.