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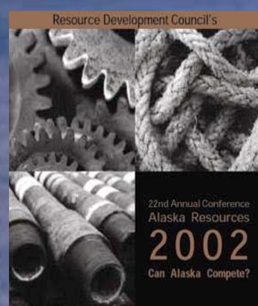
Natural Gas Competitiveness



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Alaska Resources 2002
Can Alaska Compete?

John Van Brunt
President and Chief Executive Officer
Agrium Inc.

Agenda

- The Company
- Kenai Nitrogen Operations
- Alaskan Specifics
- World Competitiveness
- Partners in Growth

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the company

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Agrium – A Growth Company

9.4% Canpotex Sales Not Shown

Nitrogen Production

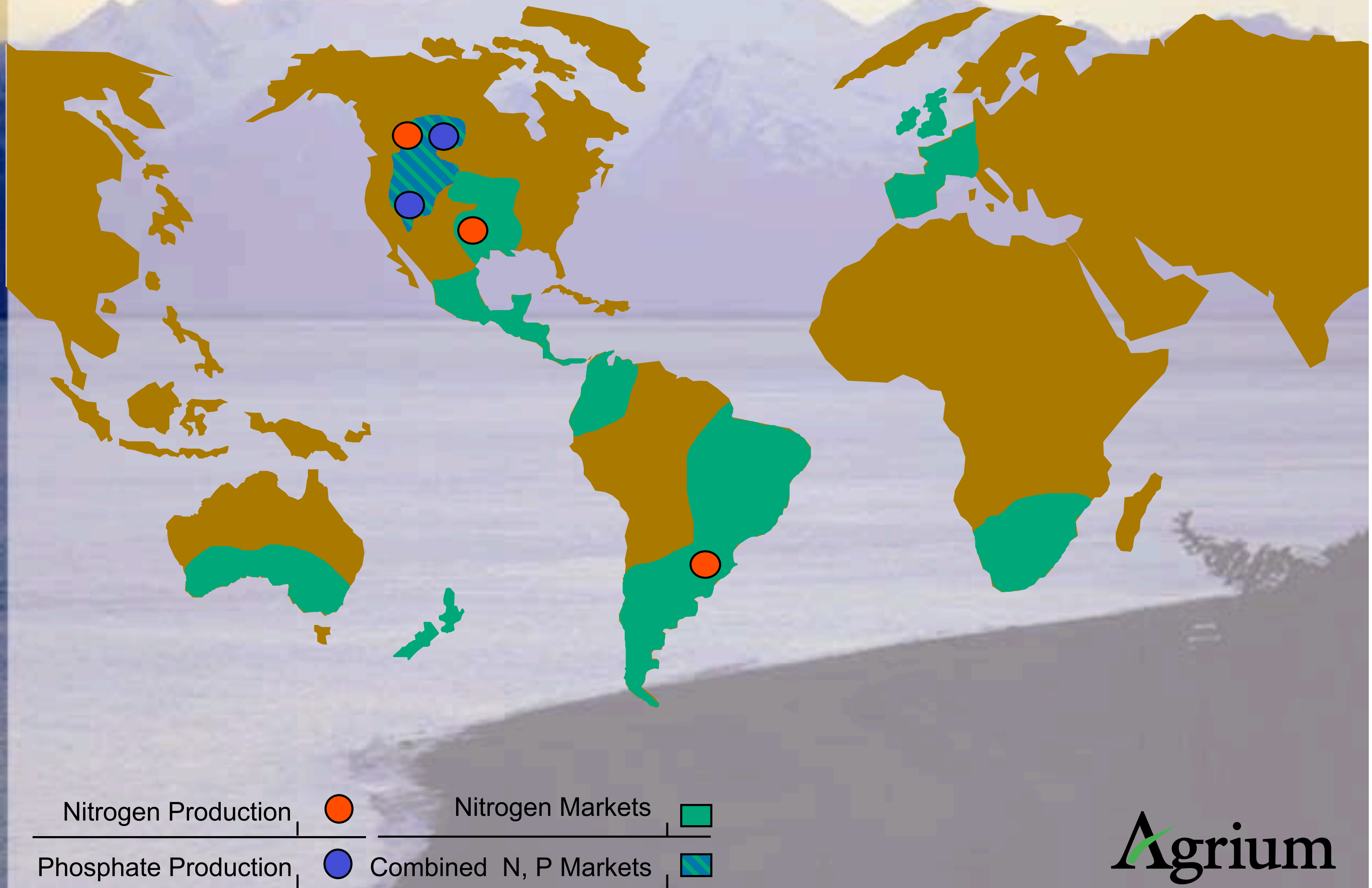
Phosphate Production

Nitrogen Markets

Combined N, P Markets

Agrium – Invested in Argentina

9.4% Canpotex Sales Not Shown



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Agrium – Invested in Alaska

9.4% Canpotex Sales Not Shown

Nitrogen Production

Phosphate Production

Nitrogen Markets

Combined N, P Markets

Strategic Product Mix

2000 Revenue: $1,873 million†

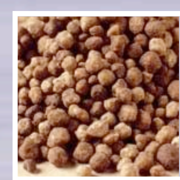
†net of eliminations

Revenue by segment | **Percent**

Leading producer and marketer of fertilizer in North America

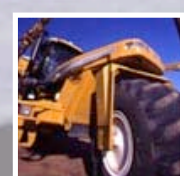
Nitrogen* $708 million 36%

Potash $151 million 8%



Phosphate $198 million 10%

Major retail supplier of agricultural products in US and Argentina



Retail $884 million 46%

**includes sulphate and other*

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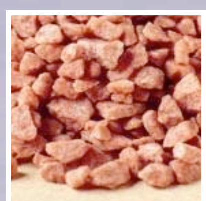
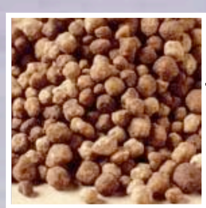
Product Line

	Agriculture 	Industry 
 **Nitrogen**	• Anhydrous Ammonia • Urea • Ammonium Nitrate • Urea-Ammonium Nitrate Solution (UAN) • Phosphate	• Cattle feed • Paper • Synthetic fibers/resins • Refrigeration • Waste treatment • Household cleaners
 **Potash**	• Potassium Fertilizer	• De-icer
 **Phosphate**	• Monoammonium Phosphate (MAP) • Diammonium Phosphate (DAP) • Phosphoric Acid	• Livestock feed • Detergent

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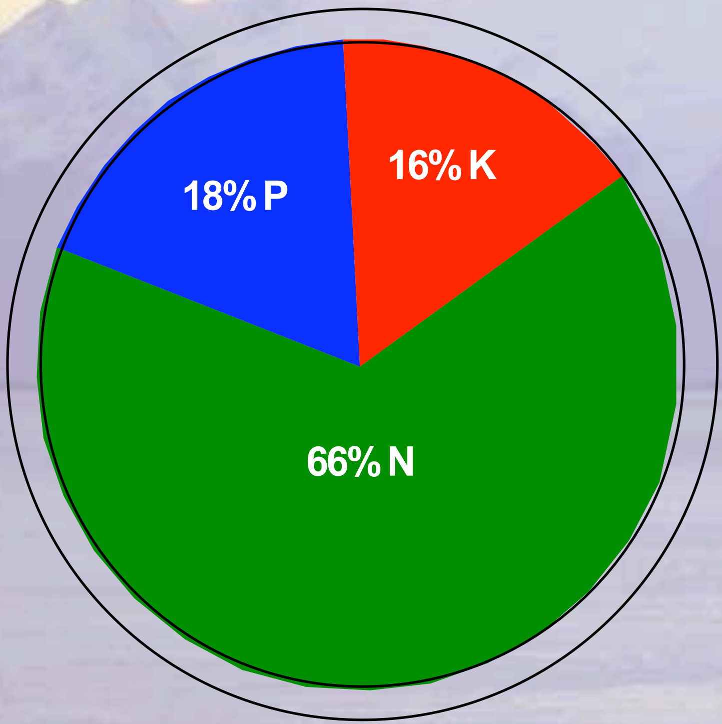
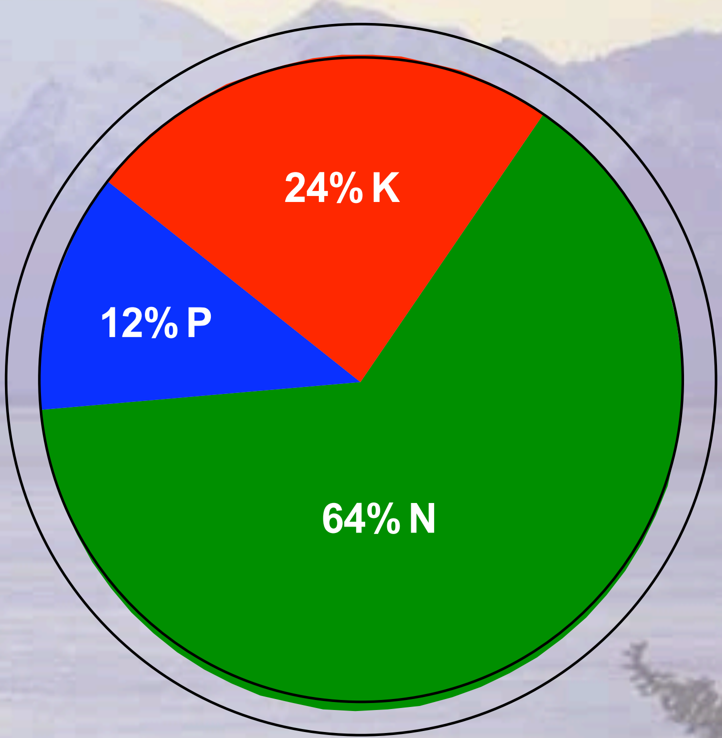
Meeting Customers Needs

NUTRIENT BASIS



2000
World Consumption



2000
Agrium Production

Source: IFA, Agrium Actual Production (nutrient basis)

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A Strong Foundation

- Largest Nitrogen Producer in the World
  - *Balanced in Other Nutrients*
- 2nd Largest U.S. Retailer
- World Scale Production Facilities
- Strategic Distribution Network
- Highly Skilled Workforce
  - *5000 + Employees*

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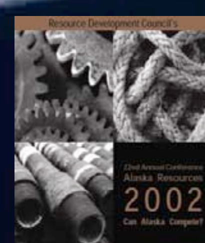
Kenai **nitrogen operations**



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Kenai Nitrogen Operations

Products

- *6% of N.A. Nitrogen Production*
  - Ammonia - 700,000 (net) tons
  - Urea - 1.1 million tons

50-55 BCF/yr of Natural Gas Consumption

Employees

- *300 Full-Time, Highly Skilled*
- *30 Contractors on average*

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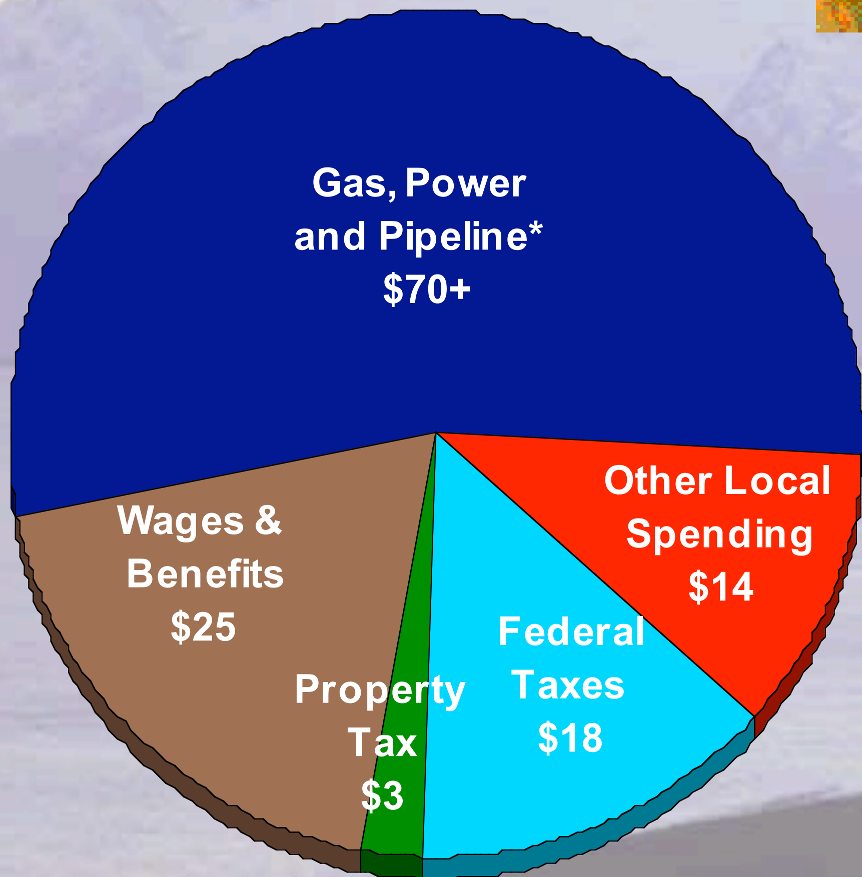
Kenai Nitrogen Operations

Economic Benefits *– over 130 M$/yr*

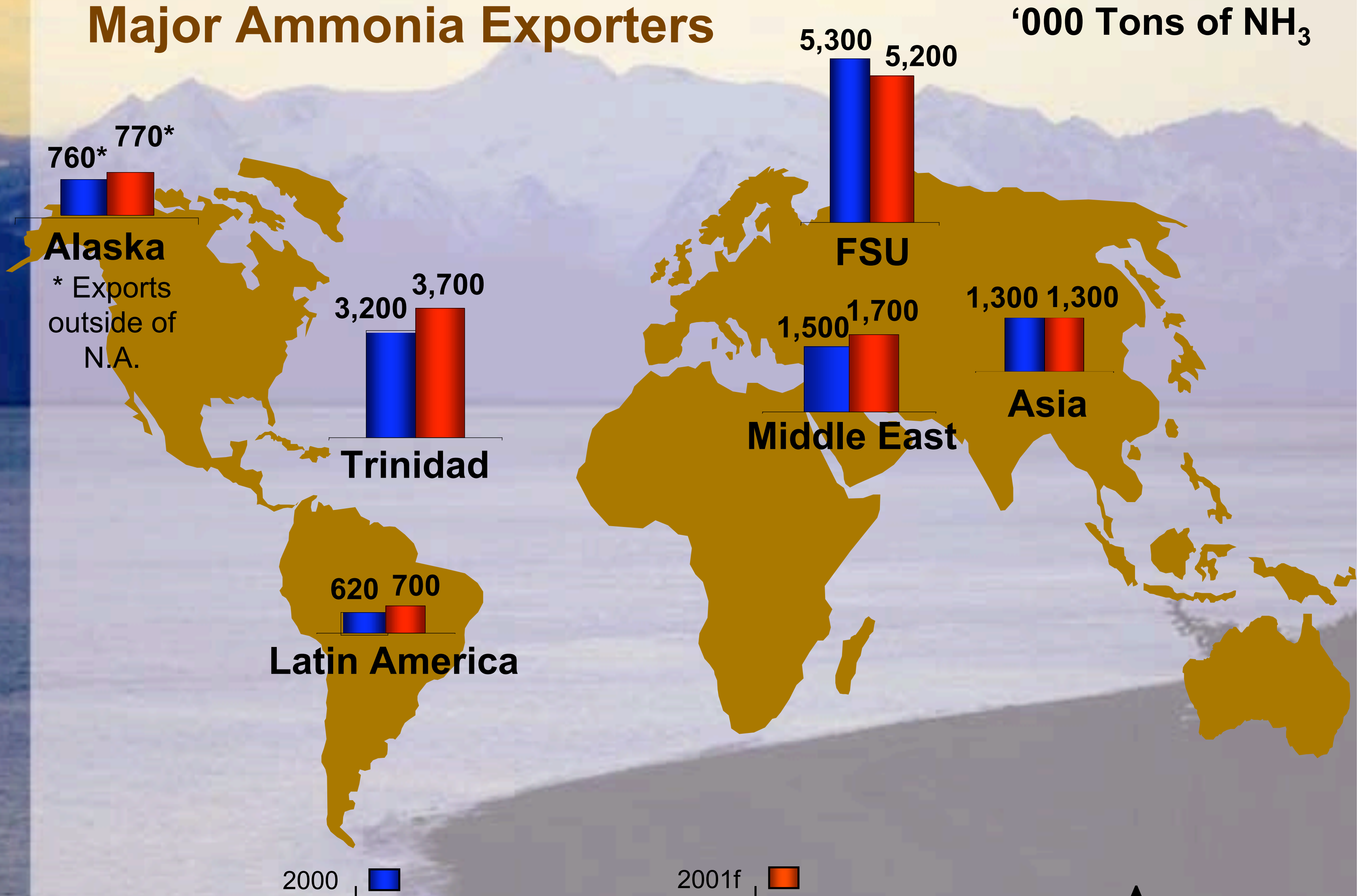


- **Community Partners**
  - *Caring for The Kenai*
  - *United Way*
  - *Challenger Learning Center*
  - *Boys & Girls Club, etc.*

*Includes Royalties

Competitive Supply

Major Ammonia Exporters



Source: Fertecon

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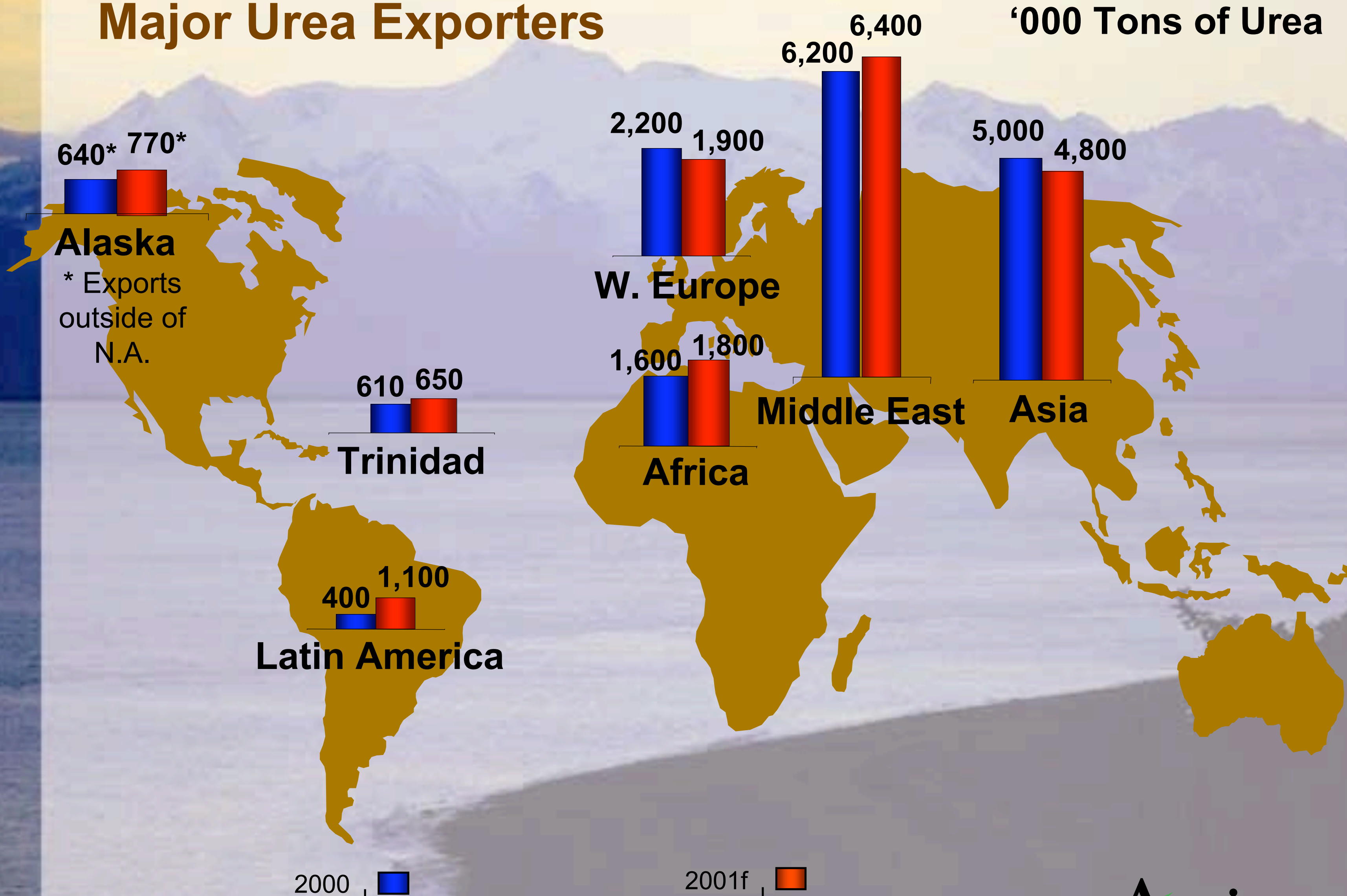
Competitive Supply

Major Urea Exporters

'000 Tons of Urea



Source: Fertecon

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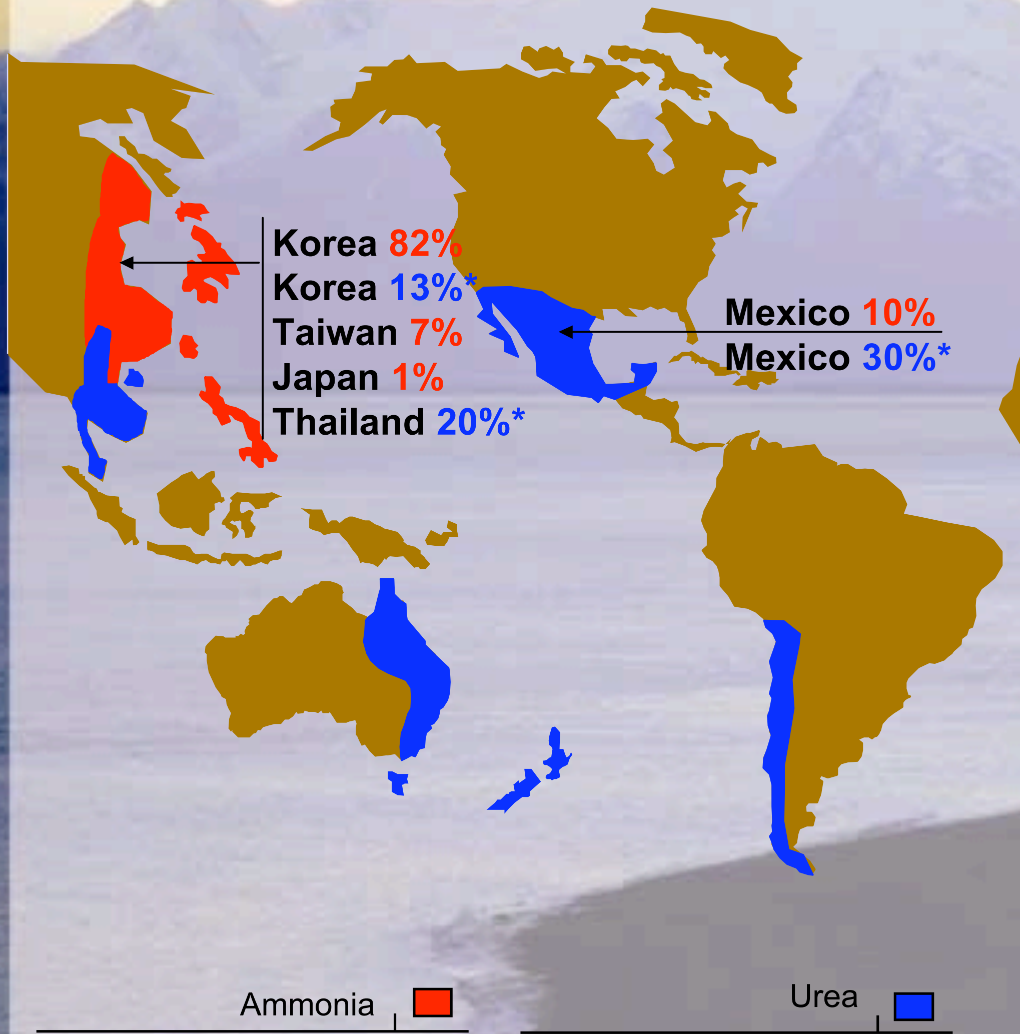
Kenai Nitrogen Operations

Primary Markets



- 2/3 of Urea Exports are to Korea, Thailand and Mexico.
- Remainder to:
  - Australia
  - Chile
  - Vietnam
  - Philippines
  - Japan
  - Costa Rica
  - Columbia

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Alaskan
specifics
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Alaskan Specifics

- **Jones Act restricts exports to lower 48**
  - *Act requires U.S. Flag vessels to move products among U.S. ports*
- **Cook Inlet Fertilizer is forced to go off-shore**
  - *No U.S. flag ammonia vessels left*
  - *Urea limited to 1-2 sea going barges*

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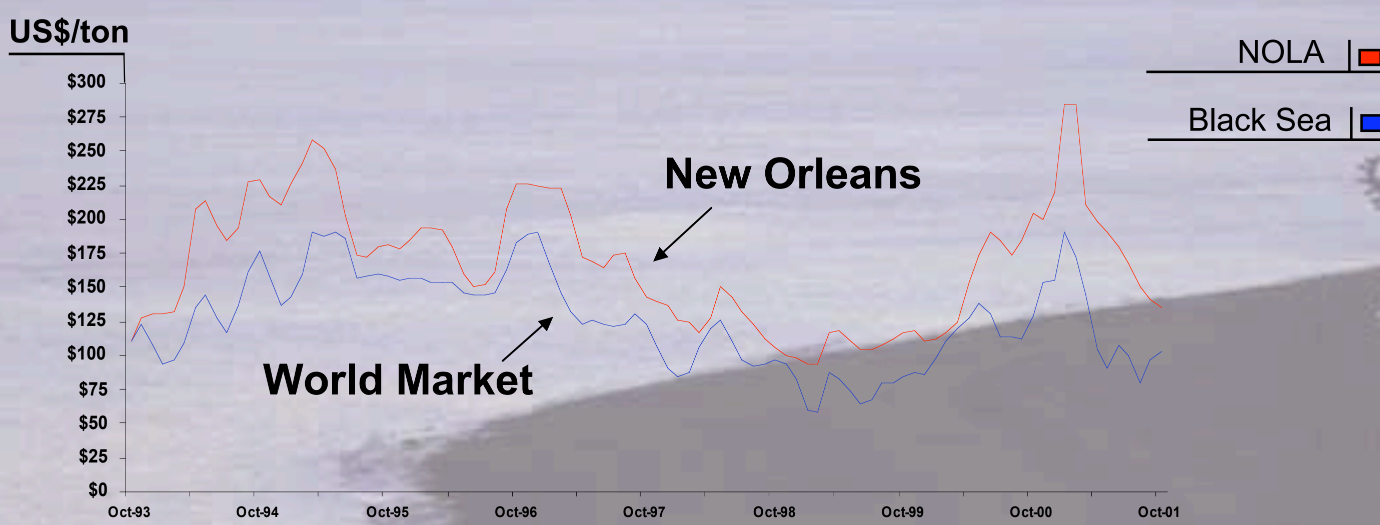
Alaskan Specifics

- **Cook Inlet Products are exported**
  - *Fertilizer and LNG compete globally*
  - *New industries (e.g. gas to liquids) will also have to compete internationally*
  - *Our prices are based on international markets not lower 48*

Ammonia



Source: Green Markets, Blue Johnson

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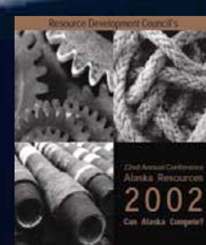
world competitiveness



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Importance of Natural Gas

- **Ammonia takes 33.5 MMBTU per ton**

	World	Recent Prices	N.A.
Feed (MMBTU/ton)	33.5		33.5
Gas Price ($/MMBTU)	x 1.00		x 5.00
Variable Feed /ton	$34		$168
Cash Conversion /ton	$25		$25
Cash Production /ton	**$59**	**←$100-190→**	**$193**

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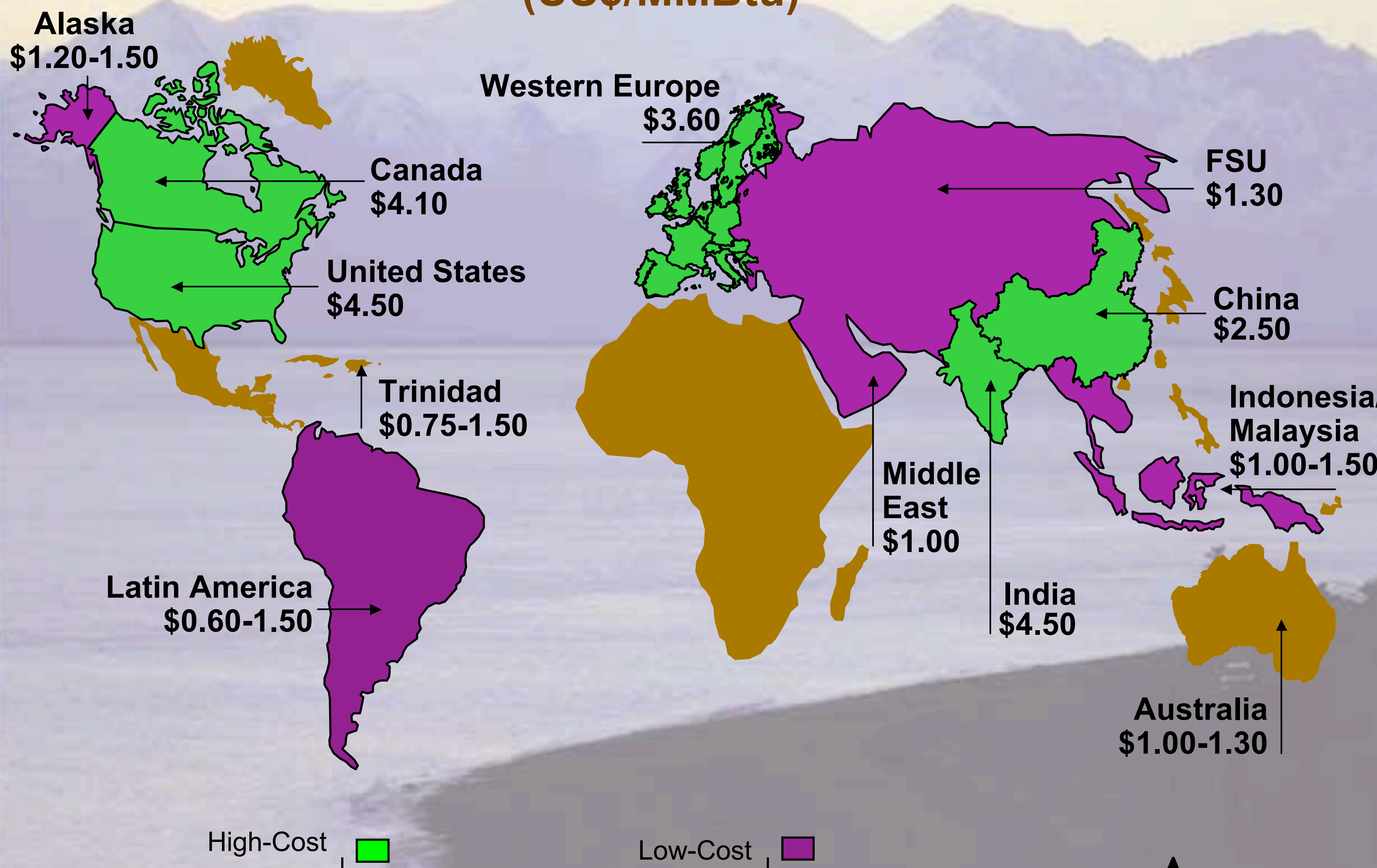
World Industrial Gas Cost Comparison

Projections for 2001 (US$/MMBtu)



Source: CERA, BJ&A, Fertecon, Agrium

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Affect of High N.A. 2001 Gas Pricing

- **Plant Shut Downs**
  - *Up to 50% at Peak Gas Pricing*
- **Loss of Market Share**
  - *Imports almost doubled*
- **$ 4-5 gas cannot compete against $1 gas**
  - *Offshore competition won*
  - *Gas Producers lost sales*
    - N was about 0.75 of 3-5 BCF/d industrial demand destruction
    - High prices were not sustained

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partners in **growth**

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Expansion Opportunity

- **Cook Inlet Advantages:**
  - *Close to Pacific Rim markets*
  - *Good Business Climate & Skilled Workforce*
  - *World Scale Plant*
    - Needs to expand to stay competitive
- **Agrium uses 50-55 BCF/yr**
  - *Expansion plans add up to 30 BCF/yr*
  - *Current base supply needs long term extension*

Benefits to Alaska

- **Expands $130 million Local Economic Contribution**
- **Increases Sales/Exports**
- **Expands Skilled Employment**
- **Allows Greater Community Investment**
- **Increases Tax Base**
- **Encourages Gas Exploration**
- **Opens Up Export Markets to Other Industries**
- **Must Be Based on Competitiveness**
  - *Reliable and Internationally Competitive Supply of Gas*

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Possible Solutions

- **Cook Inlet has immediate additional gas potential**
  - *Anchorage Economic Development Corp Report: 1-3 TCF to be found*
  - *Coal Bed Methane: 8 – 250 TCF*
  - *Escopeta: 5-18 TCF*

- **Spur from Alaska Gas Pipeline is long term advantageous solution**

Partners in Growth

- **Agrium willing to work with State and Producers to encourage development:**
  - *Pre-investment on appropriate risk/reward:*
    - Pre-bought gas production
    - Infrastructure investment (e.g. pipelines)
    - Exploration and drilling partnerships
  - *Royalty Structure that encourages growth and value added industries*
  - *Purchase of State Royalty Gas*
  - *North Slope Spur Line*

In Closing…

Successful partnering will:

- *Continue Alaska’s development for all sectors*
  - Building Cook Inlet strengthens base for other projects such as Alaska Pipeline
- *Contribute to Alaska’s export position*
- *Increase Agrium’s annual $130 M plus contribution to local economy*

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