

# **Performance Highlights**

Agrium maintains a focus on continual improvement in our performance across financial, operational, safety and sustainability measures.

| Metric (millions of U.S. dollars, except as noted)                      | 2016   | 2015   | 2014   |
|---|--------|--------|--------|
| Financial   |        |        |        |
| Sales   | 13,665 | 14,795 | 16,042 |
| Net earnings from continuing operations                                 | 596    | 988    | 798    |
| EBITDA (a)  | 1,630  | 2,096  | 1,710  |
| Diluted earnings per share from continuing operations (in U.S. dollars) | 4.29   | 6.98   | 5.51   |
| Capital expenditures  | 724    | 1,188  | 2,021  |
| Cash provided by operating activities                                   | 1,667  | 1,663  | 1,312  |
| Free cash flow  | 853    | 1,215  | 841    |
| Dividends paid  | 482    | 468    | 430    |
| Operational Excellence  |        |        |        |
| Wholesale capacity utilization (%)                                      |        | •••••• |        |
| Ammonia (b)   | 95     | 94     | 83     |
| Potash  | 88     | 94     | 52     |
| Phosphoric acid   | 96     | 94     | 92     |
| Retail average non-cash working capital to sales (%)                    | 17     | 18     | 17     |
| Retail cash operating coverage ratio (%)                                | 61     | 62     | 61     |
| <b>Retail</b> normalized comparable store sales (c) (%)                 | 2      | (3)    | (1)    |
| Consolidated selling, general and administrative expenses               | 2,156  | 2,189  | 2,347  |
| Safety (cases per 200,000 hours worked)                                 |        |        |        |
| Combined Total Recordable Injury Rate (Comb.TRI)                        | 1.57   | 1.38   | 1.41   |
| Environmental Incident Rate (EIR)                                       | 0.09   | 0.11   | 0.11   |
| Community Investment  |        |        |        |
| Amount spent on community support                                       | 6.7    | 7.6    | 8.8    |

- (a) Net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations.
- (b) Excludes results from Joffre nitrogen facility. Effective January 1, 2016, ammonia capacity has been adjusted for normal outages and planned maintenance. We have restated our 2015 and 2014 comparative information.
- (c) In 2016, we revised our definition of normalized comparable store sales, which previously normalized for fertilizer prices, to now also include the impact of foreign exchange. We have restated our 2015 and 2014 comparative information.

Operational Excellence Results

~\$145-million

CONSOLIDATED EBITDA COST SAVINGS 1 COMPARED TO 2015

<sup>1</sup> Excludes incremental costs from Retail acquisitions made in 2016.

Operational Performance

95%

CAPACITY UTILIZATION IN AMMONIA PRODUCTION IN 2016

Retail Growth

>\$500-million

IN EXPECTED ADDITIONAL
ANNUAL SALES ACQUIRED FROM
THE PURCHASE OF 76 RETAIL
LOCATIONS IN 2016

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Certain financial measures in this document, as listed in the table on page 7, are not prescribed by International Financial Reporting Standards (IFRS). Our method of calculation may not be directly comparable to that of other companies. Refer to page 62, Non-IFRS Financial Measures, for further details including a reconciliation of such measures to their most directly comparable measures calculated in accordance with IFRS.

In addition, certain statements and other information included in this document constitute "forward-looking information," "forward-looking statements" and/or "financial outlook" within the meaning of applicable Canadian and United States (U.S.) securities legislation (collectively, "forward-looking statements"). These forward-looking statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control and which could cause actual results to differ materially from such forward-looking statements. As such, readers should not place undue reliance on these forward-looking statements. Refer to page 72, Key Assumptions and Risks in Respect of Forward-looking Statements, for further details.

# **Letter from the President & CEO**



While 2016 was one of the more difficult years for the agriculture sector in recent history, I am very proud of how well the Company performed across multiple fronts.

The key to outperforming in challenging times is to have a well thought out strategic plan, a strong team to execute the plan, a highly competitive asset base, and the ability to recognize and act appropriately on opportunities as they arise. I believe that Agrium demonstrated all of those strengths in 2016. I also believe that with adversity also comes opportunity, particularly when you have a diversified business model like Agrium has. This is my seventh year with Agrium, entering my fourth year as CEO and I have never been more optimistic about your Company's future.

Despite the 2016 challenges of low nutrient prices, as well as low crop prices, resulting from record yields in the U.S. and globally, Agrium achieved a total shareholder return of 17 percent in 2016. We successfully focused on the areas of the business that were within our control and that focus enabled us to continue to drive down costs across our operations and take advantage of value-enhancing growth opportunities that aligned with our strategy.

Perhaps most notably in September 2016, we announced an agreement to combine with Potash Corporation of Saskatchewan Inc. ("PotashCorp") in a Merger of Equals (MOE) to create a new company, which will be named at the time of the close. This merger is a truly transformational opportunity for Agrium, which will generate substantial synergies and growth opportunities, while creating the largest crop nutrient company in the world and the third-largest natural resource company in Canada.

Shareholders of both Companies voted overwhelmingly in support of the merger in November, and we look forward to completing this transaction in mid-2017, subject to regulatory approvals and any closing conditions. I am confident that the creation of this new, world-class Company will represent an exciting opportunity for all of our stakeholders. I will share more thoughts on the merger later - but first, I would like to focus on the many achievements across Agrium throughout 2016.

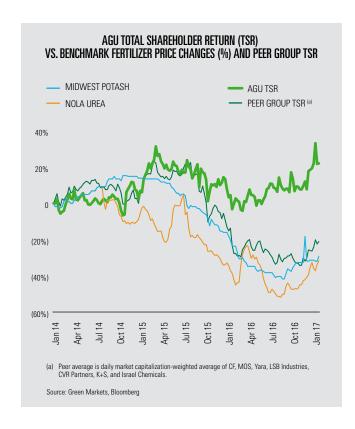
# **Delivering on Our Strategy**

Everything we do at Agrium is structured around our four strategic pillars: Operational Excellence, Focused Growth, Capital Allocation and People, as well as our overarching commitment to safety and the environment. This year, we made significant progress in these strategic focus areas that will support our business over the near and long-term.

In the area of **Operational Excellence**, our Wholesale Business Unit reduced its fixed costs by \$66-million, and we expect to deliver further improvements in 2017. We also improved our overall capacity utilization rates for nitrogen and phosphate this year. In Retail, we achieved cost reductions of approximately \$70-million (excluding our recent acquisitions) by continuing to focus on controlling our costs, optimizing our footprint, and leveraging our procurement scale across the business. These efforts helped drive our Retail operating coverage ratio down to 61 percent, while increasing EBITDA margins up to 9.2 percent. Finally, in Corporate services, we continued to streamline costs in a number of key areas including the outsourcing of a substantial portion of IT services, which we expect to deliver significant long term cost and efficiency benefits.

When it comes to Focused Growth, we were able to capitalize on the strength of our business to continue executing on our strategic growth priorities in 2016, despite a challenging fundamental backdrop. In Retail, we added 76 retail-distribution facilities this year, representing a record additional annual expected revenue of over \$500-million through small to mid-sized acquisitions. This included the acquisition of premier retail businesses from Cargill AgHorizons in the U.S. Corn Belt and Andrukow Group Solutions Inc. in Western Canada. These highly accretive acquisitions have consistently been a key component of our Retail growth strategy, increasing our size and scale while providing further opportunities for capturing efficiencies across our extensive network. I would like to take this opportunity to welcome these new employees to our growing Company. In Wholesale, we completed construction of our Borger, Texas nitrogen expansion on schedule and on budget. We expect to ramp up production at Borger in the first guarter of 2017. And, of course, our most significant achievement in the area of Focused Growth is the announcement of our transformational MOE with PotashCorp.

# **Letter from the President & CEO** CONTINUED



Capital Allocation remained a cornerstone of Agrium's focus in 2016, particularly given the challenging point in the commodity cycle. We generated over \$850-million in free cash flow this vear and have now completed all of our major Wholesale expansion projects, which will result in lower, planned capital spending in 2017 and beyond. We remained firmly committed to our capital allocation strategy of ensuring the integrity of our asset base, providing our shareholders with a strong and sustainable dividend, investing in value-enhancing growth and maintaining our investment-grade credit metrics. Through our disciplined focus on these priorities, we have ensured that the financial health of our Company remains strong.

Of course, none of these many achievements would have been possible without our **People**. Agrium's diverse and talented workforce of 15,200 highly-engaged employees remains the underlying key to our success and pride in helping to feed a growing world. Once again in 2016, Agrium garnered numerous accolades for our distinctive and outstanding culture, including recognition as one of Canada's Top 100 Employers, Alberta's Top 70 Employers, Canada's Top Diversity Employers, Canada's Top Employers for Young People and the Achievers' 50 Most Engaged Workplaces in North America.

While there were numerous successes this year, it was a very difficult year for our Company's safety performance. I regret to report that our operations recorded four fatalities in 2016. The entire organization was deeply saddened by these devastating losses, and we have made it a key priority for the Company to address this situation. This included having undertaken a companywide cultural safety assessment, with specific action plans to be rolled out early in 2017. I personally believe that our Company has no greater responsibility than making sure every employee goes home in the same state they came to work every day.

# **Our Commitment to Sustainable Agriculture**

Agrium's mission is to help the world's farmers produce enough food for a growing world in a sustainable manner. This is critical for the health and welfare of the world's population and the environmental well-being of the planet. We strive to do this by providing growers with the right crop inputs, at the right time, with the best advice, services, and solutions.

Agrium is constantly looking at ways to minimize any environmental impacts which may result from the production or use of our products. In fact, we are leaders in this regard, including the research, production and sale of controlled released fertilizers such as our Environmentally Smart Nitrogen (ESN®). Our environmental efforts also include the development and delivery of precision agriculture technologies and services, which are part of our ECHELON® product and service offering, as well as our support for 4R Nutrient Stewardship adoption, education and research. These programs and technologies help improve the efficiency of crop input use significantly by reducing losses to the environment, while optimizing crop yields. We expect to see further benefits as this technology and research continues to evolve. As part of our focus on innovation we constantly look for ways to lower our greenhouse gas emissions while supporting grower efforts to reduce emissions and sequester carbon in the field. Agrium also actively partners with stakeholders, from farmers to communities, non-governmental organizations (NGOs) and governments, to foster ideas and solutions that drive progress towards meeting the global food challenge in a responsible manner.

As a result of these collective efforts, I am pleased to report that Agrium was recognized twice in 2016 for outstanding efforts in Corporate Sustainability. This included recognition from Corporate Knights - the Magazine for Clean Capitalism, which ranked Agrium 16th in its annual list of the Best 50 Corporate Citizens in Canada. Agrium was also one of five organizations that received a Canadian Sustainable Development Goals (SDG) Award, for our contributions to the United Nations' Sustainable Development Goals.

# Merger with PotashCorp

As I look towards 2017, our focus will remain on delivering our key business objectives and targets for Agrium prior to the closing of our MOE with PotashCorp. In tandem, we will dedicate significant focus to preparing for and executing a successful integration of Agrium and PotashCorp. I firmly believe that by leveraging the best that these two outstanding Companies have to offer, we will create tremendous value for all of our stakeholders.

We started the initial planning for the integration process in earnest in late-2016 and I am pleased with how well the teams for the two Companies are working together and the significant progress that we have already made. We believe the new Company will create remarkable value - with the potential to capture approximately \$500-million of annual operating synergies. It will have a strong balance sheet with substantial free cash flow generation, which will provide for flexibility to return excess capital to shareholders and continue to invest in growth across the value chain, all while maintaining strong credit ratings. The merger is expected to be immediately accretive to both sets of shareholders and the all-stock transaction will allow all shareholders to participate in the upside from the combination, while maintaining exposure to significant longer-term growth opportunities in the agricultural inputs space. Everything we have learned about the potential value of the transaction since we announced the agreement reinforces our belief that this merger will create significant value for stakeholders.

The new Company will be the world's pre-eminent integrated crop input company, with a leading retail distribution platform, as well as being a low-cost producer of potash and nitrogen in particular. We expect to generate over \$20-billion in pro-forma revenue. Our combined workforce of close to 20,000 employees will reflect the strengths and capabilities of both Companies, which will better position us to serve customers with low-cost, highvalue products and services, with a continued emphasis

**Merger of Equals With** PotashCorp is Expected to Generate:

\$500-million

**OF ANNUAL OPERATING SYNERGIES** 

~20%

**VALUE CREATION** FOR COMBINED ENTITY

on efficiency and innovation. The merger will also create a leading Canadian Company in an increasingly competitive and complex global operating environment while supporting the world's farmers to feed a growing world.

In closing, I'd like to reiterate my gratitude to Agrium's shareholders for their ongoing support - particularly the overwhelming endorsement of the MOE. I also want to express my sincere thanks to the members of our Board of Directors for the excellent guidance and oversight that they provided in 2016, and throughout Agrium's history. Our success as an organization is a direct result of their exemplary governance.

**Chuck Magro President & Chief Executive Officer** 

February 22, 2017



# Key Priorities and Results

2016 SCORECARD Partially achieved Not achieved Achieved

# 1. Environment, Health, Safety and **Security (EHS&S)**

- Meet the vision of eliminating life-altering incidents through employee engagement, leadership accountability and caring for each other
- Agrium had a disappointing safety record in 2016 with six serious injuries and fatalities, despite a significant focus on safety awareness and education, including our "Commitment to Zero" focus as part of our "Safety. Always. Everywhere" program.
- . In response to these incidents, we instituted a multipronged approach to address and improve our safety performance. This included company-wide and local site safety stand downs, a safety cultural assessment and enhanced safety training and processes.

| (cases per 200,000 hours worked)                 | 2016<br>Actual | 2016<br>Target |
|--|----------------|----------------|
| Combined Total Recordable Injury Rate (Comb.TRI) | 1.57           | 1.34           |
| Employee Lost Time Injury Rate (eLTI)            | 0.56           | 0.53           |
| Environmental Incident Rate (EIR)                | 0.09           | 0.15           |
| Serious Environmental Events (SEEs)              | 16             | N/A            |

# 2. Operational Excellence

- In Wholesale, continue to improve capacity utilization and reduce fixed costs across the business
- Wholesale achieved improved capacity utilization rates in 2016 for ammonia and phosphoric acid and fixed cost reductions of \$66-million.
- We did not achieve all our target utilization rates due to longer than anticipated planned turnarounds and several outages during the year.

| Capacity Utilization (%) | 2016<br>Actual | 2015<br>Actual | 2016<br>Target |
|--------------------------|----------------|----------------|----------------|
| Ammonia                  | 95             | 94             | 98             |
| Potash                   | 88             | 94             | 100            |
| Phosphoric Acid          | 96             | 94             | 96             |

- In Retail, achieve higher year-over-year normalized comparable store sales and EBITDA margin, and lower non-cash working capital and operating costs
- · Retail achieved improvements in virtually all of its target metrics in 2016.

|   | 2016 | 2015 |
|---|------|------|
| Normalized comparable store sales (%)         | 2    | (3)  |
| Average non-cash working capital to sales (%) | 17   | 18   |
| EBITDA to sales (%)                           | 9    | 8    |
| Cash operating coverage ratio                 | 61   | 62   |

- Achieve a minimum 15 percent reduction in Corporate cash general and administrative costs
  - Corporate cash general and administrative costs have declined by over 15 percent from 2014 levels.

#### 3. Retail Growth

- Continue to grow North American market share through organic growth, acquisition opportunities and building new Retail locations
- In 2016, Agrium acquired 71 locations in North America, which are expected to add more than \$500-million in sales in the first year. Retail is pursuing potential greenfield location builds in seven U.S. states in 2017 and currently has several locations under design and construction.
- Continue to grow proprietary seed, plant health, and crop protection product businesses
- · Retail increased its total proprietary product sales as a percentage of total sales by 1 percent. We achieved growth in proprietary sales as a percentage of total sales in nutrients and crop protection products, but declined slightly in seed.
- · Our proprietary seed portfolio and future growth potential were boosted by the acquisition of a new hybrid rice breeding facility, which is expected to commence commercial sales in 2018.
- Continue to expand our precision agriculture offerings and ECHELON® footprint
- Currently, we provide this multi-crop service offering to more than 70,000 growers, have mapped more than 36 million acres across our retail footprint and maintained over 4.8 million acres of actionable soil fertility data based on regular sampling and soil testing results.

# **KEY PRIORITIES** FOR 2017

# 4. Nitrogen Expansion

- Complete construction of Borger expansion on revised timeline and budget
- Agrium successfully completed construction of the urea plant within previously disclosed revised timeline and cost parameters. Commissioning of the 610,000 tonne urea facility is underway and production is expected to commence in the first quarter of 2017.

## 5. Potash Ramp-up

- Achieve target production of approximately 80 percent of nameplate capacity from the Vanscoy potash mine, in line with the original mine expansion plan
- Agrium produced 2.2 million tonnes from the Vanscoy potash production facility in 2016, which is approximately 73 percent of the nameplate capacity of 3.0 million tonnes. The reduction from original planned production was due to lower international market demand for potash in the first half of 2016 and an extended turnaround during the second half as we addressed post-expansion issues.

# 6. Capital Return Growth

- Continue to grow shareholder returns in line with free cash flow generation and our capital allocation priorities
- Agrium outperformed our fertilizer peers in 2016, providing total shareholder return of 17.4 percent for the calendar year. This compared to a peer average (a) of -1.6 percent total shareholder return over the same period (b).
- Significantly lower nutrient and crop prices in 2016 resulted in a decrease in our free cash flow. However, free cash flow from our Retail operations increased over last year, and our dividend payout ratio remains within our comfort level, even at the low point in the cycle.
- Target 40 to 50 percent allocation of free cash flow to dividends
- Agrium returned \$482-million in dividends to shareholders in 2016, which was 57 percent of free cash flow.
- Peer average is daily market capitalization-weighted average of CF, MOS, YAR, LSB Industries, CVR Partners, K+S and Israel Chemicals
- (b) Source: Bloomberg

#### EHS&S

• Achieve the vision of eliminating life-altering incidents through enhanced employee engagement, leadership accountability and further cultural integration of the Safety. Always. Everywhere campaign

### **Operational Excellence**

- In Wholesale, continue to improve capacity utilization and reduce fixed costs across the business
- In Retail, achieve higher year-over-year normalized comparable store sales and EBITDA margin, and lower non-cash working capital and operating costs on a comparable store basis
- Achieve further reductions in Corporate general and administrative cash costs

#### Growth

- Continue to grow U.S. Retail market share through organic growth, acquisition opportunities and new build Retail locations
- Continue to grow proprietary seed, plant health, and crop protection product businesses
- Continue to expand our precision agriculture offerings and ECHELON® footprint
- Expand Agrium Financial Services™ offering throughout the U.S.

# **Complete Merger and Commence Integration** With PotashCorp

- Complete merger with PotashCorp within target timeframe
- Complete integration planning, and achieve meaningful integration progress in 2017
- Begin capturing identified synergies from the merger

# Management's Discussion and Analysis

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# FORWARD-LOOKING STATEMENTS

Certain statements and other information included in this MD&A constitute "forwardlooking information" and/or "financial outlook" within the meaning of applicable Canadian securities legislation or "forward-looking statements" within the meaning of applicable U.S. securities legislation (collectively herein referred to as "forward-looking statements"), including the "safe harbour" provisions of provincial securities legislation and the U.S. Private Securities Litigation Reform Act of 1995, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, and Section 27A of the U.S. Securities Act of 1933, as amended. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "project", "intend", "estimate", "outlook", "focus", "potential", "will," "should," "would," "could," and other similar expressions.

Forward-looking statements in this MD&A are intended to provide Agrium securityholders and potential investors with information regarding Agrium, including management's assessment of future financial and operational plans and outlook, and may not be appropriate for other purposes. These forward-looking statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control and which could cause actual results to differ materially from such forward-looking statements. As such, readers should not place undue reliance on these forward-looking statements. Refer to the "Key Assumptions and Risks in Respect of Forward-looking Statements" section for further details.

#### February 22, 2017

This Management's Discussion and Analysis (MD&A) of operations and financial condition focuses on Agrium's long-term vision, strategy and growth opportunities as well as its historical performance for the years ended December 31, 2016 and 2015. The Board of Directors of Agrium (the "Board") carried out its responsibility for review of this disclosure and, prior to publication, approved this disclosure.

Throughout this MD&A, unless otherwise specified, "Agrium", "the Company", "we", "our", "us" and similar expressions refer collectively to Agrium Inc. and its subsidiaries, any partnerships involving Agrium Inc. or any of its subsidiaries, its significant equity investments and Agrium Inc.'s share of its joint ventures.

Additional information relating to the Company, including its consolidated quarterly and annual financial information and its Annual Information Form (AIF) for the year ended December 31, 2016, is available under Agrium's corporate profile on SEDAR (www.sedar.com). The Company's reports are also filed with the U.S. Securities and Exchange Commission on EDGAR (www.sec.gov).

All dollar amounts refer to U.S. dollars, except where otherwise stated. 2016, 2015 and 2014 financial information presented and discussed in this MD&A is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Certain financial measures in this MD&A, listed in the table below, are not prescribed by and do not have any standardized meaning under IFRS. Our method of calculation of the non-IFRS financial measures may not be directly comparable to that of other companies. We consider these non-IFRS financial measures to provide useful information to both management and investors in measuring our financial performance and financial condition. These non-IFRS financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS. Refer to the "Non-IFRS Financial Measures" section for further details, including a reconciliation of the non-IFRS financial measures to their most directly comparable measures calculated in accordance with IFRS.

#### Non-IFRS financial measures

Cash operating coverage ratio

Cash cost of product manufactured (COPM)

Comparable store sales and normalized comparable store sales

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), EBITDA to sales, cash selling and general and administrative costs

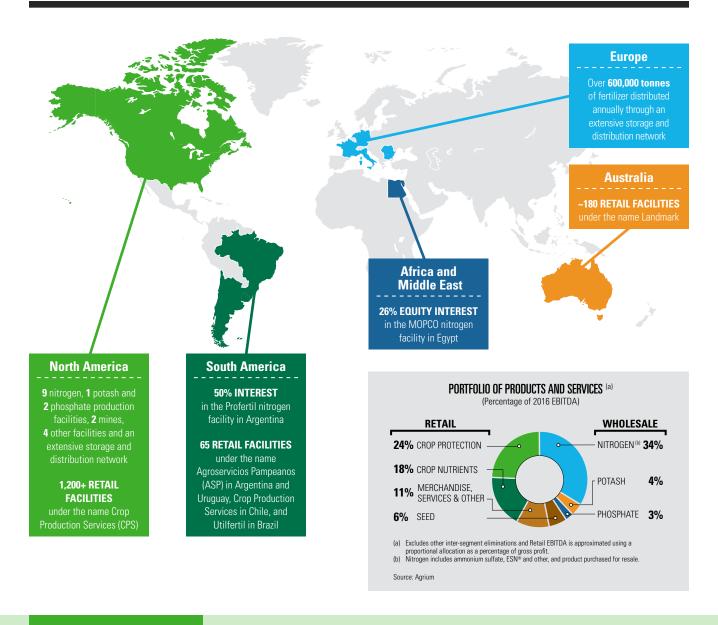
Free cash flow, dividends paid as a percent of free cash flow

Wholesale measures including share of joint ventures: sales, cost of product sold, gross profit



# Agrium's Strategic Footprint

Agrium has significant competitive advantages across our global footprint of operations. We are focused on supplying the important crop inputs, services and solutions farmers require to meet the ever-growing global demand for crops and food, and we are committed to doing so safely and sustainably. Our Retail operations provide us with stability, diversity and long-term earnings growth potential, and our strategically positioned Wholesale operations with low-cost nitrogen and potash operations allow us to reach markets across North America and around the world.



# THE MARKET FOR OUR PRODUCTS AND SERVICES

**Annual Fertilizer Demand in North America** 

50 million

**TONNES** 

Source: AAPFCO, TFI, Agrium

**Annual Growth** in Global N, P & K **Product Demand** 

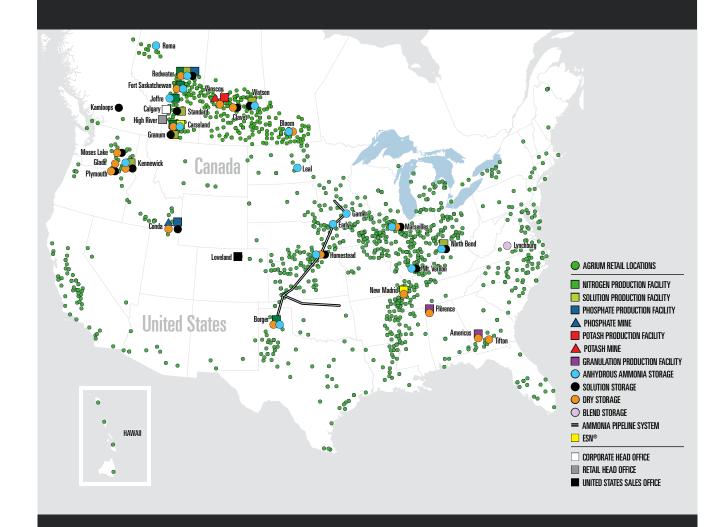
8 million

Source: CRU, Fertecon, IFA, Agrium

**Total Crop Land in** U.S., Canada, Australia and Argentina

700 million

Source: U.N. Food and Agriculture Organization, FAOSTAT, Agrium



### Merger With PotashCorp will Create World-Class Integrated Global Supplier of Crop Inputs

The new combined company will be the largest crop nutrient company in the world and the third largest natural resource company in Canada. Combined, the new company will have a diverse and complementary portfolio of high quality potash, nitrogen and phosphate production assets. These assets will be complemented by Agrium's leading global retail distribution network. The optimization of these combined portfolios is expected to generate \$500-million of annual operating synergies.

# REVIEW OF 2016 — EXECUTING ON OUR OPERATIONAL EXCELLENCE INITIATIVES

#### Consolidated and business unit financial performance

| (millions of U.S. dollars, except as noted)     | 2016   | 2015   | % Change |
|---|--------|--------|----------|
| Sales   | 13,665 | 14,795 | (8)      |
| Gross profit                                    | 3,395  | 3,888  | (13)     |
| Selling and general and administrative expenses | 2,156  | 2,189  | (2)      |
| EBIT (a)  | 1,098  | 1,616  | (34)     |
| EBITDA  | 1,630  | 2,096  | (24)     |
| Retail EBITDA                                   | 1,091  | 1,033  | 6        |
| Wholesale EBITDA                                | 751    | 1,284  | (44)     |
| Diluted earnings per share                      | 4.29   | 6.98   | (39)     |

- (a) Earnings before finance costs and income taxes (EBIT)
- During 2016, Agrium remained focused on our Operational Excellence initiatives and on controlling our controllables. While earnings were impacted by weak crop prices and lower global nutrient benchmarks, Agrium drove further cost efficiencies across the organization, improved our operational performance and organically grew key product lines, which supported improvement in several key performance metrics.
- Our Retail business unit grew its EBITDA in 2016, despite facing pressure in the U.S. due to weak crop prices pressuring grower cash margins and their crop input decisions. However, this was offset by an improvement in our International and Canadian Retail earnings, organic growth, increased sales of our higher-margin proprietary products, and cost savings as a result of our Operational Excellence initiatives across the business unit. In the face of a challenging macro-economic environment, Retail EBITDA increased 6 percent or \$58-million year-over-year, while cash selling and general administrative expenses excluding acquisitions made in 2016 decreased by over \$70-million compared to 2015. This marks the second consecutive year that our Retail business unit has successfully implemented cost savings initiatives and decreased selling and general administrative costs. While there was competitive pressure on most crop inputs this year, sales of our crop protection products and seeds increased by \$178-million compared to the prior year. This was supported by sales of our proprietary products which increased 7 percent over 2015. As a result of these factors, our EBITDA to sales ratio improved by one percentage point to 9 percent in 2016.

• Our Wholesale business unit's EBITDA decreased due to overall fertilizer market weakness and low realized nutrient pricing during the year. Total potash sales volumes increased as we continued to ramp up production postexpansion at Vanscoy, while nitrogen and phosphate sales volumes remained relatively constant. We made significant progress toward our Operational Excellence initiatives, realizing overall fixed cost efficiencies of \$66-million, together with increased ammonia and phosphoric acid utilization rates, which supported lower cash cost of product manufactured per tonne across all our major products versus 2015. Wholesale also reported higher earnings from our international joint venture and equity interests compared to the prior year. This was due to an improved political landscape and support for the agricultural sector in Argentina and new production trains coming online in Egypt.

#### PROPOSED MERGER WITH POTASHCORP

Agrium and Potash Corporation of Saskatchewan Inc. ("PotashCorp") entered into an agreement dated September 11, 2016 (the "Arrangement Agreement"). under which the companies will combine in a merger of equals into a newly incorporated parent entity ("New Parent") to be formed to manage and hold the combined businesses of both Agrium and PotashCorp. The Arrangement Agreement will be implemented by a proposed plan of arrangement (the "Arrangement"). Under the Arrangement, Agrium shareholders will receive 2.23 New Parent shares for each Agrium share held and PotashCorp shareholders will receive 0.40 of a New Parent share for each PotashCorp share held. Following the completion of the Arrangement Agreement, Agrium and PotashCorp will become wholly owned subsidiaries of New Parent and New Parent will continue the operations of Agrium and PotashCorp on a combined basis.

At meetings of their respective shareholders held on November 3, 2016, shareholders of both Agrium and PotashCorp approved the Arrangement with over 98 percent of the Agrium shares and voting options voted at the meeting voting in favor of the Arrangement. More than 108 million, or over 78 percent, of Agrium's outstanding shares and voting options were voted at the meeting. On November 8, 2016, the Ontario Superior Court of Justice issued a final order approving the Arrangement and Agrium and PotashCorp are working through the regulatory process as planned. Agrium continues to expect the transaction to close mid-2017, subject to the satisfaction of customary closing conditions, including receipt of regulatory approvals. See 2016 AIF "Item 5 – Description of the Business - 5.2 Risk Factors - Risks Related to the Arrangement". Additional information and the full text of the Arrangement Agreement and the Arrangement are included in Agrium and PotashCorp's joint proxy circular filed on SEDAR on October 6, 2016.

# Retail Overview and 2016 Results

Agrium's Retail business is the world's largest retail distributor of agricultural crop inputs, providing growers with fertilizer, crop protection products, seed, services and solutions. We operate approximately 1,500 retail facilities across the U.S., Canada, Australia and key areas of South America, providing custom-built portfolios of products, services and advice to growers. This combination of products and services helps our farm-customers achieve their yield goals and maximize their return on investments in an environmentally sustainable manner. Instrumental to our mutual success is the strong partnership and trust that we have built with customers by delivering value to them year after year.

Our more than 3,300 agronomists and field experts work directly with growers, helping them maximize the productivity of their farms by implementing the best management practices based on a thorough understanding of soils, climate conditions, crop requirements and our portfolio of products. Our Retail distribution and services business provides growers with leading crop input products, such as the newest seed, crop protection products, technologies and extensive agronomic experience, all backed by a commitment to sound environmental practices. Supporting this expertise is our own ECHELON® precision agriculture platform, which provides diagnostic analysis and recommendations to further enhance crop yields, optimize use of crop inputs and create additional value for the grower.

We also manufacture and sell innovative proprietary crop protection products and nutritionals under the Loveland Products® brand, seed products under the brand names Dyna-Gro® and Proven®, and animal health products under the Dalgety® brand. These leading crop input and animal health products provide farmers and ranchers with several competitive options to profitably produce and protect their investments while providing higher margins for Agrium Retail.

Our products and services can vary somewhat depending on the region or country. For example, in Australia, we provide livestock marketing and auction services, and we facilitate an extensive offering of insurance products and financial services. In Western Canada, we market crop storage bins, provide fuel sales and services, and offer financial services to our customers. Starting in the middle of 2016, we initiated new financial services across North America through our new Agrium Financial Services™ (AFS) business, and we acquired a 28.5 percent equity ownership position in Agrifund, LLC and Ag Resource Holdings, LLC (collectively, Ag Resource Management or ARM), which provides specialized higher interest rate lending in the U.S., backed by growers' collateral.



# PRODUCTS AND SERVICES

## **Crop Nutrients**

Crop nutrients are essential to growing healthy plants, and Retail provides growers with all their required dry and liquid macronutrient products, which include nitrogen, potash, phosphates and sulfur, as well as proprietary micronutrient products. Retail acquires crop nutrient products from a wide variety of suppliers at market prices, including Agrium's Wholesale business unit. Retail's North American segment purchases approximately 32 percent of its annual nutrient requirements from Wholesale, although for certain regions and products, Wholesale supplies the majority of Retail's nutrient requirements. These crop nutrient products are typically blended at the local Retail branch, or applied in the field using variable-rate application equipment. Retail delivers additional value to growers through its nutrient application services, provided on a fee-for-service basis.

Retail has an extensive portfolio of proprietary liquid micronutrients that support optimal soil fertility and yield enhancement opportunities. These are essential plant nutrient elements such as boron and zinc, required for plant and soil health. Micronutrients represent a strong organic growth platform for us as more growers implement this crop input through the pre-planting and growth stages of plant development. We have backward integrated into production and technology through our investment in a formulation facility in Fairbury, Nebraska, equity positions or ownership in CH Biotech R&D Co. Ltd. and Advanced Microbial Solutions, LLC, and a strategic alliance with Actagro; to remain at the forefront of innovation and provide differentiated technology and product offerings to our grower customers.

Our Retail branches work closely with growers to understand their nutrient goals and customize our delivery of products. agronomic advice and product application services to help achieve those goals. Retail's agronomists use the 4R Nutrient Stewardship System, often utilizing our ECHELON® precision agriculture platform, to help determine the right nutrient source and apply it at the right time, at the right rate and in the right place. Using ECHELON®'s highly sophisticated tools, our agronomists help growers identify the differences in yield potential within a field and adjust crop inputs accordingly, thereby increasing their productivity and crop input use efficiency while reducing environmental impacts.

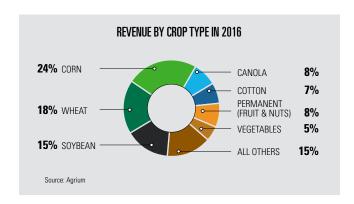
Nutrient application windows can be limited, and the timing can vary significantly depending on weather conditions. As a result, growers need a reliable and efficient distribution system for crop nutrients and other crop inputs. Retail's global distribution network has efficiently moved, on average, approximately ten million tonnes of crop nutrients to our grower customers annually. Our network of branches, terminals and distribution centers allow us to have product readily available in-market when the growers need it, while carefully managing our working capital levels.

## **Crop Protection Products**

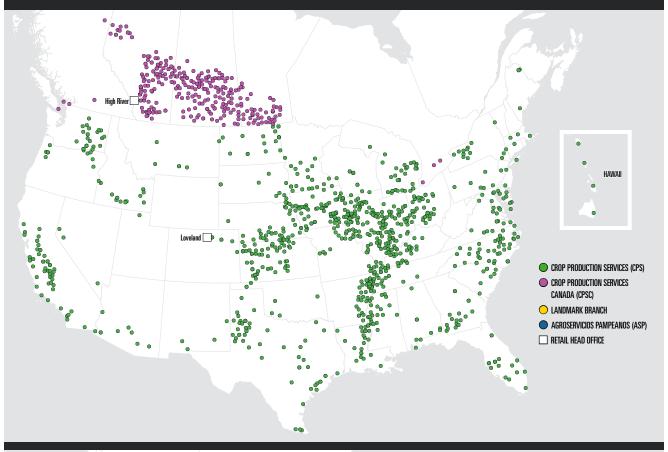
Retail's crop protection products, along with our advisory services, provide growers with an integrated plant protection program that draws on our extensive agronomic expertise and a broad spectrum of third-party supplier and proprietary products. These products are designed to maintain crop quality and manage plant diseases, weeds and other pests that can damage crops and lower yields. We are the largest independent distributor of crop protection products in North America, and our product offering is supported by sound technical advice and product application services. We are a retailer of crop protection products directly to growers, and we have a smaller wholesale business that provides crop protection products to other retail operators.

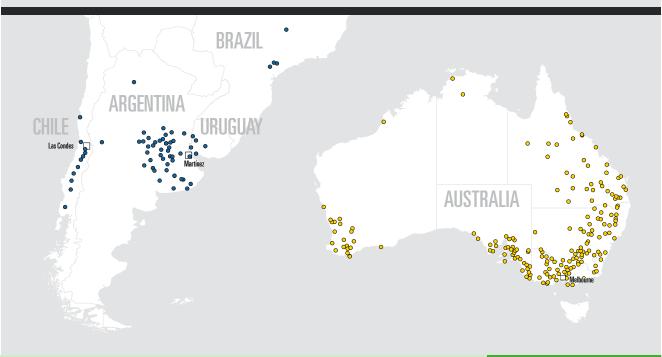
As part of our crop protection offering, we sell proprietary products that incorporate the latest in chemistry and adjuvant technology under the Loveland Products® brand. We own and operate numerous blending and formulation facilities, including major production facilities in Greeley, Colorado; Billings, Montana; Greenville, Mississippi; Casilda, Argentina; Buenos Aires. Argentina: and two formulation facilities in Western Australia and Victoria, Australia. We also have an investment in a formulation plant in Winnipeg, Manitoba. Retail also owns significant interests in several agricultural biotechnology companies through our Loveland business. These investments allow us to be at the forefront of the latest developments in crop protection for our customers, and to benefit from sales of these higher margin products without incurring the associated upfront research and development capital investment.

Agrium's Retail locations also provide seed treatment products and related services, which involve applying crop protection products specifically designed to promote healthy seed germination and early stage plant growth directly to the seed prior to planting.



# RETAIL GLOBAL OPERATIONS — NORTH AMERICA, SOUTH AMERICA AND AUSTRALIA





#### Seed

Our Retail operations provide the seed and seed-related information and analysis our customers require. We sell a wide array of seed brands from top global suppliers as well as our proprietary seed product lines under the brand names Dyna-Gro® and Proven®. Our Dyna-Gro® seed specialists license leading seed traits from major suppliers, match seed characteristics to local soil and growing conditions, and research and test these choices to ensure the best results for each grower's area. We strive to continue to grow our seed sales and market share over the medium term.

We also have significant investments in canola and rice plant breeding programs to supply industry-leading seed products for these crops. Our canola program has laboratories in Saskatoon, Saskatchewan, and Horsham, Australia, as well as vast germplasm bank and research farms in Saskatchewan with seed marketed under the brand name Proven®. We expect to sell our proprietary rice seed products commercially starting in 2017. In total, these proprietary product lines represented 22 percent of our total seed sales in 2016 and add growth opportunity and significant margin value to our overall seed sales.



#### Merchandise

The merchandise product category includes fencing, feed supplements, livestock-related animal health products, storage and irrigation equipment, and other products. It also includes the fuel and equipment businesses in Canada. Merchandise is a much larger component of our Australian and Canadian operations than our U.S. and South American Retail operations.

#### **Services and Other**

Agrium delivers value to growers and earns customer loyalty through services, such as product application, soil and leaf testing, crop scouting and precision agriculture services under our ECHELON® platform. We maintain a large fleet of application equipment and other rolling stock to ensure timely and optimal applications of both nutrients and crop protection products in a safe and effective manner for our grower customers. Our Australian operations also offer livestock marketing, as well as various insurance and real estate services.

In 2016, Agrium introduced an innovative financial services program to our grower customers. Known as Agrium Financial Services™ (AFS), it is a new lending program to provide credit for crop input purchases to our Retail customers in North America. We also made a 28.5 percent investment in ARM, which provides specialized lending backed by growers' collateral such as crop insurance, liens on crops and Farm Services Agency (FSA) payments. The combination of these two lending platforms will provide complementary credit options for not only our existing growers but new customers, and it will help them to purchase their required crop inputs in a timely manner. This gives Agrium another avenue to strengthen and expand our customer base, increase revenue from existing customers, drive additional crop input sales and decrease our overall credit risk profile.





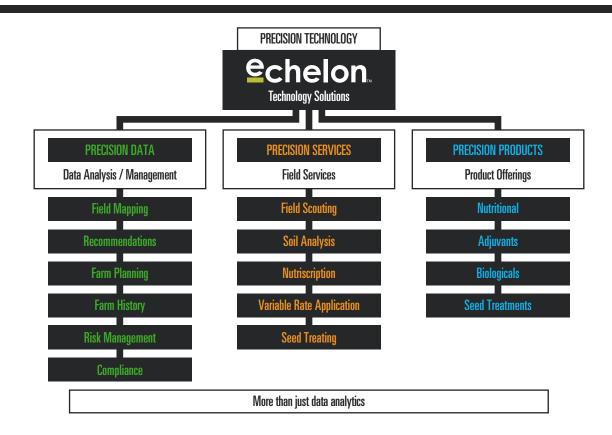


# **Precision Agriculture: Yield-enhancing Technology and Solutions for Growers**

Most cropland is not uniform in terms of soil type, nutrient level or pest pressure. The variance in soil or field conditions results in variability in yields or yield potential within a field. Precision agriculture is the practice of using the latest technology, including global positioning systems and geospatial data processing analytics, to allow growers to address this variability in a field's yield potential and crop input needs. This technology allows growers to better match crop inputs and other farming practices to specific conditions, which helps optimize yields and returns. To obtain the greatest value from precision agriculture technology, service providers help growers analyze large amounts of information including yield maps, detailed field analyses, and soil and foliar nutrient analyses to create specific crop input recommendations that can be precisely applied at variable rates across a field. This typically includes variable-rate application of crop inputs as well as monitoring of crop, soil and yield conditions. This technology also helps growers with recordkeeping, planning and soil mapping. Targeted measurement and placement of crop inputs help maximize uptake by the plants and minimizes waste, thereby delivering significant environmental benefits. With continual improvements in research and development, including analytical capabilities, accuracy, connectivity, equipment design and data synthesis, the focus on and benefits from precision agriculture products and services are expected to continue to improve.

Agrium has been offering precision agriculture services to grower customers around the globe for more than a decade. Currently, we provide this multi-crop service offering to over 70,000 growers, have mapped more than 36 million acres across our retail footprint, and maintained over 4.8 million acres of actionable soil fertility data based on regular sampling and soil testing results. ECHELON® is our branded precision agriculture technology platform, which offers services such as soil nutrient testing, tissue sampling, yield data mapping, recordkeeping, soil fertility management, variable-rate fertilizer application and variable-rate seeding recommendations along with agronomic advice and proprietary product considerations. ECHELON® is also integrated with our Enterprise Resource Planning sales system, which provides efficiencies for our Retail operations.

With our custom-built ECHELON® platform, our goal is to provide our grower customers with the highest fidelity datadriven advice to optimize their crop production. This allows our crop consultants to better analyze and illustrate the effectiveness of new products and practices as well as our proprietary products in an unbiased environment. ECHELON® generates value for Retail primarily through direct charge services (such as soil sampling), product bundling opportunities and objective recommendations for specific products, including our extensive propriety product offering. This combination of expert agronomic advice, with the latest technological tools strengthens our relationships with existing customers and increases opportunities to bring in new growers.



# RETAIL >> KEY DEVELOPMENTS IN 2016

# **Operational Excellence**

Agrium's Retail business continued to drive improvement in its operations as part of our Company's commitment to Operational Excellence. As a result, we were able to demonstrate improvements across the majority of our key metrics in 2016, despite some continued challenges in agricultural markets this year. These enhancements included focusing on improving product, service and solution offerings to our approximately half-million farm customers globally, growing our propriety product sales, optimizing our extensive distribution network, managing working capital and reducing costs - measures that we expect will continue to drive improvement in our key metrics and financial measures going forward.

- Retail was able to improve upon many key metrics in 2016 despite weakness in the agricultural markets throughout much of the year. Focusing on continued proprietary product growth and prudent inventory management allowed us to increase our gross profit margin by two percentage points in 2016, while EBITDA grew 6 percent, excluding incremental earnings from acquisitions made in 2016.
- Normalized comparable store sales (normalized for changes in commodity nutrient prices and foreign exchange rates) increased by 2 percent in 2016 as a result of higher sales in our International segment and the U.S., partly offset by lower sales in Canada. Our International Retail segment made further improvements in earnings in 2016 with Australian operations reaching a record \$122-million in EBITDA compared to \$94-million in 2015, and South America increasing EBITDA by 77 percent to \$44-million. The continuing year-over-year improvement in the International segment reflects ongoing emphasis on cost control, increased proprietary product sales and improved agricultural conditions.
- Excluding acquisitions made in 2016, Retail reduced cash selling and general and administrative expenses by approximately \$70-million, which improved our cash operating coverage ratio by one percentage point compared to 2015.
- We took action this year to further optimize our distribution network and reduce operational costs, closing over 65 retail locations during the year. These efforts tie to our "hub and spoke" strategy, where we are able to serve local customers more efficiently with a centralized regional service and distribution structure.
- · Our continued focus on working capital resulted in our average non-cash working capital to sales ratio to improve by one percentage point to 17 percent. At the end of the year, non-cash working capital was 25 percent lower than the prior year.
- In 2016, we undertook several initiatives to reduce costs within our Loveland Products operations, which will result in annual savings of over \$20-million and will further enhance our proprietary product margins.

- All these Operational Excellence initiatives helped to improve EBITDA to sales by approximately one full percentage point to reach 9.2 percent.
- Despite a significant additional focus on perpetuating a safety culture throughout the business, Retail experienced three fatalities during 2016. We continue to review our procedures and make every effort to meet our commitment to zero incidents in the future.

#### **Retail metrics**

|   | 2016  | 2015  | 2014  |
|---|-------|-------|-------|
| Average non-cash working capital to sales (%) | 17    | 18    | 17    |
| Cash operating coverage ratio (%)             | 61    | 62    | 61    |
| EBITDA (millions of U.S. dollars)             | 1,091 | 1,033 | 1,119 |
| EBITDA to sales (%)                           | 9     | 8     | 9     |
| Normalized comparable store sales (a) (%)     | 2     | (3)   | (1)   |

In 2016, we revised our definition of normalized comparable store sales, which previously normalized for fertilizer prices, to now also include the impact of foreign exchange. We have restated our 2015 and 2014 comparative information.

#### **Focused Growth**

- In line with our strategy of continuing to grow through accretive retail acquisitions, Agrium purchased 76 locations with over \$500-million in expected annual sales and anticipated EBITDA of approximately \$35-million and \$45-million in 2017 and 2018, respectively. Similar types of acquisitions have historically achieved meaningful synergies by leveraging our scale and size in terms of buying power and procurement agreements, introducing proprietary products with higher margins, and delivering other operational and back-office synergies. Opportunities for valuable Retail acquisitions remain strong in the U.S. and are expected to continue to be a key focus for the Company in 2017 and beyond.
- Retail is pursuing potential greenfield location builds in seven U.S. states in 2017 and currently has several locations under design and construction. These new builds remain an attractive investment option and Agrium will continue to review other locations for market growth and network synergies.
- Agrium also unveiled a new financial services and risk management solutions program for existing and new grower customers in mid-2016. Seeing an opportunity to provide credit to financially strained growers and allowing them to continue with their normal annual crop input purchases, we created two lending options: standard client loans under AFS and specialized lending at higher interest rates through ARM. AFS is a formalized crop inputs loan program for existing customers that is expected to strengthen our existing grower base and sales. Agrium acquired a 28.5 percent share in ARM, and at December 31, 2016 the organization had over 450 loan originations clients and 20 locations in the southern U.S. With close proximity to numerous Retail operations, we expect to be able to

- provide services across the entire Corn Belt through ARM in 2017. This business is also expected to generate customer referrals from ARM and additional crop input sales in Retail. The higher rate loans are protected by growers' collateral, such as crop insurance and liens on crops.
- In 2016, Agrium committed to invest as a limited partner in Finistere Ventures Fund II ("Finistere"), a leading agricultural technology fund, focused on identifying and investing in world-class technologies through early-to-growth stage companies, specifically in the areas of plant nutrition, biologicals, seed technology, digital agriculture and novel farm systems. This forms a part of our increasing focus on innovation and technology, to continuously enhance our total-acre solutions for our grower customers.

#### Proprietary products – percent of total Retail sales by product

| (in percentages)         | 2016 | 2015 |
|--------------------------|------|------|
| Crop nutrients           | 8    | 7    |
| Crop protection products | 24   | 22   |
| Seed                     | 22   | 23   |
| Total                    | 15   | 14   |

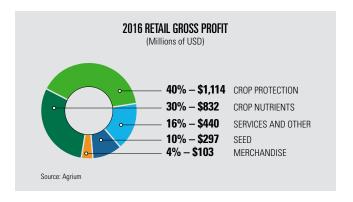
 In 2016, our proprietary product sales continued to grow on an absolute basis and on a percentage of total sales basis. The continued growth in proprietary products also supported our overall gross profit margins. Total proprietary sales increased by 7 percent relative to 2015, and proprietary crop protection sales grew by 12 percent, while proprietary seed sales remained flat from 2015. We will continue to highlight the importance and value of these products to our customers to reach more global acres and drive further organic growth across this platform.

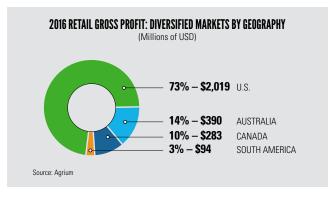
# RETAIL >> FINANCIAL RESULTS

#### Retail performance

| (millions of U.S. dollars, except as noted)   | 2016   | 2015   |
|---|--------|--------|
| Sales   | 11,766 | 12,199 |
| Cost of product sold                          | 8,980  | 9,471  |
| Gross profit                                  | 2,786  | 2,728  |
| Expenses                                      |        |        |
| Selling                                       | 1,899  | 1,902  |
| General and administrative                    | 102    | 112    |
| Earnings from associates and joint ventures   | (6)    | (5)    |
| Other income                                  | (26)   | (60)   |
| EBIT  | 817    | 779    |
| EBITDA  | 1,091  | 1,033  |
| EBITDA to sales (%)                           | 9      | 8      |
| Selling expense to sales (%)                  | 16     | 16     |
| Cash operating coverage ratio (%)             | 61     | 62     |
| Comparable store sales (%)                    | (5)    | (7)    |
| Normalized comparable store sales (%)         | 2      | (3)    |
| Average non-cash working capital to sales (%) | 17     | 18     |
| Non-cash working capital                      | 1,528  | 2,044  |

- As a result of significantly lower crop nutrient prices in 2016, Retail total sales were down year-over-year. The reduction in sales was offset by lower cost of product sold, leading to slightly higher gross profit in 2016. The improvement in gross profit and EBITDA were supported by cost reduction initiatives and a higher-margin product mix in 2016.
- North American Retail earnings were up slightly from 2015 levels. However, good growing conditions, lower crop prices and a lack of pest pressure during the summer growing period in the U.S. adversely impacted demand for crop protection products in the third quarter of 2016. Canadian operations were also impacted by an early winter, reducing nutrient applications in that region in the second half of the year.
- International Retail segment reported a further improvement in EBITDA in 2016, partly due to good growing conditions in Australia and South America and an improved political environment in Argentina. Australia reported a record annual EBITDA in 2016.
- Excluding earnings from acquisitions made in 2016, Retail reported EBITDA growth of 6 percent over 2015. EBITDA to sales also increased by one percentage point, supported by cost saving measures and higher-margin proprietary product growth.





# RETAIL >> EXPENSES

- Retail selling expenses in 2016 and selling expenses as a percentage of sales both stayed relatively consistent with 2015 levels. Retail also reduced general and administrative costs by \$10-million. Cash selling and general and administrative expenses were approximately \$70-million lower than 2015 after adjusting for acquisitions made during 2016. The reduction in costs was largely a result of Operational Excellence initiatives on cost control, including optimization of our distribution network.
- Our cash operating coverage ratio improved by one percentage point this year as a result of the reduction in total selling and general and administrative costs and higher gross profit in 2016.
- Depreciation and amortization increased to \$274-million in 2016 from \$254-million in 2015 due to ongoing sustaining capital expenditures at existing facilities as well as additional property, equipment and intangibles associated with acquisitions made in recent years.

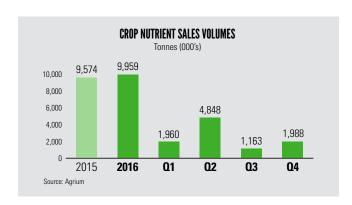
# RETAIL >> PRODUCT LINE PERFORMANCE

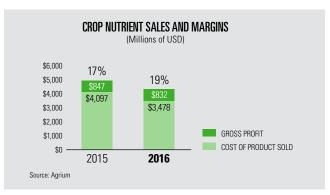
#### **Product line performance**

|   | Sales  |        | Gross | profit | Gross profit (%) |      |
|---|--------|--------|-------|--------|------------------|------|
| (millions of U.S. dollars, except as noted) | 2016   | 2015   | 2016  | 2015   | 2016             | 2015 |
| Crop nutrients                              | 4,310  | 4,944  | 832   | 847    | 19               | 17   |
| Crop protection products                    | 4,684  | 4,543  | 1,114 | 1,067  | 24               | 23   |
| Seed  | 1,462  | 1,425  | 297   | 284    | 20               | 20   |
| Merchandise                                 | 621    | 638    | 103   | 99     | 17               | 16   |
| Services and other                          | 689    | 649    | 440   | 431    | 64               | 66   |
| Total                                       | 11,766 | 12,199 | 2,786 | 2,728  | 24               | 22   |

# **Crop Nutrients: Financial Results**

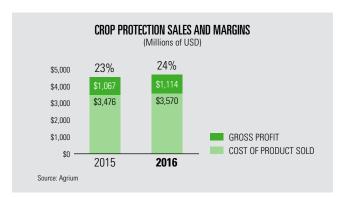
- Our crop nutrient sales decreased in 2016 due to significantly lower global nutrient prices compared to 2015. Total nutrient sales volumes were higher this year at 9.9 million tonnes compared to 9.6 million tonnes in 2015. The increase in volumes was due to stronger sales in our International segment and higher tonnes in the U.S. resulting from acquisitions made during the year. In Canada, a significant acreage shift towards pulse crops (which require no nitrogen) and adverse weather conditions reduced ammonia sales volumes during the fall application season.
- Gross profit decreased in 2016 as the increase in sales volumes was not sufficient to offset the impact of significantly lower fertilizer benchmark prices on gross profit per tonne. Our realized sales price per tonne declined by \$83 in 2016; however, we were able to maintain gross profit per tonne, which dropped by only \$5 per tonne.
- Sales of our proprietary crop nutrient products were slightly higher than 2015 levels and increased as a percentage of total crop nutrient sales by one percentage point to 8 percent. This product line helped support Agrium's overall crop nutrient margins again in 2016, and we remain focused on growing volumes of this high value-added product line.





# **Crop Protection Products: Financial Results**

- Our crop protection product line reported a record gross profit and gross profit as a percentage of sales in 2016. This was due to both stronger proprietary product sales again this year and higher International sales, despite weakness in U.S. demand for fungicides and insecticides this summer due to a combination of low pest pressure and low grain prices.
- Favorable growing conditions and an improved political environment in Argentina heightened demand for crop protection products in our International and Canadian Retail operations in 2016.
- Our proprietary crop protection products accounted for 24 percent of our total crop protection product sales, compared to approximately 22 percent in 2015. Sales growth for our proprietary crop protection products rose 12 percent over last year and continued to represent the largest portion of our total proprietary product offering, primarily under the Loveland Products® brand.





#### Seed: Financial Results

- Seed sales increased 3 percent in 2016, driven primarily by higher total acres planted in the U.S. and stronger sales in our International segment. Results were also supported by a shift in the U.S. in 2016 to more corn and cotton acres, which have higher margins than other row crops. Strong volumes of our proprietary seed sales and increased sales of treated seeds also supported seed margins. As a result, seed gross profit increased by \$13-million in 2016. Gross profit as a percentage of sales was flat compared to 2015.
- In 2016, Agrium's proprietary seed sales were flat compared to 2015 levels. Sales of proprietary seeds as a percentage of total seed sales decreased slightly to 22 percent in 2016 from 23 percent in 2015. In the U.S., our Dyna-Gro® brand increased sales by 4 percent, in line with an increase in overall U.S. corn acreage in 2016. Total sales for this product group were impacted partially by a decline in our Proven® proprietary canola seed this year as a result of the significant shift by Canadian growers out of canola and cereals and into pulse crops.



# Merchandise: Financial Results

- Merchandise sales decreased by 3 percent in 2016 due primarily to lower fuel prices in our Canadian fuel business.
- Merchandise gross profit increased by \$4-million or 4 percent in 2016, while gross profit as a percentage of sales increased by one percentage point in 2016. The higher margins this year reflect a higher proportion of sales in our higher-margin ag-equipment business compared to our lower-margin fuel business.

#### Services and Other: Financial Results

- Sales of services and other were up 6 percent in 2016 a result of stronger demand for application and other services in the U.S. during the fall application season and in our International Retail segment, where the stronger demand was related to increased livestock marketing in Australia.
- Gross profit was up \$9-million this year, while gross profit as a percentage of sales decreased by 2 percent to 64 percent in 2016.
- Financial results for our newly formed financial services segment were not material in 2016, although we anticipate these to increase over time.



#### **Regional performance**

|   | 2016          |               | 2015          |               |  |
|---|---------------|---------------|---------------|---------------|--|
| (millions of U.S. dollars, except as noted) | North America | International | North America | International |  |
| Sales                                       | 9,608         | 2,158         | 10,124        | 2,075         |  |
| Cost of product sold                        | 7,306         | 1,674         | 7,826         | 1,645         |  |
| Gross profit                                | 2,302         | 484           | 2,298         | 430           |  |
| Gross profit (%)                            | 24            | 22            | 23            | 21            |  |
| Expenses                                    |               |               |               |               |  |
| Selling                                     | 1,555         | 344           | 1,571         | 331           |  |
| General and administrative                  | 72            | 30            | 79            | 33            |  |
| Earnings from associates and joint ventures | (4)           | (2)           | (3)           | (2)           |  |
| Other expense (income)                      | 3             | (29)          | (35)          | (25)          |  |
| EBIT  | 676           | 141           | 686           | 93            |  |
| EBITDA                                      | 925           | 166           | 915           | 118           |  |

- On a regional basis, we demonstrated improvement in EBITDA across all our key countries and regions. Lower global fertilizer prices led to a decline in North America Retail sales in 2016. However, EBITDA increased due to Operational Excellence initiatives, including proprietary product growth and acquisitions made in 2016. Canada experienced a weather-delayed harvest in the second half of 2016, which negatively impacted ammonia application and services.
- International Retail demonstrated improvement in earnings across all product lines as a result of favorable growing conditions, Operational Excellence results and increased proprietary product sales in both Australia and South America as well as an improved political environment in Argentina. Australia achieved record EBITDA of \$122-million in 2016.



# RETAIL >> QUARTERLY RESULTS

- Our Retail business is seasonal. The most important quarter is the second quarter, which includes the spring application and planting season in North America and the early fall application season that precedes the winter wheat seeding season in Australia.
- The U.S. experienced an early spring in 2016, which pulled some nutrient volumes and applications into the first quarter. Western Canada's first half nutrient volumes were lower than the previous year due to higher pulse crop acreage.
- The third and fourth quarters of 2016 saw a normal fall nutrient application for the U.S. but weak demand for crop protection products, particularly fungicides, in the third quarter due to lower-than-normal pest pressure and lower crop prices. Western Canada experienced wet weather during the 2016 harvest season and an early winter, impacting nutrient applications that we expect will be largely made up for in the spring of 2017.

#### Retail quarterly results

|   |            | 201   | 6     |            | 2015  |       |       |       |
|---|------------|-------|-------|------------|-------|-------|-------|-------|
| (millions of U.S. dollars, except as noted) | <b>Q</b> 4 | 03    | 02    | <b>Q</b> 1 | Q4    | Q3    | Q2    | Q1    |
| Sales – North America                       | 1,344      | 1,406 | 5,049 | 1,809      | 1,340 | 1,587 | 5,421 | 1,776 |
| Sales – International                       | 484        | 451   | 742   | 481        | 425   | 424   | 739   | 487   |
| Total sales                                 | 1,828      | 1,857 | 5,791 | 2,290      | 1,765 | 2,011 | 6,160 | 2,263 |
| Cost of product sold                        | 1,205      | 1,375 | 4,512 | 1,888      | 1,166 | 1,517 | 4,896 | 1,892 |
| Gross profit                                | 623        | 482   | 1,279 | 402        | 599   | 494   | 1,264 | 371   |
| Gross profit (%)                            | 34         | 26    | 22    | 18         | 34    | 25    | 21    | 16    |
| Gross profit by product                     |            |       |       |            |       |       |       |       |
| Crop nutrients                              | 147        | 118   | 433   | 134        | 154   | 113   | 454   | 126   |
| Crop protection products                    | 296        | 226   | 471   | 121        | 268   | 234   | 457   | 108   |
| Seed  | 43         | 22    | 181   | 51         | 54    | 26    | 164   | 40    |
| Merchandise                                 | 27         | 29    | 28    | 19         | 27    | 25    | 27    | 20    |
| Services and other                          | 110        | 87    | 166   | 77         | 96    | 96    | 162   | 77    |
| EBIT  | 134        | 30    | 676   | (23)       | 133   | 64    | 647   | (65)  |
| EBITDA                                      | 202        | 101   | 744   | 44         | 199   | 129   | 713   | (8)   |

| Total Retail                                  |        | 2016    |           |          | 2015   |         |         |          |
|---|--------|---------|-----------|----------|--------|---------|---------|----------|
| (in percentages)                              | Dec 31 | Sept 30 | June 30 N | March 31 | Dec 31 | Sept 30 | June 30 | March 31 |
| Average non-cash working capital to sales (a) | 17     | 18      | 18        | 18       | 18     | 18      | 18      | 18       |
| Cash operating coverage ratio (a)             | 61     | 61      | 60        | 61       | 62     | 63      | 64      | 62       |
| EBITDA to sales (a)                           | 9      | 9       | 9         | 9        | 8      | 8       | 8       | 8        |
| Comparable store sales (b)                    | (5)    |         | (5)       |          | (7)    |         | (4)     |          |
| Normalized comparable store sales (b)         | 2      |         | 2         |          | (3)    |         | (1)     |          |

| Retail – North America (a) | 2016   |         |           |         |        |         | 2015    |          |
|----------------------------|--------|---------|-----------|---------|--------|---------|---------|----------|
| (in percentages)           | Dec 31 | Sept 30 | June 30 M | arch 31 | Dec 31 | Sept 30 | June 30 | March 31 |
| EBITDA to sales            | 10     | 10      | 10        | 9       | 9      | 9       | 9       | 9        |

<sup>(</sup>a) These measures are based on rolling four quarters ended.

<sup>(</sup>b) These measures are based on six months ended for June 30 results and 12 months ended for December 31 results.

# Wholesale Overview and 2016 Results

Agrium's Wholesale business unit produces and markets all three major crop nutrients, which are essential for farmers to optimize crop yields and quality. With a combined global production capacity of approximately 11 million product tonnes and significant competitive advantages across our product lines, we are one of the largest manufacturers of fertilizer in the world. We strive to produce, distribute and use these products as efficiently, safely and sustainably as possible for the benefit of our customers and other stakeholders and to make a significant contribution to improving the security of the world's food supply. Wholesale completed construction of a 610,000-tonne urea plant at our Borger, Texas, facility in late 2016 and continues to ramp up production at our potash mine following the expansion project completed in 2015.

Our Wholesale operations include nine nitrogen, one potash and two phosphate production facilities and four other facilities across North America. We also have significant equity interests in nitrogen facilities in Argentina and Egypt. In total, our nitrogen capacity is almost six million product tonnes, our potash capacity is three million tonnes and our phosphate capacity is over one million tonnes. We also have over one million tonnes of capacity for upgrading and production of other nutrients such as Environmentally Smart Nitrogen (ESN®) and ammonium sulfate. One key Wholesale advantage is that the majority of our production and distribution capability is located close to our end-markets, allowing us to benefit from lower freight costs and, hence, higher margins.

Additional benefits stem from Agrium's position as the largest agricultural retail distribution business in North America, allowing us to realize meaningful logistical and utilization synergies. Our nitrogen facilities have access to some of the lowest cost natural gas globally due to their locations in Alberta, Canada and the U.S. Our potash reserves in Saskatchewan, Canada, represent some of the highest quality and lowest cost reserves in the world. For our phosphate products, we benefit from an in-market transportation advantage and a competitive cost position in sulfur and ammonia, which is partly offset by slightly higher rock costs.





# PRODUCTS AND SERVICES

Growers use the following three critical crop nutrients to help restore soil nutrient balance and enhance crop yields and quality.

| N<br>NITROGEN  | K<br>POTASH  | P<br>PHOSPHATE  |
|--|--|---|
| Improves crop growth, yield and protein levels   | Regulates plant growth processes and helps protect crops from drought and disease  | Stimulates root development and flowering and encourages early crop development   |
|  | Our products   |   |
| Ammonia, urea, urea ammonium nitrate (UAN) solutions, ammonium nitrate   | Muriate of potash (MOP or "potash")  | Monoammonium phosphate (MAP),<br>superphosphoric acid (SPA) products  |
|  | Our advantages   |   |
| <ul> <li>Overall low North American natural gas prices and a further Western Canadian AECO gas advantage relative to NYMEX</li> <li>Facilities located near key end-markets in the Americas and Europe</li> <li>Retail distribution network in Western Canada and Northern Plains allowing product to be placed in higher netback markets</li> </ul> | World-scale, high-quality and low-cost advantage High historical operating rate due to integration with Retail and a balanced geographic sales mix Capacity expansion drives lower cost of manufacturing Partner in a major international marketing and logistics company (Canpotex) | Competitive cost position for sulfur and ammonia In-market freight advantage Integrated Conda rock supply Retail distribution network in Western Canada and Northern Plains allowing product to be placed in higher netback markets |
|  |  |   |

# **Nitrogen [N] Products**

Nitrogen – the most important crop nutrient in terms of global use and trade - represents approximately 60 percent of the total volume of crop nutrients used globally. It is also the crop nutrient for which reduced application rates within a growing season are most likely to immediately and adversely impact yield for most crops. For Agrium, nitrogen is the most important nutrient in terms of capacity, production and sales. It represents close to 60 percent of our nutrient capacity. Natural gas is the primary input for producing ammonia - the base for virtually all nitrogen products. Ammonia can be applied directly as a fertilizer or upgraded to products such as urea, UAN solutions and ammonium nitrate.

Agrium owns and operates five major nitrogen production facilities in North America and has a 50 percent joint venture interest in Profertil S.A. ("Profertil"), which owns a South American nitrogen facility. We also own four facilities in North America that upgrade ammonia to other nitrogen products such as UAN and nitric acid. These facilities have a combined annual nitrogen production capacity of approximately 5.2 million tonnes. Agrium also has a 26 percent equity ownership position in Misr Fertilizers Production Company S.A.E. ("MOPCO"), which has a total annual production capacity of approximately two million tonnes of urea (of which over 500,000 tonnes are attributable to Agrium through our equity position). This puts our global nitrogen capacity at approximately 5.7 million tonnes, placing Agrium among the world's top five publicly traded nitrogen producers.

Our extensive North American nitrogen facilities benefit from the development of long-term, low-cost, non-conventional (shale) natural gas, which has positioned North America - and Alberta in particular - among the lowest-cost gas and nitrogen producing regions in the world. Most of our facilities are located in Alberta, which has historically enjoyed a significant natural gas price discount relative to NYMEX. Furthermore, Agrium's numerous production facilities and ability to leverage our extensive North American Retail distribution operations to optimize operating rates and margins by placing greater tonnes through these distribution channels are key competitive advantages. Much of our nitrogen and phosphate product volumes are supplied to our core markets in Western Canada and the U.S. Pacific Northwest, where we obtain more attractive netbacks due to logistical efficiencies. Profertil's nitrogen facility benefits from similar in-market advantages related to its position in Argentina's large domestic fertilizer market. The MOPCO Egyptian facility benefits from its proximity to tidewater for international exports.

In 2016, approximately 77 percent of our North American nitrogen sales were directed to agricultural markets, with the remaining 23 percent sold to industrial customers. Agricultural customer demand is seasonal, while industrial demand is more evenly distributed throughout the year. As a result, our average sales price for ammonia in a given quarter will be influenced by the relative weighting of sales to industrial customers compared to sales to the generally higher-return agricultural markets. A high proportion of our industrial ammonia sales are priced on a gas index-plus margin basis, thereby contributing to stability in sales and earnings throughout the year. Industrial

ammonia sales volumes were approximately 476,000 tonnes in 2016, compared to 513,000 tonnes in 2015. The startup of the new urea facility at Borger is expected to further expand our urea industrial sales in 2017, as up to 100,000 tonnes of the new urea production can be converted to liquid diesel exhaust fluid (DEF) and sold into the diesel emission fuel-grade urea market. DEF is used to reduce smog-related nitrogen oxide emissions in diesel vehicles.

### Potash [K] Products

Global potash deposits are highly concentrated in only a few specific regions of the globe. The world's largest known potash deposits are located in Saskatchewan, Canada; and accounted for approximately 35 percent of the global potash trade in 2016. Agrium produces potash at our facility in Vanscov. Saskatchewan, and exports international sales through our interest in Canpotex - an industry association owned by the three major Canadian potash producers and tasked with marketing potash sold outside of Canada and the U.S. Our share of Canpotex total sales was 10.3 percent in 2016 and averaged 7.3 percent in 2015. The increase resulted from the completion of Agrium's one million tonne capacity expansion and the Canpotex proving run in 2015.

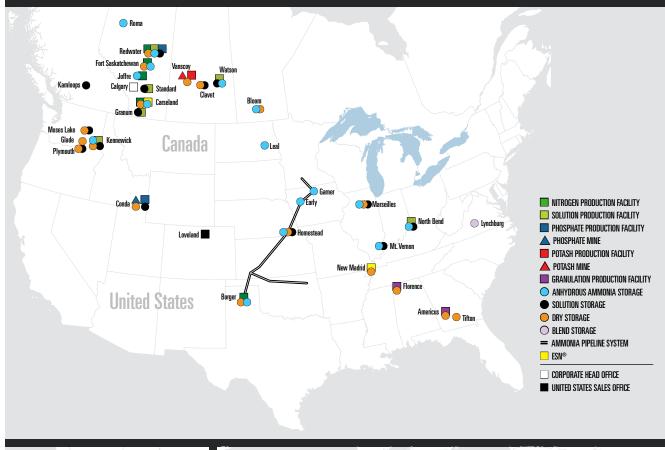
# **Phosphate [P] Products**

Together, Agrium's two phosphate facilities have the capacity to produce approximately 1.2 million tonnes of phosphate-based fertilizer products annually. At our facility in Conda, Idaho, we produce MAP, SPA and merchant grade phosphoric acid (MGA) products, which are sold primarily in the Northwestern U.S. Our Redwater, Alberta, facility – the only phosphate production site in Canada - produces MAP primarily for distribution in Western Canada.

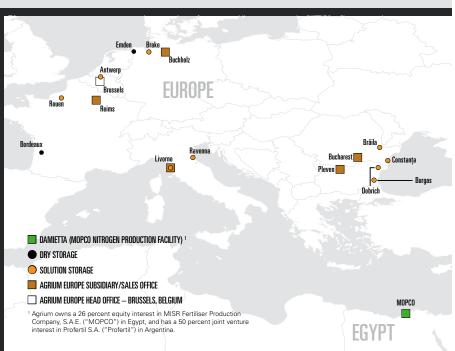
Three primary raw materials are required to produce granular ammonium phosphates: phosphate rock, sulfur and ammonia. Our Conda, Idaho, facility obtains rock from our associated mines in the region. Recently, a new open pit phosphate mine in the Rasmussen Valley area near our Conda operations has been approved by the U.S. government's Bureau of Land Management. There were no further updates to the Rasmussen Valley reserve estimate, therefore the final 2014 estimate of 10.1 million tonnes remains in place. Our Redwater, Alberta, facility sources rock primarily from a supply agreement with OCP S.A. ("OCP"). This agreement covers rock supply through 2018, with purchase prices based on a formula derived from the global price of finished phosphate products. The agreement enables Agrium to continue to benefit from our Redwater phosphate facility's competitive local sulfur and integrated ammonia cost positions as well as our in-market logistical advantage in Western Canada.

Our Conda facility has major advantages from sourcing sulfur and sulfuric acid domestically while obtaining the majority of its ammonia from our Alberta nitrogen facilities at production cost plus freight expenses. An additional competitive strength is our transportation cost advantage for local customers in Western Canada and the Western U.S. relative to the major phosphate producers based in Florida.

# WHOLESALE GLOBAL OPERATIONS — NORTH AMERICA, ARGENTINA, EUROPE AND EGYPT







# Ammonium sulfate, Environmentally Smart Nitrogen (ESN®) and Other Wholesale products

Our Other Wholesale products primarily comprise ammonium sulfate products produced in Western Canada, ESN® and product purchased for resale. Ammonium sulfate fertilizer contains both nitrogen and sulfur, resulting in one of the most effective methods of supplying sulfur to soils in an immediately available form. Agrium produces ammonium sulfate at our Redwater facility, where we have competitive advantages from in-market selling price premiums and logistical advantages as well as lower-priced sulfur, which is a byproduct from the oil and gas industry. ESN® is a leading controlled-release nitrogen fertilizer product providing growers with significant economic and environmental benefits. This patented coated-fertilizer product allows for more efficient delivery of the nitrogen to the plant while it grows based on soil moisture and temperature characteristics. By delivering nitrogen when the plant needs it most, this advanced product can significantly reduce the risk of nitrogen loss to the air and water. Agrium operates two facilities that upgrade urea to ESN® - one in Western Canada and one in the Southern U.S.

Our Rainbow® Plant Food ("Rainbow") operations manufacture compound nitrogen, phosphate and potash (NPK) products in the Southeastern U.S. The Rainbow product line offers homogeneous distribution of NPK products, with a specific combination of nutrients and additional micronutrients contained in each granule.

In addition to selling our manufactured products, our Wholesale business unit purchases crop nutrient products from other suppliers for resale to customers primarily in Europe. This product purchased for resale business enables us to leverage our distribution and marketing network beyond what is possible through the sale of our manufactured products alone.



# **Wholesale Distribution and Storage**

Wholesale has an extensive transportation, storage and warehousing network to optimize deliverability of product to our agricultural customers in the highly seasonal peak demand periods. In total, our global distribution and storage capacity amounts to approximately 2.2 million tonnes. This is in addition to the extensive distribution and warehousing available through our Retail business and, in some cases, warehousing facilities shared between the business units. We have more than 5,200 railcars under long-term operating leases. We also use barges, pipelines and ocean vessels to transport our products. Agrium Europe owns and leases approximately 215,000 tonnes of dry and liquid storage capacity at both port and inland sites.

#### 2016 Wholesale capacity, production and sales

| (thousands of metric product tonnes)       | Capacity (a)                            | Production (a)(b) | Sales (c) |
|--|---|-------------------|-----------|
| Nitrogen volumes                           |   |                   |           |
| North America                              |   |                   |           |
| Canada                                     | 3,459                                   | 2,879             | 1,862     |
| U.S.                                       | 1,090                                   | 772               | 1,740     |
| Total nitrogen                             | 4,549                                   | 3,651             | 3,602     |
| Potash volumes <sup>(f)</sup>              |   |                   |           |
| North America                              |   |                   |           |
| Canada                                     | 3,024                                   | 2,171             | 164       |
| U.S.                                       |   |                   | 1,023     |
| International                              |   |                   | 1,052     |
| Total potash                               | 3,024                                   | 2,171             | 2,239     |
| Phosphate volumes                          |   |                   |           |
| North America                              |   |                   |           |
| Canada                                     | 660                                     | 637               | 606       |
| U.S.                                       | 510                                     | 520               | 502       |
| Total phosphate                            | 1,170                                   | 1,157             | 1,106     |
| Ammonium sulfate, ESN® and other volumes   |   |                   |           |
| North America                              |   |                   |           |
| Canada                                     | 546                                     | 533               | 521       |
| U.S.                                       | 559                                     | 411               | 514       |
| Total ammonium sulfate, ESN® and other     | 1,105                                   | 944               | 1,035     |
| Total produced product                     | 9,848                                   | 7,923             | 7,982     |
| Product purchased for resale volumes (d)   |   |                   |           |
| North America                              |   | •                 |           |
| U.S.                                       |   | •                 | 121       |
| International                              | *************************************** | •••••             | 624       |
| Total product purchased for resale         |   |                   | 745       |
| Total Wholesale                            | 9,848                                   | 7,923             | 8,727     |
| Wholesale equity accounted joint ventures: |   |                   |           |
| International nitrogen (e)                 | 687                                     | 587               | 669       |
| / \ ODA                                    |   |                   |           |

<sup>(</sup>a) SPA and MGA are reported at 100 percent nutrient basis.

<sup>(</sup>b) Production, net of transfers, except where noted.

<sup>(</sup>c) Sales represent country of sales destination, not country of production.

<sup>(</sup>d) Product purchased for resale includes sales of all the major crop nutrient products.

<sup>(</sup>e) Primarily represents our 50 percent joint venture interest in the capacity of Profertil, which is accounted for using the equity method.

<sup>(</sup>f) Potash is reported at gross (40 tonnes of product was consumed at Rainbow facilities).

# WHOLESALE >> KEY DEVELOPMENTS

 In 2016, Wholesale successfully executed on its Operational Excellence objectives including completion of its major growth projects. We successfully completed construction of our Borger urea facility as planned and continued the ramp-up of production at our recently expanded Vanscoy potash facility. We also made great strides in reducing fixed costs across the business unit while continuing to improve the reliability, operating rates, and safety and environmental measures of our facilities.

# **Operational Excellence**

- In 2016, Wholesale achieved a total of \$66-million in cost savings – largely the result of a fixed cost review that commenced in mid-2016. This involved a systematic review of all costs at each facility and the baseline requirements of the business. This evaluation is ongoing and was expanded to cover manpower costs in late 2016.
- Continuing to optimize our capacity utilization rate at our production facilities was another major focus in 2016.
   We achieved 95 percent capacity utilization for ammonia production and 96 percent for phosphoric acid in 2016 – a one to two percentage point improvement over 2015 levels for both product categories. However, for potash and, to a lesser extent, ammonia, we were below our 2016 target levels.
- Wholesale implemented further environmental, health and safety processes through our Commitment to Zero program in 2016; however, we regretfully experienced two fatalities at our production operations. We are committed to achieving an incident-free workplace and have taken numerous further steps and process reviews to create and perpetuate a much stronger culture of safety.

#### **Focused Growth**

- The Vanscoy potash expansion project was completed in 2014, with the facility expected to reach full operating production potential in 2017. Our focus in 2016 was the continued ramp-up of production at the facility, with target production for 2016 of approximately 80 percent of nameplate capacity, or approximately 2.4 million tonnes. Our actual production was 2.2 million tonnes in 2016, with production impacted by a turnaround to address certain post-expansion deficiencies. We expect to further ramp up capacity utilization rates at the facility in 2017.
- Cash cost of product manufactured per tonne continued to decrease at the Vanscoy facility as we ramped up additional production and benefited from the weakening Canadian dollar. We expect to see further reductions in the cash cost of product manufactured per tonne as the facility moves closer to full production levels.
- The construction of the 610,000-tonne urea plant at our Borger facility was successfully completed at the end of 2016. Commissioning of the plant has started, with production expected in the first quarter of 2017. The construction was completed on time and on budget, as per the revised project scope announced in mid-2015.



# WHOLESALE >> FINANCIAL RESULTS

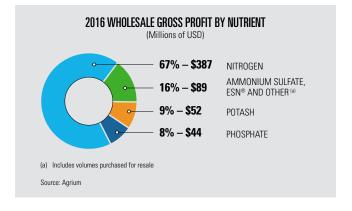
Wholesale performance

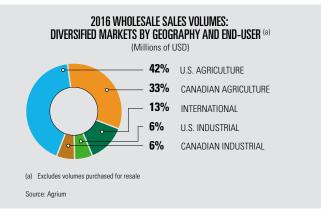
| 2016  | 2015   |
|-------|--|
| 2,706 | 3,602  |
| 2,134 | 2,421  |
| 572   | 1,181  |
|       |  |
| 32    | 36   |
| 30    | 39   |
| (61)  | 10   |
| 62    | 23   |
| 509   | 1,073  |
| 751   | 1,284  |
|       | 2,706<br>2,134<br>572<br>32<br>30<br>(61)<br>62<br>509 |

Wholesale gross profit in 2016 was lower than the previous year due to the significant decline in global nutrient prices this year. The resulting decline in sales was partly offset by a reduction in our cost of production across all nutrients and higher potash sales volumes this year.

- Cost of product sold was lower compared to 2015 due to lower natural gas and other input costs, improved operating rates and efficiencies at our nitrogen and phosphate facilities, and the further weakening of the Canadian dollar.
- Total Wholesale expenses in 2016 were lower than in 2015, with selling and general and administrative costs benefiting from the fixed cost review we conducted in 2016. We realized higher earnings from associates and joint ventures in 2016, which pertain to our interests in the nitrogen facilities in Egypt and Argentina and are accounted for in expenses. Our 26 percent interest in MOPCO reported \$35-million, net of tax, in equity earnings in 2016 compared to a \$5-million equity loss in 2015. The improvement in earnings was primarily a result of the Egyptian pound devaluation in the fourth quarter of 2016, and partly due to higher production from the expanded facilities. Our 50 percent interest in Profertil reported a \$26-million equity gain in 2016 compared to a \$5-million equity loss in 2015 due to improved economic conditions in Argentina and \$21-million reversal of a gas tariff provision.

• Other expenses were higher in 2016, due to the benefit of the recognized gains of \$55-million in 2015 that resulted from the sale of our West Sacramento and non-core Purchase for Resale terminals.







# NITROGEN >> FINANCIAL RESULTS

#### Nitrogen performance

|   | 2016         |                                       |                      |              | 2015                                  |                      |
|---|--------------|---------------------------------------|----------------------|--------------|---------------------------------------|----------------------|
| (millions of U.S. dollars, except as noted) | Consolidated | Equity<br>accounted<br>joint ventures | Total <sup>(a)</sup> | Consolidated | Equity<br>accounted<br>joint ventures | Total <sup>(a)</sup> |
| Sales                                       | 1,144        | 196                                   | 1,340                | 1,530        | 194                                   | 1,724                |
| Cost of product sold                        | 757          | 164                                   | 921                  | 801          | 178                                   | 979                  |
| Gross profit                                | 387          | 32                                    | 419                  | 729          | 16                                    | 745                  |

<sup>(</sup>a) Wholesale measures including share of joint ventures.

#### Nitrogen performance

|   |         | 2016  |       |       |         | 2015  |       |       |
|---|---------|-------|-------|-------|---------|-------|-------|-------|
|   | Ammonia | Urea  | Other | Total | Ammonia | Urea  | Other | Total |
| Tonnes sold ('000)                              | 1,165   | 1,620 | 817   | 3,602 | 1,209   | 1,583 | 864   | 3,656 |
| Selling price per tonne (U.S. dollars)          | 402     | 294   | 244   | 318   | 530     | 395   | 305   | 418   |
| Cost of product sold per tonne (U.S. dollars)   |         |       |       | 211   |         |       |       | 219   |
| Margin per tonne (U.S. dollars)                 |         |       |       | 107   |         |       |       | 199   |
| Tonnes produced (a) ('000)                      | 2,720   | 1,895 |       |       | 2,653   | 1,780 |       |       |
| Cash COPM per tonne (U.S. dollars)              | 130     | 113   |       |       | 145     | 134   |       |       |
| Capacity utilization (b) (%) (2016 Target: 98%) | 95      |       | •     |       | 94      |       | •     |       |

<sup>(</sup>a) Gross production, before transfers.

### Nitrogen gross profit

 Nitrogen gross profit decreased by 47 percent in 2016 due to significantly lower realized selling prices, which were only partially offset by lower cost of product sold.

# Nitrogen sales volumes and operating rates

- · Our nitrogen product category primarily consists of urea, ammonia, UAN and industrial-grade ammonium nitrate. Urea is the highest volume nitrogen product sold globally and accounted for 45 percent of Agrium's nitrogen sales in 2016.
- Agrium improved its nitrogen operating rates in 2016, with ammonia capacity utilization of 95 percent in 2016 compared to 94 percent in 2015. The improvement reflects our continued focus on reliability of the plants and steps we have taken to increase operational performance. However, the 2016 rate was still below our target of 98 percent capacity utilization.

# **Nitrogen prices**

• The 24 percent decrease in average realized nitrogen selling price per tonne reflects lower benchmark nitrogen prices throughout 2016. Benchmark prices for international urea and North American ammonia and UAN solutions were down between 25 and 40 percent in 2016 compared

# Nitrogen product and gas cost

- The decrease in cost of product sold was due to lower average natural gas costs in 2016 as well as our focus on cost reduction and the further weakening of the Canadian dollar during the year. Our average natural gas costs declined by 15 percent in 2016 compared to 2015.
- Production asset depreciation and amortization expense of \$22 per tonne in 2016 (compared to \$19 per tonne in 2015) is included in cost of product sold.

<sup>(</sup>b) Excludes results from Joffre nitrogen facility. As of January 1, 2016, ammonia capacity has been adjusted for normal outages and planned maintenance, with prior period comparative figures restated.

- In February 2017 we entered into additional natural gas hedge positions for the next three years under our existing long-term hedge program. As a result, we have hedged approximately 67 percent of our expected North American natural gas needs for 2017 at an average cost of approximately \$2.50 per MMBtu. This includes our industrial business, which accounts for approximately 20 percent of our total nitrogen sales and, because it is largely on a costplus contract, is not at risk of gas price fluctuations.
- For 2018 and 2019 we have hedged approximately 36 percent and 25 percent, respectively, of expected natural gas requirements at approximately \$2.60 per MMBtu and \$2.00 per MMBtu (excluding the industrial business).

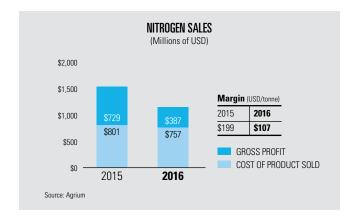
#### Natural gas prices: North American indices and North American Agrium prices

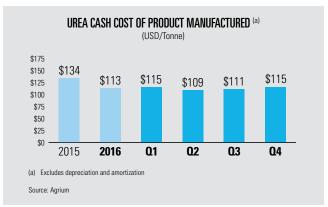
| (U.S. dollars per MMBtu)                              | 2016 | 2015 |
|---|------|------|
| NYMEX   | 2.44 | 2.67 |
| AECO  | 1.57 | 2.18 |
| Basis   | 0.87 | 0.49 |
| Wholesale   |      |      |
| Overall gas cost excluding realized derivative impact | 1.87 | 2.36 |
| Realized derivative impact                            | 0.29 | 0.18 |
| Overall gas cost (a)                                  | 2.16 | 2.54 |

(a) Weighted average gas price of all gas purchases, excluding our 50 percent share of the Profertil facility.

#### **Natural Gas Use**

|                              |                | U.S.            | International |                  |       |
|------------------------------|----------------|-----------------|---------------|------------------|-------|
| (Billion Cubic Feet ("BCF")) | Western Canada | (Borger, Texas) | (Profertil)   | Potash and other | Total |
| 2016                         | 89             | 16              | 15            | 2                | 122   |
| 2015                         | 84             | 19              | 14            | 1                | 118   |





# POTASH >> FINANCIAL RESULTS

#### **Potash performance**

|   |                  | 2016                                    |       |   | 2015          |       |
|---|------------------|---|-------|---|---------------|-------|
| (millions of U.S. dollars, except as noted) | North<br>America | International                           | Total | North<br>America                        | International | Total |
| Sales                                       | 257              | 162                                     | 419   | 374                                     | 141           | 515   |
| Cost of product sold                        |                  |   | 367   |   |               | 335   |
| Gross profit                                |                  |   | 52    |   |               | 180   |
| Tonnes sold ('000)                          | 1,187            | 1,052                                   | 2,239 | 1,133                                   | 601           | 1,734 |
| Selling price per tonne                     | 217              | 154                                     | 187   | 330                                     | 235           | 297   |
| Cost of product sold per tonne              |                  |   | 164   |   |               | 193   |
| Margin per tonne                            |                  |   | 23    |   |               | 104   |
| Tonnes produced ('000)                      |                  | ••••••••••••••••••••••••••••••••••••••• | 2,171 |   |               | 1,967 |
| Cash COPM per tonne                         |                  | ••••••••••••••••••••••••••••••••••••••• | 79    |   |               | 96    |
| Capacity utilization (2016 Target: 100%)    |                  | ••••••••••••••••••••••••••••••••••••••• | 88    | *************************************** | •             | 94    |

### **Potash gross profit**

 A considerable weakening in global potash benchmark prices in 2016 led to the decrease in potash gross profit though this was more than offset by lower production costs and higher production and sales volumes in 2016.

# Potash sales volumes and operating rates

• We continued to ramp up our expanded capacity at the Vanscoy facility in 2016, reaching 2.2 million tonnes of production compared to 2.0 million tonnes in 2015, while sales volumes of potash were up 29 percent in 2016. We achieved 88 percent capacity utilization (measured against our planned production) for the Vanscoy facility in 2016, which was lower than our planned target partly due to additional downtime we took to address deficiencies in the expansion of the facility.

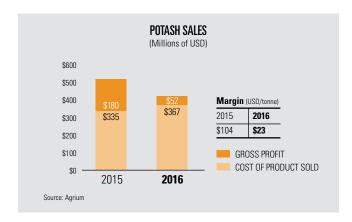
# **Potash prices**

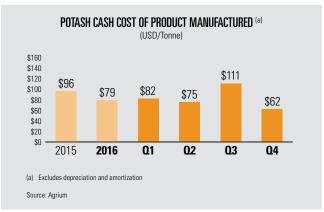
- North American and international benchmark potash prices continued to decline in 2016 as a result of competitive supply and demand fundamentals in the first half of the year. Global inventory levels were relatively high in the first half of 2016, particularly in China, which led to a delay in Chinese buyers signing annual supply agreements. This caused uncertainty in the global markets and resulted in other buyers delaying purchases until there was clearer price discovery in Chinese markets.
- Benchmark prices in the U.S. Corn Belt trended lower throughout the first half of 2016, averaging \$261 per tonne in 2016 compared to \$399 per tonne in 2015 and ending 2016 at \$281 per tonne. This directly impacted our realized selling price per tonne on domestic volumes.
- Our international prices are referenced at the mine site, thereby excluding transportation and distribution costs, while our North American sales are referenced at delivered prices and include transportation and distribution costs.



# **Potash product cost**

- The total cost of product sold for potash increased due to higher sales volumes during the year. However, the cost of product sold per tonne decreased due to fixed costs being distributed over greater production volumes and the impact of the lower value of the Canadian dollar against the U.S. dollar. Our production costs are reported as a weighted average of domestic and international sale volumes. A shift in relative weighting between these two end-markets can impact our reported average per tonne costs due to the inclusion of freight in the North American cost of goods sold. In 2016, 53 percent of our sales volumes were sold in the domestic market compared to 65 percent in 2015, which also contributed to lower overall cost of product sold per tonne.
- Cash cost of product manufactured per tonne excludes depreciation, amortization and freight, and costs are divided by total production tonnes rather than sales tonnes. In 2016, this measure decreased by 18 percent compared to 2015, reflecting improved efficiency at our Vanscoy facility and fixed costs being spread over greater volumes.
- Production asset depreciation and amortization expense was \$44 per tonne in 2016 (compared to \$42 per tonne in 2015) and is included in cost of product sold.





# PHOSPHATE >> FINANCIAL RESULTS

#### **Phosphate**

| (millions of U.S. dollars, except as noted)                 | 2016  | 2015  |
|---|-------|-------|
| Sales   | 567   | 741   |
| Cost of product sold  | 523   | 599   |
| Gross profit  | 44    | 142   |
| Tonnes sold ('000)  | 1,106 | 1,166 |
| Selling price per tonne                                     | 512   | 635   |
| Cost of product sold per tonne                              | 472   | 513   |
| Margin per tonne  | 40    | 122   |
| Phosphoric acid capacity utilization (%) (2016 Target: 96%) | 96    | 94    |

# **Phosphate gross profit**

• The decrease in phosphate gross profit in 2016 is due to a combination of substantially lower realized prices, and a slight decrease in sales volumes.

# **Phosphate sales volumes and** operating rates

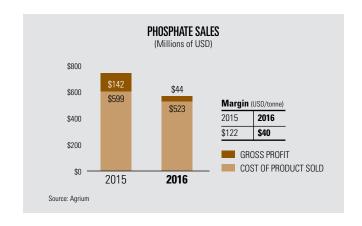
• We achieved strong operating rates at our Redwater and Conda facilities in 2016 - 91 percent and 101 percent, respectively. However, a slight reduction in demand led to sales volumes being 5 percent lower than in 2015.

# **Phosphate prices**

- · Our realized phosphate price represents a blend of phosphate products, with approximately 82 percent of our sales volumes in 2016 consisting of MAP and the remainder being higher-value SPA and MGA.
- The decrease in phosphate selling price was due to the decline in global benchmark pricing, which was reflected in our local market selling prices.

# Phosphate product cost

- Total cost of product sold decreased 13 percent due to the impact of lower costs for inputs such as phosphate rock, sulfur and ammonia, the weaker Canadian dollar lowering production costs at our Redwater facility, and lower fixed costs at both Redwater and Conda facilities. Cost of product sold per tonne declined by 8 percent compared to 2015 for similar reasons.
- · Production asset depreciation and amortization expense of \$50 per tonne in 2016 (compared to \$43 per tonne in 2015) is included in the cost of product sold.





# **ESN®**, AMMONIUM SULFATE AND OTHER WHOLESALE PRODUCTS >> FINANCIAL RESULTS

#### Wholesale Other

| (millions of U.S. dollars, except as noted) | 2016 | 2015  |
|---|------|-------|
| Sales                                       | 576  | 816   |
| Cost of product sold                        | 487  | 686   |
| Gross profit                                | 89   | 130   |
| Tonnes sold ('000)                          |      |       |
| Product purchased for resale                | 745  | 1,089 |
| Ammonium sulfate                            | 341  | 336   |
| ESN®  | 403  | 353   |
| Other                                       | 291  | 303   |
| Selling price per tonne                     |      |       |
| Product purchased for resale                | 288  | 366   |
| Ammonium sulfate                            | 268  | 330   |
| Cost of product sold per tonne              |      |       |
| Product purchased for resale                | 283  | 356   |
| Ammonium sulfate                            | 122  | 140   |
| Margin per tonne                            |      |       |
| Product purchased for resale                | 5    | 10    |
| Ammonium sulfate                            | 146  | 190   |

- Ammonium sulfate, ESN® and other gross profit decreased due to lower benchmark nutrient prices. Lower sales were partially offset by lower cost of product sold due to lower urea input costs and a weaker Canadian dollar.
- ESN® achieved slightly higher sales volumes due to increased market demand for this controlled-release nitrogen product and higher product availability during the year.
- Ammonium sulfate margin per tonne decreased due to lower selling prices that were only partially offset by lower manufacturing costs.
- Sales volume for product purchased for resale declined as we continue to scale back this lower-margin business.

# WHOLESALE >> QUARTERLY RESULTS

The agricultural sector is the primary market for our Wholesale business unit. As a result, the timing of sales fluctuates based on seasonal factors. The second quarter, which coincides with the spring application season in North America, is typically Wholesale's most important quarter from a sales volume and EBITDA perspective. The fourth quarter is also important in terms of sales volumes and EBITDA, as it encompasses the fall fertilizer application season in the northern hemisphere and the spring application season in Argentina. The first quarter is generally the weakest, as application and sales volumes are light in the northern hemisphere winter months.



# Wholesale quarterly performance

|   | 2016       |                                       |                                       |            |     | 2015                                  |       |     |  |
|---|------------|---------------------------------------|---------------------------------------|------------|-----|---------------------------------------|-------|-----|--|
| (millions of U.S. dollars, except as noted) | <b>Q</b> 4 | 03                                    | 02                                    | <b>Q</b> 1 | Q4  | Q3                                    | 02    | Q1  |  |
| Sales – external                            | 464        | 396                                   | 635                                   | 447        | 649 | 518                                   | 848   | 612 |  |
| Sales – inter-segment                       | 193        | 122                                   | 247                                   | 202        | 239 | 155                                   | 326   | 255 |  |
| Total sales                                 | 657        | 518                                   | 882                                   | 649        | 888 | 673                                   | 1,174 | 867 |  |
| Cost of product sold                        | 523        | 434                                   | 681                                   | 496        | 568 | 455                                   | 765   | 633 |  |
| Gross profit                                | 134        | 84                                    | 201                                   | 153        | 320 | 218                                   | 409   | 234 |  |
| Gross profit (%)                            | 20         | 16                                    | 23                                    | 24         | 36  | 32                                    | 35    | 27  |  |
| Nitrogen                                    |            |                                       |                                       |            |     |                                       |       |     |  |
| Sales                                       | 285        | 215                                   | 394                                   | 250        | 367 | 295                                   | 553   | 315 |  |
| Cost of product sold                        | 200        | 156                                   | 246                                   | 155        | 181 | 165                                   | 283   | 172 |  |
| Gross profit                                | 85         | 59                                    | 148                                   | 95         | 186 | 130                                   | 270   | 143 |  |
| Tonnes sold ('000)                          | 954        | 739                                   | 1,168                                 | 741        | 912 | 760                                   | 1,223 | 761 |  |
| Selling price (per tonne)                   | 298        | 291                                   | 337                                   | 338        | 403 | 388                                   | 451   | 414 |  |
| Cost of product sold (per tonne)            | 209        | 212                                   | 210                                   | 209        | 199 | 217                                   | 231   | 226 |  |
| Margin (per tonne)                          | 89         | 79                                    | 127                                   | 129        | 204 | 171                                   | 220   | 188 |  |
| Potash                                      |            |                                       |                                       |            |     |                                       |       |     |  |
| Sales                                       | 105        | 88                                    | 135                                   | 91         | 175 | 107                                   | 166   | 67  |  |
| Cost of product sold                        | 84         | 87                                    | 119                                   | 77         | 112 | 65                                    | 98    | 60  |  |
| Gross profit                                | 21         | 1                                     | 16                                    | 14         | 63  | 42                                    | 68    | 7   |  |
| Tonnes sold ('000)                          | 590        | 496                                   | 697                                   | 456        | 656 | 384                                   | 509   | 185 |  |
| Selling price (per tonne)                   | 179        | 178                                   | 194                                   | 199        | 267 | 279                                   | 327   | 361 |  |
| Cost of product sold (per tonne)            | 143        | 175                                   | 172                                   | 168        | 171 | 171                                   | 193   | 324 |  |
| Margin (per tonne)                          | 36         | 3                                     | 22                                    | 31         | 96  | 108                                   | 134   | 37  |  |
| Phosphate                                   |            |                                       |                                       | ······     |     | 100                                   |       |     |  |
| Sales                                       | 144        | 133                                   | 160                                   | 130        | 199 | 169                                   | 192   | 181 |  |
| Cost of product sold                        | 136        | 122                                   | 155                                   | 110        | 162 | 138                                   | 163   | 136 |  |
| Gross profit                                | 8          | 11                                    | 5                                     | 20         | 37  | 31                                    | 29    | 45  |  |
| Tonnes sold ('000)                          | 303        | 278                                   | 305                                   | 220        | 325 | 269                                   | 290   | 282 |  |
| Selling price (per tonne)                   | 475        | 478                                   | 526                                   | 589        | 610 | 629                                   | 665   | 639 |  |
| Cost of product sold (per tonne)            | 449        | 439                                   | 508                                   | 499        | 495 | 514                                   | 563   | 481 |  |
| Margin (per tonne)                          | 26         | 39                                    | 18                                    | 90         | 115 | 115                                   | 102   | 158 |  |
| Ammonium sulfate, ESN® and other            |            |                                       |                                       |            | 110 | 110                                   | 102   |     |  |
| Sales                                       | 86         | 53                                    | 141                                   | 81         | 94  | 53                                    | 159   | 112 |  |
| Cost of product sold                        | 66         | 40                                    | 108                                   | 62         | 61  | 40                                    | 118   | 80  |  |
| Gross profit                                | 20         | 13                                    | 33                                    | 19         | 33  | 13                                    | 41    | 32  |  |
| Tonnes sold ('000)                          | 277        | 172                                   | 374                                   | 212        | 251 | 143                                   | 340   | 258 |  |
| Product purchased for resale                | LII        | 1/2                                   | 3/4                                   | 212        | 231 | 140                                   | 340   |     |  |
| Sales                                       | 37         | 29                                    | 52                                    | 97         | 53  | 49                                    | 104   | 192 |  |
| Cost of product sold                        | 37         | 29                                    | 53                                    | 92         | 52  | 43                                    | 103   | 185 |  |
| Gross profit                                | 3/         |                                       | (1)                                   | 5          | 1   | 2                                     | 103   | 7   |  |
| Tonnes sold ('000)                          | 140        | 107                                   | · · · · · · · · · · · · · · · · · · · |            |     | · · · · · · · · · · · · · · · · · · · | 282   |     |  |
|   | 149        | · · · · · · · · · · · · · · · · · · · | 192                                   | 297        | 148 | 111                                   |       | 548 |  |
| Selling price (per tonne)                   | 243        | 274                                   | 272                                   | 326        | 362 | 444                                   | 369   | 349 |  |
| Cost of product sold (per tonne)            | 248        | 268                                   | 277                                   | 310        | 356 | 424                                   | 367   | 336 |  |
| Margin (per tonne)                          | (5)        | 6                                     | (5)                                   | 16         | 6   | 20                                    | 2     | 13  |  |
| EBIT  | 149        | 61                                    | 180                                   | 119        | 287 | 174                                   | 380   | 232 |  |
| EBITDA                                      | 216        | 118                                   | 254                                   | 163        | 352 | 221                                   | 429   | 282 |  |

# OTHER NON-OPERATING SEGMENT 2016 RESULTS

"Other" is a non-operating segment comprising corporate and administrative functions that provide support and governance to our operating business units. Other is also used to eliminate purchase and sale transactions between our Retail and Wholesale business units so each business unit can be evaluated independently.

Expenses included in EBIT of our non-operating segment primarily comprise general and administrative costs at our headquarters in Calgary, Alberta, share-based payments, and other expenses such as regulatory compliance and foreign exchange gains and losses.

Other EBIT increased by \$8-million in 2016 compared to 2015 primarily due to:

- \$58-million higher gross profit recovery as a result of lower inter-segment inventory held at the end of 2016
- A decrease of \$38-million in general and administrative and other costs as a result of our Operational Excellence initiatives

This was partially offset by:

- Merger and related costs of \$31-million
- Litigation settlements and related fees of \$18-million
- Information Technology outsourcing costs of \$14-million
- Impairment loss of \$15-million in an international investment



# 2017 AGRICULTURAL AND CROP INPUT MARKET OUTLOOK

Grain prices remained under pressure in 2016, due primarily to record high U.S. yields of corn, soybeans and wheat over the past few years. Robust demand helped to offset a portion of the increase in supply, as U.S. corn exports are up significantly year-over-year and ethanol production has been historically strong. U.S. soybean exports also benefited from lower export supplies from South America early in the 2016-17 marketing year. A key driver of corn and soybean prices in 2017 will be the level of production of corn and soybeans from South America, particularly given the recent easing or elimination of export taxes on grains and oilseeds in Argentina. Given the continued significant growth in global demand for grain and oilseeds, any weather shocks in a major producing region have the potential to increase crop prices significantly in 2017.

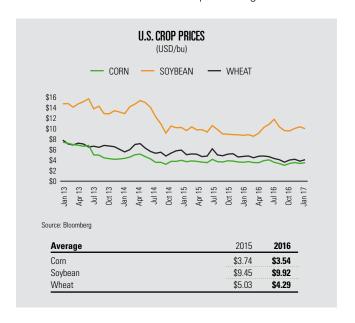
Relatively low grower margins, particularly on cash-rented land, are expected to challenge crop expenditures in 2017, barring any major weather event. Crop input prices remain at affordable levels relative to crop revenue; however, growers will continue to look for ways to reduce discretionary expenditures and optimize their use of inputs. Lower corn area and reduced crop nutrient prices are expected to pressure crop input expenditures in 2017. We expect total crop nutrient demand to be down 2 percent to 3 percent in the U.S. in the 2016-17 marketing year. Crop protection demand was affected by limited insect pressure in 2016, and expenditures were negatively impacted by lower herbicide prices.

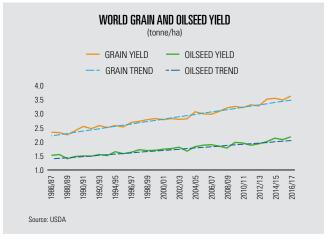
# **Crop Protection Product Market Drivers**

- Crop protection product expenditures in 2016 were pressured by lower prices and, in some cases, lower application rates of fungicides and insecticides due to the combination of tight grower margins, limited pest pressure and strong growing conditions.
- A return to more normal growing conditions in the second half of 2017 would support increased fungicide and insecticide applications. Anecdotally, there were reports of significant yield losses in cases where growers reduced fungicide applications in 2016.
- · Demand for non-glyphosate herbicides is expected to continue to be supported by efforts to combat glyphosate resistant weeds, and in 2017 the introduction of dicamba tolerant soybeans is expected to support demand for that active ingredient.
- · After declining over the past couple years, technical glyphosate prices have shown some improvements which could support selling prices in 2017.

# Seed Market Drivers

- North American expenditures on seed in 2017 are expected to be impacted by lower acreage of corn in favor of soybeans, which have a lower per-acre price.
- Increased acreage of cotton and canola in North America in 2017 is expected to offset some of the negative impact of lower corn acreage.
- Over the past couple of growing seasons, U.S. growers have looked for opportunities to reduce seed expenditures by being more selective regarding trait selection. We expect this will continue to limit seed expenditure growth in 2017.





# **Nitrogen Market Outlook**

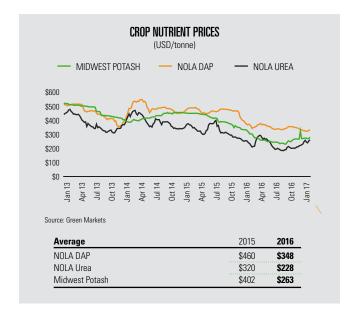
- Global nitrogen capacity additions are projected to exceed demand growth in 2017 as a number of new North American projects come on-line.
- Tightness in Chinese export supplies driven by increased coal costs may offset a significant portion of the new capacity additions or at least increase the marginal cost of production.
- North American nitrogen buyers were cautious throughout most of 2016 due to anticipation of new domestic production, much of which was delayed until late 2016 or early 2017. With fertilizer year-to-date urea imports down significantly, the significant remaining U.S. import requirement as well as tightened Chinese export supplies are expected to support the urea market in the beginning of 2017.
- Once the new capacity is on stream, the change in trade flows may put temporary pressure on U.S. nitrogen prices following the spring season in 2017, as U.S. imports slow and exports of some products increase – particularly UAN exports, which surpassed one million tonnes in 2016.
- Global nitrogen demand increased by an estimated 2 percent in 2016, and we expect demand growth of approximately 2 percent in 2017.

# **Potash Market Outlook**

- The global potash market was pressured in the first half of 2016 by the delay in contracts with China and India, which resulted in many buyers being extremely cautious on purchases and drawing upon inventories as much as possible until contracts were in place.
- Once China and India settled contracts early in the third quarter of 2016, significant volumes of pent-up demand emerged and the market tightened in the second half of 2016.
- Since much of the volume from shipments in the second half of 2016 were applied in the field, we expect demand in the first half of 2017 to be robust.
- Producer inventories at the beginning 2017 are expected to be lower than in 2016, and we expect a relatively tight global supply and demand balance.
- However, new projects will begin to ramp up in 2017, which will keep buyers tentative.
- Timing of Chinese and Indian contracts is always a source of uncertainty. Until contracts and the timing of negotiations are settled, these pose additional risks in 2017.
- Overall global potash capacity utilization is projected to remain relatively flat in 2017, with some tightness expected in the first half of the year.
- Global potash deliveries are projected to increase to between 60 million and 62 million tonnes in 2017 from 59 million tonnes in 2016.

# **Phosphate Market Outlook**

- The phosphate market was supply-driven throughout 2016, as India carried high inventories of DAP, leading to weak import demand throughout the year.
- Chinese DAP/MAP exports declined by close to 20 percent from the record 10.7 million tonnes in 2015 to 8.9 million tonnes in 2016.
- Morocco expanded exports in 2016 and is projected to further increase supplies to the export market in 2017.
- The Ma'aden Wa'ad Al-Shamal project in Saudi Arabia may also start to be available in the second half of 2017.
- The prices of ammonia and sulfur key inputs for phosphate production – were weak throughout 2016, which further pressured prices; however, the price of both products has increased from second half 2016 lows.
- Global phosphate demand was up approximately 1 percent in 2016 compared to 2015 levels but is projected to increase by approximately 2 percent in 2017.





# Consolidated Overview and 2016 Results

# **Consolidated Performance**

#### **Selected annual information**

| (millions of U.S. dollars, except per share amounts)            | 2016   | 2015   | 2014   |
|---|--------|--------|--------|
| Sales   | 13,665 | 14,795 | 16,042 |
| Cost of product sold  | 10,270 | 10,907 | 12,490 |
| Gross profit  | 3,395  | 3,888  | 3,552  |
| Expenses  | 2,297  | 2,272  | 2,392  |
| Earnings before finance costs and income taxes                  | 1,098  | 1,616  | 1,160  |
| Finance costs related to long-term debt                         | 204    | 181    | 62     |
| Other finance costs   | 74     | 71     | 70     |
| Earnings before income taxes                                    | 820    | 1,364  | 1,028  |
| Income taxes  | 224    | 376    | 230    |
| Net earnings from continuing operations                         | 596    | 988    | 798    |
| Net loss from discontinued operations                           | -      | -      | (78)   |
| Net earnings  | 596    | 988    | 720    |
| Attributable to:  |        |        |        |
| Equity holders of Agrium  | 592    | 988    | 714    |
| Non-controlling interest  | 4      | -      | 6      |
| Net earnings  | 596    | 988    | 720    |
| Earnings per share attributable to equity holders of Agrium     |        |        |        |
| Basic and diluted earnings per share from continuing operations | 4.29   | 6.98   | 5.51   |
| Basic and diluted loss per share from discontinued operations   | -      | -      | (0.54) |
| Basic and diluted earnings per share                            | 4.29   | 6.98   | 4.97   |
| Total assets  | 16,963 | 16,377 | 17,108 |
| Non-current financial liabilities                               |        |        |        |
| Long-term debt  | 4,398  | 4,513  | 3,559  |
| Other non-current financial liabilities                         | 29     | 50     | 39     |
| Total non-current financial liabilities                         | 4,427  | 4,563  | 3,598  |
| Dividends declared  | 484    | 478    | 435    |
| Dividends declared per share                                    | 3.50   | 3.41   | 3.03   |

### **SALES**

### 2016 vs. 2015

- Despite increased crop nutrients sales volumes, Retail's sales decreased in 2016 primarily as a result of lower crop nutrient selling prices. Competitive pricing pressures and volatile commodity markets affected our selling prices. On the other hand, increased corn and cotton acreages, improved political and economic environment in Argentina, and weather conditions supporting crop protection application increased sales for Retail.
- Wholesale's sales decreased in 2016 primarily as a result of lower realized selling prices for all products consistent with benchmark pricing. Overall sales volumes were higher compared to 2015, in particular for potash due to higher product availability as well as an increase in Agrium's Canpotex entitlement in 2016.

#### 2015 vs. 2014

- Retail's sales decreased due to unfavorable weather conditions and competitive pricing pressure resulting from lower crop prices.
- Wholesale sales for all three major crop nutrients increased as a result of higher sales volumes from higher nitrogen and potash product availability. Improved utilization rates increased product available for sale. Sales volume increases for our three major crop nutrients were offset by a decrease in sales of purchase for resale of \$523-million as we exited non-core, lower return portions of this business.

### **GROSS PROFIT**

#### 2016 vs. 2015

- · Retail's gross profit increased in 2016 primarily as a result of higher crop protection product and application sales, increase in proprietary products which have higher margins, increased supplier rebates and growing livestock business in Australia.
- Wholesale's gross profit decreased in 2016. Due to cost management efforts, lower input costs including natural gas, and higher utilization rates for ammonia and phosphoric acid, Wholesale was able to reduce its cost of product sold across all major product lines. This was not sufficient, however, to offset the lower realized selling prices.

### 2015 vs. 2014

- Unfavorable weather conditions and lower crop input prices resulted in lower gross profit for Retail.
- Manufacturing cost efficiencies, a weaker Canadian dollar, lower natural gas input costs and higher sales volumes across all three major crop nutrients combined to drive a significant increase in Wholesale's gross profit despite lower nutrient benchmark prices.

### **NET EARNINGS FROM CONTINUING OPERATIONS**

#### 2016 vs. 2015

· Net earnings from continuing operations decreased as a result of lower nutrient benchmark prices, which in turn resulted in lower selling prices. Our cost of product sold and our selling and general administrative expenses decreased in 2016 as a result of our cost reduction efforts, lower input costs for most of our products, and higher utilization rates for ammonia and phosphoric acid; however, this was not enough to offset the decrease in our sales.

#### 2015 vs. 2014

 Despite lower nutrient benchmark prices, our net earnings from continuing operations increased by \$190-million. The increase reflects improved gross margins primarily as a result of manufacturing cost efficiencies, lower natural gas input costs and reduced operating expenses related to our Operational Excellence program.

#### Expenses

### Expenses breakdown

| (millions of U.S. dollars)                         | 2016  | 2015  |
|--|-------|-------|
| Selling  | 1,914 | 1,921 |
| General and administrative                         | 242   | 268   |
| Share-based payments                               | 55    | 51    |
| (Earnings) loss from associates and joint ventures | (66)  | 4     |
| Other expenses                                     | 152   | 28    |
|  | 2,297 | 2,272 |

- · Substantially all of our selling expenses were incurred by our Retail business unit. Selling expenses decreased due to lower sales, lower marketing and office-related expenses due to tighter cost control measures across all regions, and lower rolling stock expense due to lower fuel costs. Retail selling expenses as a percentage of sales were similar to 2015.
- General and administrative expenses decreased by \$26-million (10 percent) as a result of organization-wide cost control measures.
- Earnings from associates and joint ventures increased in 2016 as a result of the devaluation of the Egyptian pound which led to a \$35-million foreign exchange gain in MOPCO (net of tax), higher urea sales, increased plant efficiency and lower natural gas costs in Profertil, and an increase in earnings from our share of Profertil's reversal of a gas tariff provision of \$21-million.

#### Other expenses breakdown

| (millions of U.S. dollars)  | 2016 | 2015 |
|---|------|------|
| Loss on foreign exchange and related derivatives and commodity derivatives not designated as hedges | 13   | 8    |
| Interest income   | (66) | (68) |
| Gain on sale of assets  | -    | (55) |
| Asset impairment  | 15   | 19   |
| Environmental remediation and asset retirement obligations  | 10   | 16   |
| Bad debt expense  | 35   | 32   |
| Potash profit and capital tax   | 12   | 16   |
| Merger and related costs  | 31   | -    |
| Litigation settlements and related fees   | 18   | -    |
| Outsourcing costs   | 14   | -    |
| Other   | 70   | 60   |
|   | 152  | 28   |

The increase in other expenses reflects the following:

- In 2016, we incurred costs related to our proposed merger with PotashCorp aggregating to \$31-million, legal settlements and related fees of \$18-million, Information Technology outsourcing costs of \$14-million, and costs of \$8-million related to the termination of a distribution agreement with one of our U.S. distributors.
- In 2015, we recorded gains on the sale of our Niota and Meredosia storage and distribution facilities and West Sacramento product upgrading facility. We had no similar gain in the current year.

# **DEPRECIATION AND AMORTIZATION**

#### Depreciation and amortization by business unit

| (millions of U.S. dollars) |                      | 2010    | 6                          |       |                      | 2015    |                            |       |
|----------------------------|----------------------|---------|----------------------------|-------|----------------------|---------|----------------------------|-------|
|                            | Cost of product sold | Selling | General and administrative | Total | Cost of product sold | Selling | General and administrative | Total |
| Retail                     | 6                    | 263     | 5                          | 274   | 6                    | 244     | 4                          | 254   |
| Wholesale                  |                      |         |                            |       |                      |         |                            |       |
| Nitrogen                   | 74                   | -       | 1                          | 75    | 71                   | -       | 1                          | 72    |
| Potash                     | 99                   | -       | -                          | 99    | 71                   | -       | -                          | 71    |
| Phosphate                  | 55                   | -       | -                          | 55    | 51                   | -       | -                          | 51    |
| Other (a)                  | 12                   | -       | 1                          | 13    | 14                   | -       | 3                          | 17    |
|                            | 240                  | -       | 2                          | 242   | 207                  | -       | 4                          | 211   |
| Other                      | -                    | -       | 16                         | 16    | -                    | -       | 15                         | 15    |
| Total                      | 246                  | 263     | 23                         | 532   | 213                  | 244     | 23                         | 480   |

<sup>(</sup>a) Includes product purchased for resale, ammonium sulfate, ESN® and other products

• Depreciation and amortization expenses increased in 2016 as we increased our sales volumes from the ramp-up of production at our Vanscoy potash facility (for which we calculate such expense on a units of production basis) and from additional depreciation and amortization from our Retail acquisitions.

### **FINANCE COSTS**

• Finance costs increased by \$26-million in 2016 compared to 2015 as a result of lower capitalized interest related to the ramp-up of our Vanscoy potash facility in 2015.

#### **INCOME TAXES**

- The effective tax rate of 27 percent for 2016 is lower than the tax rate 28 percent for 2015 due to an increase in earnings from associates and joint ventures, which are reported net of income tax.
- · Changes in statutory income tax rates, our mix of earnings, tax allowances and realization of unrecognized tax assets among the jurisdictions in which we operate can impact our overall effective tax rate. Further details of the year-over-year variances in these rates for the years ended December 31, 2016 and 2015, are provided in note 7 of the Notes to the Consolidated Financial Statements.

# **Sensitivity Analysis**

Our financial results are sensitive to a number of factors that affect our operations and resulting net earnings. The following table sets out the impact of changes in some key variables on our earnings based on activity levels for the year ended December 31, 2016.

#### SENSITIVITY ANALYSIS

Consolidated and business unit sensitivity impact to EBIT, net earnings and net earnings per diluted share

| (millions of U.S. dollars, except as noted) | Change<br>in factor | Sales<br>impact | EBIT<br>impact | Net earnings<br>impact <sup>(f)</sup> | Net earnings<br>per diluted<br>share impact <sup>(f)</sup> |
|---|---------------------|-----------------|----------------|---------------------------------------|--|
| Retail (a)                                  |                     |                 |                |                                       |  |
| Crop nutrients                              | 1.00%               | 223             | 43             | 31                                    | 0.23   |
| Crop protection products                    | 1.00%               | 198             | 47             | 34                                    | 0.25   |
| Seed  | 1.00%               | 74              | 15             | 11                                    | 0.08   |
| Merchandise                                 | 1.00%               | 36              | 6              | 4                                     | 0.03   |
| Wholesale (b)                               |                     |                 |                |                                       |  |
| Nitrogen <sup>(c)</sup>                     | \$10.00             | 107             | 36             | 26                                    | 0.19   |
| Potash <sup>(d)</sup>                       | \$10.00             | 143             | 11             | 8                                     | 0.06   |
| Phosphate                                   | \$10.00             | 179             | 22             | 16                                    | 0.12   |
| Natural gas <sup>(e)</sup>                  | \$0.50              | N/A             | 45             | 33                                    | 0.24   |
| Consolidated                                |                     |                 |                |                                       |  |
| Exchange rate from CAD to USD               | \$0.01              | 19              | -              | -                                     | -  |

- (a) Change in factor is gross profit as a percentage of sales.
- (b) Change in factor is margin per metric tonne of North American Wholesale produced sales.
- (c) This excludes the impact of natural gas sensitivity described in footnote (e) below.
- (d) This excludes the impact of potash production tax and resource surcharge.
- (e) Wholesale's sensitivity to a \$0.50/MMBtu change in natural gas prices. The sensitivity assumes no change to the price spread between U.S. and Alberta natural gas and excludes the impact of natural gas derivatives and industrial ammonia sales, which are on a gas index-plus margin basis.
- This is based on a tax rate of 27.3 percent and 138 million weighted average outstanding shares.

#### **MARGINS**

#### Retail

Retail product margins are normally more stable than Wholesale margins as Retail tends to be more of a cost-plus margin business than Wholesale. However, several factors can influence Retail margins. For example, nutrient margins are impacted by price volatility between the time we purchase the product and the time we sell the product to the grower, as well as price volatility driven by the relative timing of our competitors' nutrient purchases relative to our purchases. Fluctuations in commodity prices affect the types of crops planted, resulting in different crop input needs and, more significantly, affecting growers' decisions on the timing of the application levels and rates of our products. Weather conditions can create significant fluctuations in the timing of Retail's sales and the related margins based on the ability to plant or harvest and the associated application of inputs. Finally, crop protection and seed margins are influenced annually by changes in the value of chemicals and by newer seed varieties.

#### Wholesale

Nitrogen cost of product sold is affected by changes in North American natural gas prices, and nitrogen prices are impacted by changes in global nitrogen supply and demand. The combination of these market fluctuations impacts our nitrogen margins. Fluctuations in the cost of raw material inputs such as phosphate rock, sulfur and ammonia affect our phosphate margins. Foreign trade policies and buying strategy affect global supply and demand, which in turn influence potash pricing and margins. Our capacity utilization also affects our nitrogen, potash and phosphate margins. Wholesale's purchase for resale margins are impacted by price volatility of a crop nutrient between the time we purchase the product and the time we sell it to the customer.

#### **FOREIGN EXCHANGE**

The international currency of the agribusiness industry is the U.S. dollar. Accordingly, we use the U.S. dollar as our reporting currency. We conduct business primarily in U.S. and Canadian dollars. We also have some exposure to the Argentine peso, Australian dollar, euro and Egyptian pound. Fluctuations in these currencies can impact our financial results.

# **Quarterly Results of Operations**

The agricultural products business is seasonal. Consequently, year-over-year comparisons are more appropriate than quarterover-quarter comparisons. Crop input sales are primarily concentrated in the spring and fall crop input application seasons. Crop nutrient inventories are normally accumulated leading up to each application season. Our cash collections generally occur after the application season is complete, and our customer prepayments are concentrated in December and January.

Our share-based payments fluctuate quarterly based on changes in our share price and our share performance relative to our peers.

|  |  | ormation |
|--|--|----------|
|  |  |          |
|  |  |          |

|   | 2016       | 2016   | 2016  | 2016      | 2015  | 2015  | 2015       | 2015  |
|---|------------|--------|-------|-----------|-------|-------|------------|-------|
| (millions of U.S. dollars, except per share amounts)                | <b>Q</b> 4 | 03     | 02    | <b>Q1</b> | Q4    | Q3    | <b>Q</b> 2 | Q1    |
| Sales   | 2,280      | 2,245  | 6,415 | 2,725     | 2,407 | 2,524 | 6,992      | 2,872 |
| Cost of product sold  | 1,532      | 1,677  | 4,890 | 2,171     | 1,507 | 1,828 | 5,284      | 2,288 |
| Gross profit  | 748        | 568    | 1,525 | 554       | 900   | 696   | 1,708      | 584   |
| Expenses  |            |        |       |           |       |       |            |       |
| Selling   | 480        | 446    | 574   | 414       | 465   | 441   | 585        | 430   |
| General and administrative  | 65         | 60     | 62    | 55        | 74    | 61    | 66         | 67    |
| Share-based payments  | 33         | 5      | 13    | 4         | 15    | (15)  | 6          | 45    |
| (Earnings) loss from associates and joint ventures                  | (35)       | (3)    | (23)  | (5)       | (5)   | 10    | (1)        | -     |
| Other expenses (income)   | 43         | 47     | 51    | 11        | 27    | 8     | 26         | (33)  |
| Earnings before finance costs and income taxes                      | 162        | 13     | 848   | 75        | 324   | 191   | 1,026      | 75    |
| Total finance costs   | 72         | 66     | 70    | 70        | 73    | 55    | 68         | 56    |
| Income taxes  | 23         | (14)   | 213   | 2         | 51    | 37    | 283        | 5     |
| Net earnings (loss)   | 67         | (39)   | 565   | 3         | 200   | 99    | 675        | 14    |
| Attributable to:  |            |        |       |           |       |       |            |       |
| Equity holders of Agrium  | 67         | (41)   | 564   | 2         | 201   | 101   | 674        | 12    |
| Non-controlling interest  | -          | 2      | 1     | 1         | (1)   | (2)   | 1          | 2     |
| Earnings (loss) per share attributable to equity holders of Agrium: |            |        |       |           |       |       |            |       |
| Basic and diluted   | 0.49       | (0.29) | 4.08  | 0.02      | 1.45  | 0.72  | 4.71       | 0.08  |
| EBITDA  | 303        | 145    | 993   | 189       | 459   | 306   | 1,145      | 186   |
| Dividends declared  | 121        | 120    | 122   | 121       | 121   | 120   | 125        | 112   |
| Dividends declared per share  | 0.875      | 0.875  | 0.875 | 0.875     | 0.875 | 0.875 | 0.875      | 0.780 |

Significant factors affecting the comparability of quarterly results include the following:

#### 2016

- · Earnings from associates and joint ventures increased in the second quarter as we recorded our share of Profertil's reversal of a gas tariff provision. The devaluation of the Egyptian pound in the fourth quarter led to a foreign exchange gain of \$35-million in our investment in MOPCO (net of tax).
- Under other expenses (income), we recorded the following expenses:
  - Costs of \$8-million related to the termination of a distribution agreement with one of our U.S. distributors in the second quarter.
  - Aggregate fees of \$17-million and \$14-million in the third and fourth quarter, respectively, in connection with the proposed Arrangement.
  - Information Technology outsourcing costs of \$7-million for each of the third and fourth quarters.
  - Asset impairment of \$15-million related to an international investment in the fourth quarter.

# 2015

- Under the other expenses (income), we recorded the following:
  - Gain on sale of assets of \$38-million and \$17-million in the first and fourth quarter, respectively, related to our disposal of Purchased for Resale assets and our West Sacramento facility.
  - Goodwill impairment of \$19-million from our Wholesale Europe operations in the fourth quarter.
- Starting in the fourth quarter of 2015, our finance costs increased as a result of lower capitalized interest related to our Vanscoy and Borger capital expenditure projects.

# **Financial Condition**

# 2016 VS. 2015

The following are changes to the financial condition of our consolidated balance sheet for the year ended December 31, 2016.

#### Detailed halance sheet analysis

| Detailed balance sheet analysis              |                      |                      |           |          |   |
|--|----------------------|----------------------|-----------|----------|---|
| (millions of U.S. dollars, except as noted)  | December 31,<br>2016 | December 31,<br>2015 | \$ Change | % Change | Explanation of the change in balance  |
| Assets                                       |                      |                      |           |          |   |
| Cash and cash equivalents                    | 412                  | 515                  | (103)     | (20%)    | See discussion in the section "Liquidity and Capital Resources".  |
| Accounts receivable                          | 2,208                | 2,053                | 155       | 8%       | Increases in Retail related to growth in the business were partially offset by lower balances in Wholesale from lower selling prices — a result of lower commodity benchmark pricing. |
| Income taxes receivable                      | 33                   | 4                    | 29        | 7%       | -   |
| Inventories                                  | 3,230                | 3,314                | (84)      | (3%)     | Crop nutrient inventories in Retail were down due to declining commodity benchmark pricing.   |
| Prepaid expenses and deposits                | 855                  | 688                  | 167       | 24%      | Pre-purchased seed inventory in Retail has increased.   |
| Other current assets                         | 123                  | 144                  | (21)      | (15%)    | -   |
| Property, plant and equipment                | 6,818                | 6,333                | 485       | 8%       | Investing and sustaining additions and additions from business acquisitions were partially offset by reductions related to depreciation.  |
| Intangibles                                  | 566                  | 632                  | (66)      | (10%)    | Additions were more than offset by reductions related to amortization.  |
| Goodwill                                     | 2,095                | 1,980                | 115       | 6%       | Increase was due to growth in our<br>Retail business unit from acquisitions.  |
| Investments in associates and joint ventures | 541                  | 607                  | (66)      | (11%)    | -   |
| Other assets                                 | 48                   | 54                   | (6)       | (11%)    | -   |
| Deferred income tax assets                   | 34                   | 53                   | (19)      | (36%)    | <u>-</u>  |
| Total assets                                 | 16,963               | 16,377               | 586       | 4%       |   |

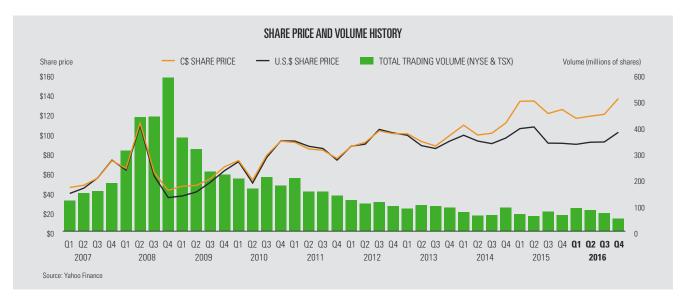
#### **Detailed balance sheet analysis**

| (millions of U.S. dollars, except as noted) | December 31,<br>2016 | December 31,<br>2015 | \$ Change | % Change | Explanation of the change in balance  |
|---|----------------------|----------------------|-----------|----------|---|
| Liabilities                                 |                      |                      |           | -        | -   |
| Short-term debt                             | 604                  | 835                  | (231)     | (28%)    | Decrease was due to lower financing requirements for capital investments and repayments supported by positive operating cash flows. |
| Accounts payable                            | 4,662                | 3,919                | 743       | 19%      | Increase relates to extension of supplier payments and to an increase in crop protection purchases.                                 |
| Income taxes payable                        | 17                   | 82                   | (65)      | (79%)    | Decrease in Canadian tax payable in 2016.   |
| Long-term debt                              | 4,508                | 4,521                | (13)      | (0%)     | -   |
| Post-employment benefits                    | 141                  | 124                  | 17        | 14%      | -   |
| Other provisions                            | 381                  | 421                  | (40)      | (10%)    | -   |
| Other liabilities                           | 68                   | 85                   | (17)      | (20%)    | -   |
| Deferred income tax liabilities             | 408                  | 383                  | 25        | 7%       | -   |
| Total liabilities                           | 10,789               | 10,370               | 419       | 4%       |   |
| Shareholders' equity                        | 6,174                | 6,007                | 167       | 3%       |   |

# **SHAREHOLDERS' EQUITY**

Shareholders' equity was \$6.2-billion at December 31, 2016 – an increase of \$167-million compared to December 31, 2015. The change is the result of the following:

- Net earnings of \$592-million attributable to equity holders of Agrium.
- A \$59-million decrease in accumulated foreign currency translation loss due a stronger Canadian dollar period-end exchange rate relative to the U.S. dollar.
- Offset by dividend declarations of \$484-million during the year.



### **DIVIDENDS**

In 2014 and 2015, the Board approved the following dividend increases:

#### **Dividend increases**

| Approval date    | Dividends declared<br>per share | Frequency | Dividends declared<br>per share on an<br>annualized basis |
|------------------|---------------------------------|-----------|---|
| November 3, 2014 | \$0.78                          | Quarterly | \$3.12  |
| May 5, 2015      | \$0.875                         | Quarterly | \$3.50  |

#### **Dividends declared**

| millions of U.S. dollars, except per share amounts) |           |                  |       | December 31,      |           |                  |       |
|---|-----------|------------------|-------|-------------------|-----------|------------------|-------|
|   | 2010      | 6                |       |                   | 2015      |                  |       |
| Declared  |           | Paid to          |       | Declared          |           | Paid to          |       |
| Effective   | Per share | shareholders     | Total | Effective         | Per share | shareholders     | Total |
| February 24, 2016                                   | 0.875     | April 21, 2016   | 121   | February 24, 2015 | 0.780     | April 16, 2015   | 112   |
| May 3, 2016   | 0.875     | July 21, 2016    | 122   | May 5, 2015       | 0.875     | July 16, 2015    | 125   |
| August 3, 2016                                      | 0.875     | October 20, 2016 | 120   | August 6, 2015    | 0.875     | October 15, 2015 | 120   |
| December 16, 2016                                   | 0.875     | January 19, 2017 | 121   | December 10, 2015 | 0.875     | January 21, 2016 | 121   |
|   | 3.50      |                  | 484   |                   | 3.41      |                  | 478   |

Until completion of the Arrangement, under the Arrangement Agreement, we are permitted to pay, without the written permission of PotashCorp, in respect of its shares, a dividend not in excess of U.S. \$0.875 per share per quarter consistent with its current practice and in accordance with the terms and timing prescribed in the Arrangement Agreement.

Following completion of the Arrangement and subject to market conditions and the approval of the Board of Directors of New Parent at the time of completion of the Arrangement, it is expected that New Parent will establish a dividend payment equal to the current level, adjusted for the number of New Parent shares outstanding. See "Proposed Transactions" and our 2016 AIF under "Item 5.2 Risk Factors – Risks Related to the Operations of New Parent Following the Arrangement – The amount of any dividends to be paid by New Parent following the Arrangement will not be guaranteed".

# SHARE REPURCHASES

Pursuant to the Arrangement Agreement, we are restricted from purchasing our outstanding shares prior to completion of the Arrangement. No shares were repurchased under the Normal Course Issuer Bid in 2016 or the period from January 1, 2017 to February 18, 2017. During 2015, we purchased for cancellation 5,574,331 shares at an average share price of \$100.25.

# **Outstanding Share Data**

The number and principal amount of our outstanding shares at February 17, 2017, were as follows:

#### Outstanding shares at February 17, 2017

|               | Number<br>of shares | Market<br>value |
|---------------|---------------------|-----------------|
| Common shares | 138,176,000         | \$14-billion    |

At February 17, 2017, the number of stock options outstanding (issuable assuming full conversion, where each option granted can be exercised for one common share) was approximately 937,528.

# **Liquidity and Capital Resources**

Agrium generally expects to be able to meet its working capital requirements, capital resources needs, including specific Arrangement-related costs, and shareholder returns through a variety of sources, including available cash on hand, cash provided by operations, short-term borrowings from the issuance of commercial paper (CP), and borrowings from our credit facilities and securitization program, as well as long-term debt and equity capacity from the capital markets. Depending on the nature, timing and extent of any liquidity requirements, we may consider expanding existing sources of financing or accessing other sources of financing.

#### Sources and uses of cash

| (millions of U.S. dollars)                                   | 2016    | 2015    | Change |
|--|---------|---------|--------|
| Cash provided by operating activities                        | 1,667   | 1,663   | 4      |
| Cash used in investing activities                            | (1,016) | (1,503) | 487    |
| Cash used in financing activities                            | (687)   | (573)   | (114)  |
| Effect of exchange rate changes on cash and cash equivalents | (67)    | 80      | (147)  |
| Decrease in cash and cash equivalents                        | (103)   | (333)   | 230    |

| Our cash provided by operating activities is slightly higher in 2016 due to:  |  |  |  |
|---|--|--|--|
| <ul> <li>Increased cash flows from net changes in non-cash working capital of \$548-million, primarily due to the timing of payments to our suppliers in our Retail business unit</li> </ul>  |  |  |  |
| <ul> <li>Dividends of \$108-million were received from Profertil in 2016</li> </ul>   |  |  |  |
| These increases to our cash flows from operations were largely offset by:   |  |  |  |
| <ul> <li>A \$392-million decrease in net earnings attributed primarily to lower realized selling prices for<br/>all products in our Wholesale business unit</li> </ul>  |  |  |  |
| <ul> <li>Higher income tax installment payments of \$180-million due to higher Canadian final tax<br/>payments made in 2016 vs 2015</li> </ul>  |  |  |  |
| Our cash used in investing activities decreased by \$487-million as a result of lower capital expenditures on our Vanscoy potash facility and Borger project. This was partially offset by increased cash used in business acquisitions in Retail.                                  |  |  |  |
| Our cash used in financing activities increased by \$114-million due to the net changes in short-term and long-term financing draws in 2016. The decrease in cash flows resulting from the repayment of debt was partially offset by not undertaking any share repurchases in 2016. |  |  |  |
|   |  |  |  |

### CASH POSITION

Our year-end cash balance was \$412-million in 2016 and \$515-million in 2015. We do not hold material cash balances in currencies other than the U.S. dollar, Canadian dollar and Australian dollar. We held approximately \$20-million U.S. dollar equivalent in Australia. We do not depend on repatriation of cash from our foreign subsidiaries to meet our domestic liquidity and capital resources needs.

### FREE CASH FLOW

#### Free cash flow

| (millions of U.S. dollars)              | 2016  | 2015  |
|---|-------|-------|
| Cash provided by operating activities   | 1,667 | 1,663 |
| Net changes in non-cash working capital | (455) | 93    |
| Sustaining capital expenditures         | (359) | (541) |
| Free cash flow                          | 853   | 1,215 |

The decrease in free cash flow from \$1,215-million in 2015 to \$853-million in 2016, is a result of lower cash provided from our operations, partially offset by lower sustaining capital expenditures. Decreased nutrient selling prices combined with lower sales volumes resulted in lower net earnings. We benefited from improved utilization rates, cost savings from Operational Excellence initiatives and lower natural gas input costs.

### **WORKING CAPITAL**

#### Working capital breakdown

| (millions of U.S. dollars) | 2016  | 2015  |
|----------------------------|-------|-------|
| Current assets             | 6,861 | 6,718 |
| Current liabilities        | 5,452 | 4,929 |
| Working capital            | 1,409 | 1,789 |

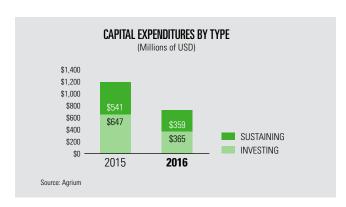
We use our working capital to settle our operating expenses, including payments of our inventories and short-term debt and current portion of long-term debt. The decrease in our working capital in 2016 is primarily due to extension of payments to suppliers.

As of December 31, 2016, we have sufficient current assets to meet our current liabilities. See the discussion of current assets in the section "Financial Condition" for more information on the drivers of this change in working capital and "Quarterly Results of Operations" for a discussion of the seasonality of our business.

# **CAPITAL EXPENDITURES AND SPENDING**

Sustaining capital expenditures include the cost of replacements and betterments for our facilities. Our sustaining capital expenditures decreased in 2016 primarily from reduced spending, as we had a turnaround at Redwater in 2015.

Investing capital expenditures typically include significant expansion of existing operations or new acquisitions. Our investing capital expenditures decreased in 2016 primarily due to the lower costs incurred at our Vanscoy potash facility combined with decreased spending on the Borger project in 2016.



#### Capital spending and expenditures by business unit (a)

| (millions of U.S. dollars) | 2016  | 2015  |
|----------------------------|-------|-------|
| Retail                     |       |       |
| Sustaining                 | 111   | 141   |
| Investing                  | 50    | 37    |
|                            | 161   | 178   |
| Acquisitions (b)           | 342   | 127   |
|                            | 503   | 305   |
| Wholesale                  |       |       |
| Sustaining                 | 244   | 388   |
| Investing                  | 312   | 604   |
|                            | 556   | 992   |
| Other                      |       |       |
| Sustaining                 | 4     | 12    |
| Investing                  | 3     | 6     |
|                            | 7     | 18    |
| Total                      |       |       |
| Sustaining                 | 359   | 541   |
| Investing                  | 365   | 647   |
|                            | 724   | 1,188 |
| Acquisitions (b)           | 342   | 127   |
|                            | 1,066 | 1,315 |

Excludes capitalized borrowing costs

Represents business acquisitions and includes acquired working capital; property, plant and equipment; intangibles; goodwill; and investments in associates and joint ventures

# **Future Cash Requirements**

## CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Our aggregate contractual obligations for continuing operations at December 31, 2016 are set out in the table below.

#### Contractual and other obligations (a)

|   | Payment due by period |                    |                    |                      |        |
|---|-----------------------|--------------------|--------------------|----------------------|--------|
| (millions of U.S. dollars)                | Less than one year    | One to three years | Four to five years | More than five years | Total  |
| Operating                                 |                       |                    |                    |                      |        |
| Long-term debt – interest                 | 219                   | 404                | 366                | 2,411                | 3,400  |
| Operating leases                          | 139                   | 177                | 106                | 171                  | 593    |
| Purchase obligations (b)                  | 827                   | 215                | 104                | 380                  | 1,526  |
| Derivative financial instruments          | 7                     | 16                 | -                  | -                    | 23     |
| Other commitments                         | 487                   | 108                | 38                 | 25                   | 658    |
| Total operating obligations               | 1,679                 | 920                | 614                | 2,987                | 6,200  |
| Capital                                   |                       |                    |                    |                      |        |
| Long-term debt – principal repayments     | 210                   | 500                | -                  | 3,925                | 4,635  |
| Asset retirement obligations (c)          | 9                     | 25                 | 28                 | 160 <sup>(d)</sup>   | 222    |
| Environmental remediation liabilities (c) | 41                    | 28                 | 22                 | 51                   | 142    |
| Total capital obligations                 | 260                   | 553                | 50                 | 4,136                | 4,999  |
| Total                                     | 1,939                 | 1,473              | 664                | 7,123                | 11,199 |

<sup>(</sup>a) Our post-employment benefits obligation is not included in this table. Refer to note 8 of the Notes to the Consolidated Financial Statements for additional information

#### Long-term Debt

Long-term debt consists primarily of debentures. Failure to maintain certain financial ratios in respect of our credit facilities and other covenants in our various debt instruments may trigger early repayment provisions. See the discussion in the section "Debt Instruments, Capital Management and Ratings".

# **Operating Leases**

Operating lease commitments consist primarily of leases for railcars and contractual commitments at distribution facilities in our Wholesale business unit, vehicles and application equipment in our Retail business unit, and office equipment and property leases throughout our operations. The commitments represent the minimum payments under each agreement.

# **Purchase Obligations**

Purchase obligations include minimum commitments for North American natural gas purchases, which include both floating rate and fixed rate contracts, and are calculated using the prevailing NYMEX forward prices for U.S. facilities and AECO forward prices for Canadian facilities at December 31, 2016.

Profertil has long-term gas contracts denominated in U.S. dollars, expiring in 2017. These contracts account for approximately 65 percent of Profertil's gas requirements. YPF S.A. ("YPF"), our joint venture partner in Profertil, supplies approximately 33 percent of the gas under these contracts.

We have a power co-generation agreement for our Carseland facility that expires on December 31, 2026. The maximum commitment under this agreement is to purchase 60 megawatt-hours of power per hour through 2026. 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 provided to the facility for power generation.

<sup>(</sup>b) Commitments include our proportionate share of commitments of joint ventures.

<sup>(</sup>c) Represents the undiscounted, estimated cash outflows

<sup>(</sup>d) This figure does not include estimated asset retirement obligations related to our potash operations. See the discussion in the section "Asset retirement obligations".

Our Redwater, Alberta facility produces sulfur and phosphate-based fertilizers and sources rock through a long-term supply agreement with OCP. This agreement entails a minimum commitment to purchase phosphate rock which extends to 2018. We had the option to extend the agreement to 2020 with any potential subsequent volumes to be determined in 2016. In 2016, we notified OCP that we would not be nominating any volumes past 2018. Purchase prices are based on a formula derived from the global price for finished phosphate products. We entered into a freight contract to import phosphate rock extending through 2019, with a total outstanding commitment of \$84-million at December 31, 2016.

In addition to amounts disclosed in the preceding table, future capital expenditures include approximately \$70-million of pre-commissioning and commissioning costs related to the Borger, Texas, nitrogen expansion project.

# **Asset Retirement Obligations**

Our mining, extraction, processing and distribution activities result in asset retirement obligations that are part of our normal course of operations. Such retirement obligations include closure, dismantlement, site restoration or other legal or constructive obligations for termination and retirement of assets. Expenditures may occur before and after closure. We expect to incur expenditures for our phosphate obligations over the next 57 years. We expect to make payments for our potash and nitrogen obligations after that time. The discounted estimated cash outflows required to settle the asset retirement obligations is \$231-million at December 31, 2016.

#### **Environmental Remediation Liabilities**

We establish provisions for environmental expenditures that relate to existing conditions caused by past operations that do not contribute to current or future revenue generation. We capitalize environmental expenditures that extend the life of the property, increase its capacity, or mitigate or prevent contamination from future operations. The discounted estimated cash outflows required to settle the environmental remediation liabilities is \$141-million at December 31, 2016.

# Merger with PotashCorp

We expect the costs to be incurred by Agrium and PotashCorp with respect to the Arrangement and related matters to aggregate approximately \$140-million.

The Arrangement Agreement contains provisions that restrict Agrium's and PotashCorp's ability to pursue alternatives to the Arrangement and, in specified circumstances, Agrium or PotashCorp could be required to pay the other party a non-completion fee of \$485-million or \$50-million as reimbursement for related expenses. See "Proposed Transactions".

### **FUTURE CAPITAL EXPENDITURES**

# Sustaining Capital Expenditures

In 2017, our sustaining capital is expected to be approximately \$500-million to \$550-million for a number of large projects planned for the year, including the following:

- Reliability projects for Wholesale manufacturing facilities
- Wholesale resource development projects
- Risk management and risk reduction projects
- Planned turnaround inspection and overhaul at certain Wholesale facilities
- · Spending at our Retail operations in North and South America and Australia

### **Investing Capital Expenditures**

Our investing capital program planned for 2017 is expected to be approximately \$150-million to \$200-million and includes the following:

- Pre-commissioning and commissioning costs related to the Borger urea project
- · Retail investments in growth and efficiency opportunities

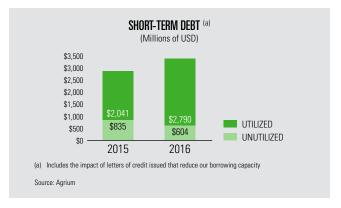
We anticipate that we will be able to finance the announced projects through a combination of cash from operating activities, existing lines of credit (see the discussion in the section "Debt Instruments, Capital Management and Ratings" for further details) and funds available from new debt or equity securities offerings.

Until the completion of the Arrangement, under the Arrangement Agreement, Agrium is restricted from taking certain specified actions without the consent of PotashCorp, including incurring capital expenditures. See our 2016 AIF under "Item 5.2 Risk Factors -Risks Related to the Arrangement - While the Arrangement is pending, Agrium is restricted from taking certain actions".

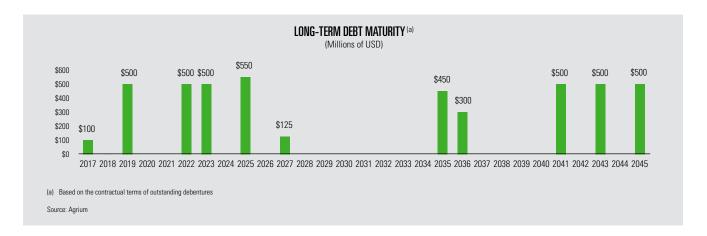
# **Debt Instruments, Capital Management and Ratings**

### **DEBT INSTRUMENTS**

Short-term debt consists mainly of U.S. dollar-denominated CP issued in Canada and the U.S., as well as various bank lines of credit for our operations in Europe, South America and Australia. We utilize a \$2.5-billion multi-jurisdictional facility, of which \$2.4-billion is allocated to North America and \$100-million is available for use in Australia. At December 31, 2016, we had not drawn on our North American tranche, and Australian tranche draws totaled \$87-million. We also had \$307-million of CP outstanding at December 31, 2016, at a weighted average interest rate of 1.05 percent. Amounts borrowed under the CP program reduce our borrowing capacity under the multijurisdictional facility. In addition, we have a \$500-million



accounts receivable securitization program. At December 31, 2016, we had not drawn on the program. For our international operations, we had credit facilities of approximately \$394-million, of which \$210-million was outstanding at December 31, 2016, including \$53-million in Europe, \$48-million in Australia and \$109-million in South America.



Refer to note 17 of the Notes to the Consolidated Financial Statements for further information on our short-term debt and long-term debt.

### **CAPITAL MANAGEMENT**

Refer to note 3 of the Notes to the Consolidated Financial Statements for further information on our capital management policies.

#### Multi-jurisdictional facility covenants

| Limit                             | 2016 |
|-----------------------------------|------|
| Interest coverage ratio (a) ≥ 2.5 | 5.9  |
| Debt-to-capital ratio (b) ≤ 0.65  | 0.45 |

<sup>(</sup>a) Calculated as the last 12 months' EBITDA divided by finance costs, which include interest on long-term debt plus other finance costs

We have met these covenants as at December 31, 2016 and December 31, 2015.

<sup>(</sup>b) Calculated as total adjusted debt divided by the sum of total adjusted debt and total equity. For purposes of this ratio, total adjusted debt is calculated as the sum of short-term debt, long-term debt, guarantees and letters of credit (specified in credit facility agreements), net of cash and cash equivalents.

#### DEBT RATINGS

We provide the following information regarding Agrium's credit ratings as it relates to our financing costs, liquidity and operations. Specifically, credit ratings affect Agrium's ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current rating on our debt by the rating agencies, particularly a downgrade below investment grade, or a negative change in the outlook for the Company could adversely affect Agrium's cost of financing and our access to sources of liquidity and capital.

#### Debt ratings breakdown

| Rating agency                      | Date of affirmation | Long-term<br>debt rating | USD commercial paper | Ratings outlook             |
|------------------------------------|---------------------|--------------------------|----------------------|-----------------------------|
| Standard & Poor's Ratings Services | September 13, 2016  | BBB                      | A-2                  | CreditWatch Positive        |
| Moody's Investors Service          | September 15, 2016  | Baa2                     | P-2                  | Under Review<br>for Upgrade |

Following the announcement of our Arrangement Agreement with PotashCorp, Standard & Poor's changed its outlook from "stable" to "under review with positive implications". Moody's rating outlook is currently under review for possible upgrade. Refer to our 2016 AIF in the section "Item 7 - Description of Capital Structure - 7.3 Debt Ratings" for further information on our ratings, including ratings definitions.

# **Off-balance Sheet Arrangements**

#### **GUARANTEES**

We are contractually obligated to reimburse Canpotex - an industry association of which we are a one-third owner - for our 10.3 percent pro-rata share of any operating losses or other liabilities incurred. There were no such losses in 2016, and we believe the probability of conditions arising that would further trigger this guarantee is remote. Reimbursements, if any, would be made through reductions of our cash receipts from Canpotex.

# Financial Instruments

#### RISK MANAGEMENT

In the normal course of business, our balance sheet, results of operations and cash flows are exposed to various risks. Annually, the Board approves a strategic plan that takes into account the opportunities and major risks of our business and mitigating factors to reduce these risks. The Board sets upper limits on the amounts and time periods over which management may manage risk using derivative financial instruments. Our Corporate Financial Risk Committee reviews risk management policies and procedures annually and monitors compliance with these limits and associated exposure - management activity. We manage risk in accordance with our Global Exposure Management Policy, whose objective is to reduce volatility in cash flows and earnings.

Our derivative financial instruments and the nature of the risks to which they are, or may be, subject are set out in the following table:

#### **Derivative financial instruments**

|   | Risks                              |   |   |   |
|---|------------------------------------|---|---|---|
|   | Currency Commodity Price Credit Li |   |   |   |
| Foreign currency forward, swap and option contracts | Х                                  |   | Х | X |
| Natural gas swaps                                   |                                    | Χ | Х | Χ |

Refer to note 4 of the Notes to the Consolidated Financial Statements for further information on our financial instruments.

# **Enterprise Risk Management**

## WE MANAGE RISKS TO OUR ENTERPRISE

In the normal course of operations, our business activities expose us to risk. Acceptance of certain risks is both necessary and advantageous in achieving our growth targets and our vision. We focus on long-term results while managing related risks and uncertainties. Our risk management structure strives to ensure sound business decisions that balance risk and reward, while driving maximum shareholder return.

### RISK METHODOLOGY

Through Agrium's structured Enterprise Risk Management (ERM) process, senior management, business units and corporate functions seek to identify and manage risks facing our business. Once identified, risks and related mitigation strategies are evaluated, documented and reviewed on an "evergreen" basis, with a formal review and quarterly sign-off. Many of these risks cross business units and corporate functions. In these cases, the aggregate risk to Agrium is considered and an overall corporate risk is monitored and assessed. The senior leadership team develops additional mitigation strategies for implementation where residual risk - the risk that remains after taking existing mitigation strategies into account - is deemed unacceptably high.

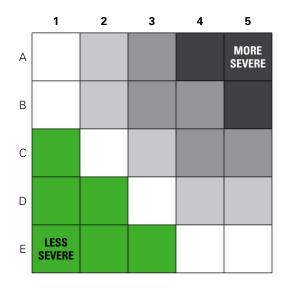
The risks we identify are assigned to six categories: strategic, financial, operational, market, environmental and political.

### **RISK-RANKING MATRIX**

Agrium uses a risk matrix to assess the potential impact of risk events based on their expected frequency and consequences:

- We assess consequence based on the potential aggregate impact of a risk event on three areas: (a) company reputation, (b) our financial health and (c) the environment and the health and safety of our employees and external parties.
- Frequency represents how often a consequence related to a risk is expected to occur. It is akin to probability of loss from the risk.

#### AGRIUM'S RISK MATRIX



#### **Frequency Rating**

- 1 Highly Improbable (> 20 years)
- 2 Improbable (10 20 years)
- **3** Remote (5 10 years)
- 4 Probable (1 5 years)
- **5** Frequent (annually)

#### **Consequence Rating**

- **A** Catastrophic
- **B** Grave
- **C** Significant
- **D** Moderate
- **E** Modest

# **RISK GOVERNANCE STRUCTURE**

At Agrium, we believe that effective risk management is crucial to successful execution of strategy and that everyone on the Agrium team plays a role in managing risk.

#### **Board of Directors**

- The Board governs risk management directly and through its committees.
- The Board is responsible for understanding our business's material risks and related mitigation strategies and for taking reasonable steps to ensure that management has an effective risk management process in place.
- Individual committees of the Board oversee specific risks relevant to their areas of responsibility. For example, the Audit Committee monitors the risk management process for financial risks; the Environment, Health, Safety and Security Committee monitors the process for managing environmental, health, safety and security (EHS&S) risks; and the Compensation Committee assesses risks in compensation programs.

#### Management

- Risks unique to our separate business units are managed by the presidents of those business units and their teams.
- Functional risks are managed by the corporate functional heads and their teams.

#### Chief Risk Officer

- Agrium has an appointed Chief Risk Officer (CRO). Responsible for maintaining an effective ERM process, the CRO monitors developments in risk management practices, drives improvements in Agrium's risk management philosophy, program and policies, and champions' development of a "best practice" risk management culture.
- . The CRO reports quarterly to the Board and senior management on all material risks, including new or increased risks resulting from changes in operations or external factors.
- The CRO also formally reports to the Board annually on the ERM process and material risks.

#### Governance Functions

 Agrium maintains several risk governance functions that contribute to our overall control environment, including Internal Audit. Corporate EHS&S, Legal, and the Internal Control and Compliance team.

### MATERIAL BUSINESS RISKS

Following is a discussion of certain material business risks facing Agrium. Further disclosure of material risks facing Agrium is provided in Agrium's 2016 AIF, which includes risks associated with the proposed Arrangement. Certain risks set out below and in the 2016 AIF may not be applicable, and Agrium and New Parent may be subject to additional risks, following completion of the Arrangement.

# **Product Price and Margin**

Agrium's operating results depend on product prices and margins, which in turn depend on demand for crop inputs. Among the factors that can affect demand for crop inputs are weather conditions, outlook for crop nutrient prices and farming economics, governmental policies, access of our customers to credit, and build-up of inventories in distribution channels.

The majority of our Wholesale nutrient business is a commodity business with little product differentiation. Product prices are largely affected by supply and demand conditions, input costs and product prices. Resulting margins can therefore be volatile.

Within our Wholesale business unit, we sell manufactured product, as well as product we have purchased for resale. Both components of the business are subject to margin volatility.

Our Retail business unit experiences relatively stable margins, which provide stability to our annual cash flows and earnings. Nonetheless, during times of significant price volatility, the factors above can affect margins to a certain degree.

#### Weather

Anomalies in regional weather patterns can have a significant and unpredictable impact on demand for our products and services. They may also impact prices. Our Retail customers have limited windows of opportunity to complete required tasks at each stage of crop cultivation. Should adverse weather occur during these seasonal windows, we could face the possibility of reduced sales in those seasons without the opportunity to recover until the following season. In addition, we face the significant risk of inventory carrying costs should our customers' activities be curtailed during their normal seasons. We must manufacture product throughout the year to meet peak season demand and to react quickly to changes in expected weather patterns that affect demand.

### **Unplanned Plant Downtime**

The results of our Wholesale business depend on the availability of our manufacturing facilities. Prolonged plant shutdown may significantly reduce product available for sale, may affect the environment and/or the community, and may cause injury to an employee or a member of the public.

#### Transportation

Reducing the delivered cost of product and ensuring reliability of product delivery to our customers are key success factors for our Wholesale marketing operations. Potential medium-term risks are the increased regulations and costs of transporting ammonia within North America given the safety concerns respecting transportation of this product.

# **Business Acquisitions and Expansions**

We face the risk that recent or future acquisitions could fail to fully deliver the expected economic benefits, or we may experience integration challenges that could result in delays in achieving some or all anticipated synergies and require the allocation of additional resources to integrate the acquired businesses. Similarly, expansions of existing facilities or greenfield developments undertaken may have higher capital construction costs or be delayed, or such projects may not generate the expected return on investment.

#### **Human Resources**

Long-term forecasts predict a tight labor market across many areas in which we operate due to changing demographics, including the general aging of the population. A tight labor market, including the associated risks of losing key individuals and difficulty attracting and retaining qualified personnel, is a risk to the business.

#### Raw Materials

Natural gas is the principal raw material used to manufacture nitrogen and is the single largest purchased raw material for our Wholesale operations. North American natural gas prices are subject to price volatility. An increase in the price of natural gas increases our nitrogen cost of production and may negatively impact margins for our North American nitrogen sales. This is particularly important for our nitrogen facilities in Western Canada and Borger, Texas, where we purchase gas on the open market. Higher production costs may be partially or fully reflected in higher domestic and international product prices, but these conditions do not always prevail. In addition, the price for natural gas in North America can vary significantly compared to prices in Europe and Asia. Significantly lower natural gas prices in Europe and/or Asia would give our competitors in Europe and Asia a competitive advantage, which could, in turn, decrease international and domestic product prices and reduce our margins.

The Profertil nitrogen facility faces risk concerning gas deliverability during winter due to strains on gas distribution and residential demand in Argentina. The Argentine government has at times reduced the amount of gas available to industrial users in favor of residential users during the peak winter demand season. Profertil may also not be able to renew its long-term gas supply contracts at favorable rates or at all.

Mining has inherent risks. For phosphate, variability in the quality of phosphate rock can impact cost and production volumes. Risks for potash mining include water intake or flooding as well as variability in quality, which can impact cost and production volumes.

### Counterparty

We face the risk of loss should a counterparty be unable to fulfill its obligations with respect to accounts receivable or other contracts, including derivative financial instruments.

# **Credit and Liquidity**

Our business depends on access to operating credit lines to fund our ongoing operations. Should overall credit liquidity in the markets be limited, our ability to operate under normal conditions could be impacted. For further discussion, see "Debt Instruments, Capital Management and Ratings – Debt Ratings".

#### Foreign Exchange

Currency risk arises from the revaluation of monetary foreign assets and liabilities in conjunction with currency volatility. Foreign monetary asset and liability balances primarily comprise intercompany loans and external short-term debt. A significant shift in the value of the Canadian dollar and/or Australian dollar against the U.S. dollar could impact reported earnings.

Additional currency risk stems from the translation of our foreign subsidiaries' statements of operations to U.S. dollars for consolidation at the parent level. Agrium's Wholesale business incurs costs in Canadian dollars and earns sales in Canadian and U.S. dollars. Additionally, Agrium's Canadian and Australian Retail segments operate in their respective local currencies, and results are subsequently translated into the presentation currency. A significant shift in the value of the Canadian dollar and/or Australian dollar against the U.S. dollar could impact reported earnings.

### Country

We have significant operations in Canada, the U.S. and Australia. We also operate in a number of South American and European countries, have business investments in Egypt, and depend on phosphate rock from Morocco. International business exposes us to a number of risks, such as uncertain economic conditions in the countries in which we do business, abrupt changes in foreign government policies and regulations, restrictions on the right to convert and repatriate currency, political risks, and the possible interruption of raw material supply due to transportation issues or government-imposed restrictions. We do not engage in business activities in any country that is a state sponsor of terrorism.

We hold a 26 percent interest in MOPCO, which operates a nitrogen facility in Egypt. Notwithstanding our representation on the Board of Directors and management of MOPCO, we may not be able to maintain significant influence over its operations. There is also a risk to the MOPCO nitrogen facility with respect to gas deliverability, as gas may be diverted for power generation as Egypt is seeing a growing demand for power.

Following its nationalization by the Argentine government in 2012, YPF, as the other 50 percent owner of the Profertil nitrogen facility, may have different business and economic interests or policy objectives under government management than in the past, which may be inconsistent with our interests as a 50 percent owner of that facility and which could adversely affect the profitability, financial condition and results of operations of the Profertil facility. During 2015, the Government of Argentina ended its currency

controls; however, Argentina is subject to economic uncertainty that could affect our ability to repatriate cash from that country. We do not depend on repatriation of cash from our foreign subsidiaries to meet our liquidity and capital resource needs.

# Legislative Risk

We are subject to legislation, regulation and government policies in the jurisdictions in which we operate. We cannot predict how these laws, regulations or policies or their interpretation, administration and enforcement will change over time, and it is possible that future changes could negatively impact our operations, markets or cost structure.

# Environment, Health, Safety And Security

We face EHS&S risks typical of those found throughout the agriculture, mining and chemical manufacturing sectors and the international fertilizer supply chain. These include the potential of physical injury to employees and contractors; possible environmental contamination and human exposure to chemical releases and accidents during manufacturing, mining, transportation, storage and use; and the security of our personnel, products, intellectual property and physical assets domestically and overseas from intentional acts of destruction, crime, violence, terrorism, and ethnic and international conflicts. In addition, there are risks of natural disasters and risks to health, including pandemic risk.

### Litigation Risk

Agrium, like any other business, is subject to the risk of becoming involved in disputes and litigation. Any material or costly dispute or litigation could adversely impact our consolidated financial position and results of operations. For further discussion, see "Provisions and Contingencies for Asset Retirement, Environmental and Other Obligations".

# **Provisions and Contingencies for Asset Retirement, Environmental and Other Obligations**

#### GENERAL NATURE OF PROVISIONS AND CONTINGENCIES

We are exposed to possible losses for environmental matters and other claims and lawsuits related to our current and acquired businesses. We expect our involvement in such matters to continue in the normal conduct of our business. We will represent our interests vigorously in all of the proceedings in which we are involved.

Legal proceedings and environmental matters are inherently complex, and we apply significant judgment in estimating probable outcomes. As a result, the potential exists for adjustments to liabilities and material variances between actual costs and estimates. We may not be able to make a reliable estimate of losses or the range of possible losses when claims do not specify an amount of damages sought, when there are numerous plaintiffs, or when a case is in its early stages.

#### OUR PROCEDURES FOR ASSESSING PROVISIONS AND CONTINGENCIES

We undertake a review process at each reporting period. Our process includes:

- Business unit and corporate staff review in consultation with in-house legal counsel and internal accounting professionals to determine whether current information available to us supports our estimates of the financial effect of new or existing matters and our related disclosures
- Consultation with external counsel where appropriate to corroborate business and in-house legal counsel's analysis and conclusions about the facts of each case and the status of litigation
- Discussion and correspondence with third parties
- Review of publicly available information for similar matters involving other companies

In assessing provisions and contingencies, we consider the need for accounting recognition and/or disclosure of existing and potentially new matters. Our assessment considers the probability of adverse judgments and the range of possible losses. We base our assessment of probable outcomes of matters on our judgment of a number of factors including:

- Similar past experience and history
- Precedents
- Relevant financial, scientific and other evidence of each matter
- Opinions from corporate and outside counsel

# **ACCOUNTING RECOGNITION OF PROVISIONS AND CONTINGENCIES UNDER IFRS** (INTERNATIONAL ACCOUNTING STANDARDS (IAS) 37)

| ikelihood of outcome of matter Probability of occurrence (policy) Acc |   | Accounting treatment            |
|---|---|---------------------------------|
| Probable  | More likely than not – greater than 50 percent  | Record a provision              |
| Possible but not probable   | 5 to 50 percent   | Disclose a contingent liability |
| Remote  | Less than 5 percent No disclosure required  |                                 |
| Key definitions   |   |                                 |
| Provision   | A liability of uncertain timing or amount, recorded when:  a) a present obligation exists as a result of a past event  b) it is probable that a future outflow of economic benefits will be required to settle the obligat  c) the amount of the obligation can be reasonably estimated   |                                 |
| Contingent liability  | Either:  a) a possible obligation that arises from past events and whose existence will be confirmed on future uncertain events not wholly within our control, or  b) a present obligation arising from past events that is not recognized because  i) a future outflow of resources to settle the obligation is not probable, or  ii) the amount of the obligation cannot be reliably measured |                                 |

IAS 37 also requires that we measure a provision at the present value of our best estimate of the expenditure required to settle the obligation and that we consider risks and uncertainties in measurement of provisions.

### **ENVIRONMENTAL REMEDIATION ACTIVITIES**

Some remediation activities at our sites are subject to the U.S. Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the U.S. Resource Conservation and Recovery Act (RCRA) and similar federal, state, provincial and local environmental laws. These laws provide for phases of remediation under regulatory oversight, which may include:

- Investigation
- Risk assessment
- · Remedy selection
- · Remedial design
- Remedial action, including construction
- Operation, maintenance and long-term monitoring
- Closure

Some of the above phases may require feasibility studies, analyses, plans, opportunities for public comment and inspections. Because of the complexity of the CERCLA and RCRA and other oversight processes, the time from identification of a matter through to closure may take several years.

#### Current developments – specific environmental and other matters

| Matter  | Developments in 2016  |
|---|---|
| Idaho phosphate mining and processing sites   |   |
| We are subject to investigations by U.S. federal and state agencies of existing and former phosphate mining and processing sites in Idaho. Nu-West Industries, Inc. ("Nu-West"), a wholly owned subsidiary of Agrium, has been notified of potential violations of federal and state statutes. Nu-West is working co-operatively with federal and state agencies and, depending on the site, is   | During 2016, Nu-West completed substantial remedial construction and investigative fieldwork for certain of the Idaho sites. Further remedial actions have not been determined for the sites. |
| in the investigation or risk assessment stage or has, for some sites, begun preliminary work under agreements with the agencies. Completion of investigations, risk assessments or preliminary work will enable Nu-West and the agencies to determine what, if any, remediation work will be required.  | In 2016, discussions between Nu-West and the trustees of U.S. federal and state agencies commenced to assess potential damages at the Idaho phosphate mining and processing sites.            |
| Manitoba mining properties  |   |
| In 1996, Agrium acquired Viridian Inc. ("Viridian"), which is now a wholly owned Canadian subsidiary of Agrium. Viridian has retained certain liabilities associated with the Fox Mine Site — a closed mineral processing site near Lynn Lake, Manitoba. Viridian is currently treating water draining from the site to meet provincial downstream water quality standards. Viridian has substantially completed the investigation phase of remediation and is currently in discussions with the Province of Manitoba regarding remedial alternatives selection. Concurrence and approval from the Province of a remedial design are expected within the next 12 to 36 months. For this matter, we have not disclosed information about the amount accrued for site remediation because disclosure of such information would seriously prejudice our position in discussions with the Province. | There were no material developments in 2016.  |

For the Idaho phosphate mining and processing sites and Manitoba mining properties matters described above, at the date of issuance of our 2016 Consolidated Financial Statements, we determined that we could not make a reliable estimate of the amount and timing of any financial effect in excess of the amounts accrued. Reasons for this determination include:

- · Complexity of the matters
- · Early phases of most proceedings
- Lack of information on the nature and timing of future actions in the matters
- · Dependency on the completion and findings of investigations and assessments
- · Lack of specific information as to the nature, extent, timing and cost of future remediation

Until we have greater clarity as to our liability and the extent of our financial exposure, it is not practical to make a reliable estimate of the financial effect. As negotiations, discussions and assessments proceed, we may provide estimates. Events or factors that could alleviate our current inability to make reliable estimates for these matters include:

- Further identification of allegations or demands
- Completion of remediation phases
- A ruling by a court or other regulatory body having jurisdiction
- Initiation of substantive settlement negotiations

Additional detail of specific litigation matters described above at the date of issuance of this MD&A is set out in our 2016 AIF in the section "Item 5.1 - Business of Agrium - 5.1 (h) Environmental Protection Requirements".

# **Environmental Protection Requirements**

Agrium's operations are subject to a variety of federal, provincial, state and local laws, regulations, licenses and permits, the purpose of which is to protect the environment. These environmental protection requirements may apply during design and construction, operation or modification, at the time of plant, facility or mine closure and beyond.

The environmental requirements for new projects typically focus on baseline site conditions; ensuring that the design and equipment selection meet construction and operating requirements; the satisfaction of permitting, preconstruction studies, discharge and other construction and operating requirements; and the use of appropriate safeguards during construction.

Licenses, permits and approvals at operating sites are obtained in accordance with applicable laws and regulations, which may limit or regulate operating conditions, rates and efficiency; land, water and raw material use and management; product storage, quality and transportation; waste storage and disposal; and emissions and other discharges. Additional legal requirements may apply in circumstances where site contamination predates the current applicable regulatory framework, where remediation is ongoing or where there is otherwise evidence that historic remediation activities have not been successful in protecting the environment. These additional requirements may result in an environmental remediation liability that must be resolved.

#### CLIMATE CHANGE AND GREENHOUSE GAS EMISSIONS

Directly and indirectly, Agrium generates greenhouse gas (GHG) emissions through the production, distribution and use of its products. These emissions may be subject to climate change policy and regulations being developed in North America. However, these policies are developing in a unique way within the various state, provincial, and federal jurisdictions.

The Government of Alberta has enacted the Specified Gas Emitters Regulation (SGER), which applies to three Agrium facilities in Alberta with carbon dioxide equivalent emissions in excess of 100,000 tonnes per year. The Climate Leadership Act came into force on January 1, 2017. The Act implements an economy-wide carbon levy on greenhouse gas emissions resulting from the combustion of fuels for heating and transportation as an alternative to SGER. Facilities regulated under the SGER are eligible to apply for an exemption from the levy as emissions are regulated and carbon costs are captured through the SGER program. A carbon levy exemption application has been submitted for our three SGER regulated facilities: Redwater, Carseland and Fort Saskatchewan.

The SGER imposes emission reduction requirements on regulated facilities and these requirements became more stringent over time. With the increased emission reduction stringency and compliance price in 2017, the expected SGER compliance cost is estimated to be between \$3-million and \$10-million in 2017.

In the fall of 2016, the federal government ratified the Paris Accord, negotiated under the UN Framework Convention on Climate Change. Pursuant to the Paris Accord, the parties committed, in a non-binding manner, to accelerate actions and investments needed to limit global average temperatures to below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C.

The federal government and each of the provinces, with the exception of Saskatchewan and Manitoba, jointly issued the Pan-Canadian Framework on Clean Growth and Climate Change ("Framework"). The Framework is the blueprint by which the federal government and the provinces will attempt to meet their previously agreed-upon target of a 30 percent reduction in GHG emissions from 2005 levels by 2030. The Framework provides a benchmark for carbon pricing throughout Canada. Elements of the Framework include all provincial jurisdictions being required to price carbon by 2018. However, provincial jurisdictions have the flexibility to implement a variety of carbon regimes, ranging from price-based regimes, such as a carbon tax, to performance-based emissions regimes to cap and trade. For jurisdictions with a price-based regime, the price should at least start at \$10/tonne in 2018 and rise by \$10/tonne/year to \$50/tonne by 2022. At this time, the impact of these various programs on Agrium's operations is unclear.

In the U.S., the EPA issued GHG emissions regulations pursuant to the Clean Air Act that establish a reporting program for emissions of carbon dioxide, methane and other GHGs, as well as a permitting program for certain large GHG emissions sources. While the U.S. Congress has considered various legislative initiatives to reduce or tax GHG emissions, to date it has not enacted any laws in that regard. However, if Congress undertakes comprehensive tax reform in the coming year, it is possible but unlikely that such reform could include a carbon tax. In August 2015, EPA issued regulations that required states to develop plans to limit GHG emissions from existing power plants with the goal of reducing GHG emissions by the power sector by 17 percent from 2005 levels by 2020 and by 32 percent from 2005 levels by 2030. In February 2016, the U.S. Supreme Court began implementing the EPA regulations addressing existing power plants (known as the Clean Power Plan) until pending legal challenges to these regulations are resolved. A decision from D.C. Circuit Court regarding the Clean Power Plan is expected in mid-2017; however, this decision is likely to be appealed to the U.S. Supreme Court. Pursuant to the stay, certain states have moved forward in implementing the Clean Power Plan, while others have halted work on developing plans. In light of the pending legal challenges and the new U.S. presidential administration, there is significant uncertainty regarding the implementation of these GHG regulations and likelihood of new or amended GHG regulations, and the potential impact on our business cannot be determined at this time.

Additional details on climate change and greenhouse gas emissions are included in our 2016 AIF "Item 5.1 – Business of Agrium – 5.1 (h) Environmental Protection Requirements".

# Controls and Procedures

## DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in our annual filings, interim filings (as these terms are defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted by us under provincial and territorial securities legislation is recorded, processed, summarized and reported within the required time periods. Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by the annual filings, being December 31, 2016, have concluded that, as of such date, our disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by Agrium in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is (a) recorded, processed, summarized and reported within the time periods specified in the securities legislation, and (b) accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and, as indicated in the preceding paragraph, the CEO and CFO believe that our disclosure controls and procedures are effective at that reasonable assurance level, although the CEO and CFO do not expect that the disclosure controls and procedures will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the design and effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this report based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). There was no change in our internal control over financial reporting in 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, the CEO and CFO concluded that as of December 31, 2016, we did maintain effective internal control over financial reporting.

The effectiveness of internal control over financial reporting as of December 31, 2016, was audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in this 2016 Annual Report to Shareholders.

# **Critical Accounting Estimates**

We prepare our financial statements in accordance with IFRS, which requires us to make judgments, assumptions and estimates in applying accounting policies. Critical estimates are those most subject to uncertainty and which have the most significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the following year.

In note 24 of the Notes to the Consolidated Financial Statements, we have described in detail the following accounting estimates, which are the most critical in helping readers understand and evaluate our reported financial results. In our Consolidated Financial Statements, we have also discussed assumptions underlying our estimates and factors that might impact our estimates.

These critical accounting estimates require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effects of matters that are inherently uncertain. We have set out below additional information on events, trends and uncertainties that could impact our estimates. As well, we have described the impact on our financial statements of a reasonably possible change in one assumption while holding all other assumptions constant.

#### Impairment testing

Sensitivity of the results of goodwill impairment testing to changes in assumptions is described in note 14 of the Notes to the Consolidated Financial Statements. If actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment that could be material. If key assumptions and estimates about our operations change, including lower than assumed sales growth, higher costs or other negative factors, we could record a material impairment to goodwill.

#### **Provisions**

Because of the judgments made in determining the recognition and amount of our provisions, they can change significantly due to the inherent uncertainties in our estimates. Changes could have a material impact on our future earnings.

A change in the assumptions underlying our provisions for environmental remediation and asset retirement could significantly impact our financial position and results of operations. A 1 percent increase in the rate we use to discount our provisions at December 31, 2016, would decrease our consolidated net earnings by \$10-million in 2016.

A 10 percent change in our provision for litigation at December 31, 2016, would have affected net earnings by \$1-million in 2016.

#### **Income taxes**

Although we believe our assumptions and estimates are reasonable, our tax assets are realizable and our accruals for tax liabilities are adequate for all open tax years based on our interpretations of tax law and prior experience, actual results could differ. This may affect consolidated income tax expense and earnings in future years.

Our effective income tax rate in a given financial statement period could change materially to the extent that we prevail in matters for which we have recorded a liability or are required to pay amounts in excess of our recorded liability.

### **Inventory valuation**

We continuously assess whether lower prices for our products require that we write down inventories. During 2016 and 2015, we did not record any material inventory write-downs.

A 1 percent reduction in our inventories at December 31, 2016, would have reduced consolidated net earnings by \$23-million in 2016. Decreases in global prices of our commodities held in inventory have the greatest potential to cause us to write down inventories.

# **Accounting Standards and Policy Changes**

| New or amended | Standard/<br>interpretation | Description   | Agrium's date and method of adoption  | Impact   |
|----------------|-----------------------------|---|---|--|
| New            | IFRS 15                     | Revenue from Contracts with Customers establishes a new model for revenue earned from a contract with a customer. The standard provides specific guidance on identifying separate performance obligations in the contract and allocating the transaction price to the separate performance obligations. | Agrium expects to adopt beginning January 1, 2018.  | We completed the first stage of our planned review of our contracts with customers. We expect this standard will impact the timing of recognition of certain revenues. Our preliminary conclusion is that the impact will not be material as the majority of our contracts with customers are short-term.  |
| New            | IFRS 16                     | Leases applies a single model for all recognized leases, which would require recognition of lease-related assets and liabilities and the related interest and depreciation expense in the financial statements.   | Agrium expects to adopt beginning January 1, 2019.  | Similar to IFRS 15, we have completed the first stage of our review of our contracts that may contain a lease provision. We expect that adoption will result in a material increase in our assets, liabilities and EBITDA. However, we are not able at this time to estimate the impact upon adoption. Once we complete further phases of our review we will estimate and quantify the impact on our financial statements. |
| Amended        | Various                     | <ul> <li>IAS 7 Statement of Cash Flows</li> <li>IAS 12 Income Taxes</li> <li>IFRS 2 Share-based Payment</li> </ul>  | Agrium expects to<br>adopt IAS 7 and IAS 12<br>amendments beginning<br>January 1, 2017 and IFRS 2<br>amendments beginning<br>January 1, 2018. | Reconciliation between the opening and closing balances for liabilities from financing activities will be disclosed upon adoption of IAS 7 amendments.  We do not expect amendments in IAS 12 and IFRS 2 to have an impact.  |

# **Non-IFRS Financial Measures**

Certain financial measures in our Annual Report are not prescribed by IFRS. We consider these financial measures discussed herein to provide useful information to both management and investors in measuring our financial performance and financial condition.

IFRS requires that we provide and include subtotals and other financial measures in our Consolidated Financial Statements. Such measures become IFRS measures by virtue of being included in the Consolidated Financial Statements. Other measures that are not specifically defined under IFRS and may not be comparable are non-IFRS measures. These non-IFRS measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS. Effective January 1, 2016, management no longer considers "Adjusted EBITDA" in evaluating our business performance and expects to focus more on our other key earnings measures.

The following table outlines our non-IFRS financial measures, their definitions and why management uses each measure.

| Non-IFRS financial measures  | Definition  | Why we use the measure and why it is useful to investors   |  |
|--|---|--|--|
| Cash COPM  | All fixed and variable costs are accumulated in cash COPM excluding depreciation and amortization expense and direct freight.   | Enables investors to better understand the performance of our manufacturing operations compared to other crop nutrient producers.  |  |
|  | When cash COPM costs are divided by the production tonnes for the period, the result is actual cash COPI per tonne, which is compared to the standard cash COPM per tonne — a calculation of fixed and variable costs for a standard or typical period of production. The standard cash COPM per tonne is multiplied by th production tonnes for the period, and the resulting dollar amount is transferred to inventory. Any remainin costs are recorded directly to cost of product sold as production volume or cost efficiency variances. |  |  |
|  | Direct freight is a transportation cost to move the production  | duct from an Agrium location to the point of sale.   |  |
|  | There is no directly comparable IFRS measure for cash   | COPM.  |  |
| Cash operating coverage ratio  | Cash operating coverage ratio represents gross profit excluding depreciation and amortization less EBITDA, divided by gross profit excluding depreciation and amortization expense.   | Assists management and investors in understanding the costs and underlying economics of our operations and in assessing our operating performance and our ability to generate free cash flow from our business   |  |
| Cash selling and general and<br>administrative expenses  | Selected financial measures excluding depreciation and amortization   | units and overall as a company   |  |
| Comparable store sales   | Change in current period Retail location sales compared to the prior period. We retain sales of closed locations in the comparable base if the closed location is in close proximity to an existing location, unless we plan to exit the market area or are unable to economically or logistically serve it. We do not adjust for temporary closures, expansions or renovations of stores.  | Used by investors, analysts and management to evaluate performance of farm centers by measuring our ability to achieve sales increases from locations we have owned for more than 12 months  |  |
| Normalized comparable store sales  | Comparable store sales normalized using published NPK benchmark prices and foreign exchange rates, adjusting prior year results to reflect nutrient pricing and foreign exchange rates from the current year.   | Allows users of the comparable store sales metric to evaluate sales growth by adjusting for fluctuations in commodity prices and foreign exchange rates.   |  |
|  | In 2016, we revised our definition of normalized comparable store sales to reflect the impact of foreign exchange. We have restated our 2015 comparative information.   |  |  |
| Consolidated and business unit EBITDA  | Net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations   | EBITDA is frequently used by investors and analysts for valuation purposes when multiplied by a factor to estimate the enterprise value of a company. EBITDA is also used in determining annual incentive compensation for certain management employees and in calculating certain of our debt covenants.  |  |
| EBITDA to sales  | EBITDA divided by sales   | Measures earnings generated from each dollar of sales, which is useful to evaluate operating profitability on a basis comparable from period to period.  |  |
| Free cash flow   | Cash provided by operating activities excluding the impact of net changes in non-cash working capital less sustaining capital expenditures.  Refer to "Free Cash Flow" section for the reconciliation.  | Used to assess the quality of our earnings, as it measures our ability to generate cash from our businesses to repay debt, fund business acquisitions, repurchase our shares and pay dividends. Free cash flow is also a component in determining annual incentive compensation for certain management employees and in calculating the value of Performance Share Units awarded as part of management compensation. |  |
| Dividends paid as a percent of free cash flow  | Dividends paid divided by free cash flow  | Provides an analysis of the dividends we pay against free cash flow generated  |  |
| Wholesale measures that include Agrium's proportionate share of results of joint ventures: sales, cost of product sold, gross profit | Wholesale metrics (sales, cost of product sold and gross profit) including the related proportionate share of joint venture equity accounted results  | Useful in evaluating our Wholesale business performance by including our proportionate share of joint ventures in Wholesale operating results  |  |

# **RECONCILIATIONS OF NON-IFRS FINANCIAL MEASURES**

# Retail cash operating coverage ratio

| (millions of U.S. dollars, except as noted)                | 2016  | 2015  |
|--|-------|-------|
| Gross profit   | 2,786 | 2,728 |
| Depreciation and amortization in cost of product sold      | 6     | 6     |
| Gross profit excluding depreciation and amortization       | 2,792 | 2,734 |
| EBITDA   | 1,091 | 1,033 |
| Operating expenses excluding depreciation and amortization | 1,701 | 1,701 |
| Cash operating coverage ratio (%)                          | 61    | 62    |

### Cash selling and general and administrative expenses

| (millions of U.S. dollars)                                  | 2016  | 2015  | 2016 | 2015  | 2016   | 2015   |
|---|-------|-------|------|-------|--------|--------|
|   | Ret   | tail  | Whol | esale | Consol | idated |
| Selling   | 1,899 | 1,902 | 32   | 36    | 1,914  | 1,921  |
| Depreciation and amortization in selling expense            | 263   | 244   | -    | -     | 263    | 244    |
| Cash selling  | 1,636 | 1,658 | 32   | 36    | 1,651  | 1,677  |
| General and administrative                                  | 102   | 112   | 30   | 39    | 242    | 268    |
| Depreciation and amortization in general and administrative | 5     | 4     | 2    | 4     | 23     | 23     |
| Cash general and administrative                             | 97    | 108   | 28   | 35    | 219    | 245    |

### Retail comparable store sales and Retail normalized comparable store sales

| (millions of U.S. dollars, except as noted)                                   | 2016   | 2015   |
|---|--------|--------|
| Retail sales from the current period comparable store base                    | 11,577 | 12,014 |
| Prior year Retail sales   | 12,199 | 12,981 |
| Comparable store sales (%)  | (5)    | (7)    |
| Current year sales normalized for benchmark prices and foreign exchange rates | 11,353 | 12,388 |
| Normalized comparable store sales (%)   | 2      | (3)    |

### **Consolidated and business unit EBITDA**

| (millions of U.S. dollars)              | Retail                                  | Wholesale                               | Other | Consolidated |
|---|---|---|-------|--------------|
| 2016                                    |   |   |       |              |
| Net earnings                            |   | •                                       | •     | 596          |
| Finance costs related to long-term debt |   | •                                       | •     | 204          |
| Other finance costs                     |   | •                                       | •     | 74           |
| Income taxes                            |   | ••••••••••••••••••••••••••••••••••••••• | •     | 224          |
| EBIT                                    | 817                                     | 509                                     | (228) | 1,098        |
| Depreciation and amortization           | 274                                     | 242                                     | 16    | 532          |
| EBITDA                                  | 1,091                                   | 751                                     | (212) | 1,630        |
| 2015                                    |   |   |       |              |
| Net earnings                            |   |   | •     | 988          |
| Finance costs related to long-term debt | *************************************** | ••••••                                  | •     | 181          |
| Other finance costs                     | *************************************** | ••••••                                  | •     | 71           |
| Income taxes                            | *************************************** | ••••••                                  | •     | 376          |
| EBIT                                    | 779                                     | 1,073                                   | (236) | 1,616        |
| Depreciation and amortization           | 254                                     | 211                                     | 15    | 480          |
| EBITDA                                  | 1,033                                   | 1,284                                   | (221) | 2,096        |

# **RECONCILIATION OF OTHER FINANCIAL MEASURES**

Return on operating capital employed and return on capital employed

|  | December 31, 2          | 016    | December 31, 2015       |        |
|--|-------------------------|--------|-------------------------|--------|
| (millions of U.S. dollars, except as noted)              | Retail<br>North America | Retail | Retail<br>North America | Retail |
| EBIT   | 676                     | 817    | 686                     | 779    |
| Income taxes at a rate of 28 percent (2015 – 28 percent) | 189                     | 229    | 192                     | 218    |
| EBIT less income taxes                                   | 487                     | 588    | 494                     | 561    |
| Average non-cash working capital                         | 1,497                   | 1,994  | 1,757                   | 2,200  |
| Average property, plant and equipment                    | 1,022                   | 1,106  | 948                     | 1,037  |
| Average investments in associates and joint ventures     | 80                      | 109    | 47                      | 82     |
| Average other assets                                     | 4                       | 9      | 3                       | 11     |
| Average operating capital employed                       | 2,603                   | 3,218  | 2,755                   | 3,330  |
| ROOCE (%)  | 19                      | 18     | 18                      | 17     |
| Average operating capital employed                       | 2,603                   | 3,218  | 2,755                   | 3,330  |
| Average intangibles                                      | 581                     | 619    | 604                     | 646    |
| Average goodwill   | 1,908                   | 2,035  | 1,865                   | 1,988  |
| Average capital employed                                 | 5,092                   | 5,872  | 5,224                   | 5,964  |
| ROCE (%)   | 10                      | 10     | 9                       | 9      |

# 2016 Fourth Quarter Management's Discussion and Analysis

# **CONSOLIDATED NET EARNINGS**

#### **Financial overview**

|  |       | Three months ended December 31, |        |          |  |  |  |
|--|-------|---------------------------------|--------|----------|--|--|--|
| (millions of U.S. dollars, except per share amounts and where noted) | 2016  | 2015                            | Change | % Change |  |  |  |
| Sales  | 2,280 | 2,407                           | (127)  | (5)      |  |  |  |
| Gross profit   | 748   | 900                             | (152)  | (17)     |  |  |  |
| Expenses   | 586   | 576                             | 10     | 2        |  |  |  |
| Earnings before finance costs and income taxes (EBIT)                | 162   | 324                             | (162)  | (50)     |  |  |  |
| Net earnings   | 67    | 200                             | (133)  | (67)     |  |  |  |
| Diluted earnings per share   | 0.49  | 1.45                            | (0.96) | (66)     |  |  |  |
| Diluted earnings per share Effective tax rate (%)                    | 25    | 20                              | N/A    | N/A      |  |  |  |

# Sales and Gross Profit

#### Three months ended December 31,

| (millions of U.S. dollars) | 2016  | 2015  | Change |
|----------------------------|-------|-------|--------|
| Sales                      |       |       |        |
| Retail                     | 1,828 | 1,765 | 63     |
| Wholesale                  | 657   | 888   | (231)  |
| Other                      | (205) | (246) | 41     |
|                            | 2,280 | 2,407 | (127)  |
| Gross profit               |       |       |        |
| Gross profit Retail        | 623   | 599   | 24     |
| Wholesale                  | 134   | 320   | (186)  |
| Other                      | (9)   | (19)  | 10     |
|                            | 748   | 900   | (152)  |

- Retail's sales and gross profit increased in the fourth quarter of 2016 primarily as a result of higher crop protection product sales due to higher demand for herbicides and glyphosate in the U.S. Corn Belt and favorable weather conditions in Australia.
- · Wholesale's sales and gross profit decreased in the fourth quarter compared to the same period last year due to lower market prices for all nutrients.

### Expenses

- General and administrative expenses decreased by \$9-million (12 percent) as a result of organization-wide cost control measures.
- · Earnings from associates and joint ventures increased as a result of the devaluation of the Egyptian pound that led to a \$35-million foreign exchange gain in MOPCO, net of tax.
- Our share price increased during the current quarter leading to higher share-based payments expense of \$18-million.
- Other expenses increased during the quarter primarily due to the following:
  - Merger and related costs of \$14-million
  - Impairment loss of \$15-million related to an international investment
  - Information Technology outsourcing costs of \$7-million

For further breakdown on Other expenses, see table below:

#### Other expenses breakdown

|  | Three months ended Dec | ember 31, |
|--|------------------------|-----------|
| (millions of U.S. dollars)                                 | 2016                   | 2015      |
| Loss (gain) on foreign exchange and related derivatives    | 3                      | (5)       |
| Interest income  | (17)                   | (16)      |
| Gain on sale of assets                                     | -                      | (17)      |
| Asset impairment   | 15                     | 19        |
| Environmental remediation and asset retirement obligations | 1                      | 1         |
| Bad debt expense   | 3                      | 4         |
| Potash profit and capital tax                              | 2                      | 3         |
| Merger and related costs                                   | 14                     | -         |
| Outsourcing costs  | 7                      | -         |
| Other  | 15                     | 38        |
|  | 43                     | 27        |

# **Depreciation and Amortization**

### Depreciation and amortization breakdown

|                                   | Three months ended December 31, |         |                            |       |                      |         |                            |       |  |
|-----------------------------------|---------------------------------|---------|----------------------------|-------|----------------------|---------|----------------------------|-------|--|
| (millions of U.S. dollars)        | 2016                            |         |                            |       |                      | 2015    |                            |       |  |
|                                   | Cost of product sold            | Selling | General and administrative | Total | Cost of product sold | Selling | General and administrative | Total |  |
| Retail                            | 1                               | 66      | 1                          | 68    | 1                    | 64      | 1                          | 66    |  |
| Wholesale                         |                                 |         |                            |       |                      |         |                            |       |  |
| Nitrogen                          | 22                              | -       | 1                          | 23    | 18                   | -       | -                          | 18    |  |
| Potash                            | 26                              | -       | -                          | 26    | 28                   | -       | -                          | 28    |  |
| Phosphate                         | 15                              | -       | -                          | 15    | 14                   | -       | -                          | 14    |  |
| Wholesale<br>other <sup>(a)</sup> | 3                               | -       | -                          | 3     | 4                    | -       | 1                          | 5     |  |
|                                   | 66                              | -       | 1                          | 67    | 64                   | -       | 1                          | 65    |  |
| Other                             | -                               | -       | 6                          | 6     | -                    | -       | 4                          | 4     |  |
| Total                             | 67                              | 66      | 8                          | 141   | 65                   | 64      | 6                          | 135   |  |

<sup>(</sup>a) This includes product purchased for resale, ammonium sulfate, Environmentally Smart Nitrogen (ESN®) and other products.

#### **Effective Tax Rate**

 The effective tax rate of 25 percent for the fourth quarter of 2016 was higher than the tax rate of 20 percent for the same period in 2015 due to a decrease in the recognition of previously unrecognized tax assets in Canada.

#### **BUSINESS SEGMENT PERFORMANCE**

#### Retail

|   | Three months | ended December 31 | ,      |
|---|--------------|-------------------|--------|
| (millions of U.S. dollars, except as noted)     | 2016         | 2015              | Change |
| Sales   | 1,828        | 1,765             | 63     |
| Cost of product sold                            | 1,205        | 1,166             | 39     |
| Cost of product sold Gross profit               | 623          | 599               | 24     |
| EBIT  | 134          | 133               | 1      |
| EBITDA  | 202          | 199               | 3      |
| Selling and general and administrative expenses | 502          | 491               | 11     |

- Retail reported record fourth quarter gross profit and EBITDA<sup>1</sup>, supported by robust demand for crop protection products and application services in the U.S. and Australia. On an annual basis, Retail, and specifically Australia, reported record EBITDA while U.S. operations reported a record EBITDA to sales margin of 10.4 percent supported by higher margin proprietary product sales and cost savings.
- Total Retail selling and general and administrative expenses were up \$11-million from the fourth quarter of last year. However, total cash expenses were down by \$12-million after adjusting for costs associated with the retail locations acquired in 2016. Our cash operating coverage ratio also improved due to our continued focus on Operational Excellence, moving down to 61 percent on a rolling four quarter basis from 62 percent for the same period last year.
- Regionally, U.S. EBITDA was up slightly this quarter, while our Canadian operations reported weaker results due to an early winter, which shortened the fall application season. Australia reported a \$20-million increase in EBITDA primarily due to strong crop protection product sales and accompanying application services. Our South American Retail operations reported slightly higher gross profit but lower EBITDA this quarter.

#### Retail sales and gross profit by product line

|   |      | Three months ended December 31, |        |      |              |        |      |                  |  |
|---|------|---------------------------------|--------|------|--------------|--------|------|------------------|--|
|   |      | Sales                           |        |      | Gross profit |        |      | Gross profit (%) |  |
| (millions of U.S. dollars, except as noted) | 2016 | 2015                            | Change | 2016 | 2015         | Change | 2016 | 2015             |  |
| Crop nutrients                              | 779  | 843                             | (64)   | 147  | 154          | (7)    | 19   | 18               |  |
| Crop protection products                    | 620  | 541                             | 79     | 296  | 268          | 28     | 48   | 50               |  |
| Seed  | 101  | 75                              | 26     | 43   | 54           | (11)   | 43   | 72               |  |
| Merchandise                                 | 167  | 156                             | 11     | 27   | 27           | -      | 16   | 17               |  |
| Services and other                          | 161  | 150                             | 11     | 110  | 96           | 14     | 68   | 64               |  |

#### **CROP NUTRIENTS**

- Total crop nutrient sales were 8 percent lower this guarter compared to the same period last year, due to significantly lower prices across all nutrients, partly offset by higher crop nutrient volumes.
- The increase in crop nutrient volumes was due primarily to a 26 percent increase in U.S. sales tonnes this quarter, partly offset by a slight decline in nutrient volumes in Canada due to some fall weather challenges.
- Total crop nutrient gross profit was 5 percent lower this quarter due to lower selling prices and margins. North American nutrient per tonne margins were down \$19 this quarter due to weaker nutrient prices, but margins as a percentage of sales rose to 19 percent this quarter compared to 18 percent in the fourth quarter of 2015.

<sup>1</sup> Net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations

#### **CROP PROTECTION PRODUCTS**

- Total crop protection product sales were up 15 percent this guarter due to strong demand in Australia, an open window in the U.S. for fall applications and some catch up in demand for crop protection products resulting from the reduced sales of these products experienced during the third quarter.
- Gross profit in the fourth quarter was up 10 percent over last year due to strong volumes and an increase in proprietary product sales. Crop protection product margins as a percentage of sales were down slightly this quarter as a result of a higher sales mix to wholesalers and selling higher volumes of lower margin products such as glyphosate, which is used for post-harvest burndown.
- Proprietary crop protection product sales as a percentage of total crop protection product sales reached 18 percent this quarter, up two percentage points over the same period last year. On an annual basis, proprietary crop protection sales grew 11 percent in 2016 and represented 24 percent of total crop protection product sales this year.

#### **SEED**

 Total seed sales were 35 percent higher this period compared to last year due to increased sales of product to wholesalers in the U.S. and higher demand in Australia. Gross profit declined by 20 percent, partly related to the higher sales mix to wholesalers which traditionally represents lower margins. As a result, total seed margins as a percentage of sales were 43 percent this quarter - a 29 percent decrease from the fourth quarter of 2015. On an annual basis, however, seed margins were 20 percent - the same as in 2015.

#### **MERCHANDISE**

· Merchandise sales increased 7 percent, while gross profit remained in line with the same period last year. The increase in sales was primarily due to stronger results in Australia and increased merchandise sales in the U.S. due to some of the recent retail acquisitions.

#### **SERVICES AND OTHER**

 Sales for services and other was up 7 percent this quarter, while gross profit was 15 percent higher. The increase in sales and profit was related to higher crop nutrient and crop protection product applications in the U.S. and Australia this quarter.

# Wholesale

|  | Three months | ended December 31 | 31,    |
|--|--------------|-------------------|--------|
| (millions of U.S. dollars, except as noted)                      | 2016         | 2015              | Change |
| Sales  | 657          | 888               | (231)  |
| Sales volumes (tonnes 000's)                                     | 2,273        | 2,292             | (19)   |
| Cost of product sold   | 523          | 568               | (45)   |
| Gross profit   | 134          | 320               | (186)  |
| EBIT   | 149          | 287               | (138)  |
| EBITDA   | 216          | 352               | (136)  |
| Expenses (including earnings from associates and joint ventures) | (15)         | 33                | (48)   |
| Earnings from associates and joint ventures                      | (34)         | (2)               | (32)   |

· Wholesale earnings this quarter were primarily impacted by lower global fertilizer prices across all nutrients compared to the same period last year. This was partly offset by lower fixed costs related to ongoing Operational Excellence initiatives.

### Wholesale NPK product information

|  |      | Three months ended December 31, |        |        |      |        |           |      |        |
|--|------|---------------------------------|--------|--------|------|--------|-----------|------|--------|
|  |      | Nitrogen                        |        | Potash |      |        | Phosphate |      |        |
|  | 2016 | 2015                            | Change | 2016   | 2015 | Change | 2016      | 2015 | Change |
| Gross profit (U.S. dollar millions)                      | 85   | 186                             | (101)  | 21     | 63   | (42)   | 8         | 37   | (29)   |
| Sales volumes (tonnes 000's)                             | 954  | 912                             | 42     | 590    | 656  | (66)   | 303       | 325  | (22)   |
| Selling price (\$/tonne)                                 | 298  | 403                             | (105)  | 179    | 267  | (88)   | 475       | 610  | (135)  |
| Selling price (\$/tonne) Cost of product sold (\$/tonne) | 209  | 199                             | 10     | 143    | 171  | (28)   | 449       | 495  | (46)   |
| Gross margin (\$/tonne)                                  | 89   | 204                             | (115)  | 36     | 96   | (60)   | 26        | 115  | (89)   |

#### **NITROGEN**

- Nitrogen gross profit was down 54 percent compared to the same period last year primarily due to significantly lower global nitrogen prices.
- Sales volumes were slightly higher than the same period last year due to strong demand for urea and nitrogen solutions. Ammonia sales volumes were 11 percent lower than the same period last year as a result of the early winter weather in Western Canada and the Northern Plains of the U.S. this year.
- Realized selling prices per tonne were down 26 percent compared to the same period last year due to lower global benchmark nitrogen prices.
- . Cost of product sold per tonne increased by 5 percent compared to the same period last year partly due to higher natural gas input costs. Partially offsetting this were higher utilization rates and lower fixed costs at our facilities. Average nitrogen margins were \$89 per tonne this quarter, while ammonia and urea margins averaged approximately \$100 per tonne.

#### Natural gas prices: North American indices and North American Agrium prices

|   | Three months ended December 31, |      |  |
|---|---------------------------------|------|--|
| (U.S. dollars per MMBtu)                              | 2016                            | 2015 |  |
| Overall gas cost excluding realized derivative impact | 2.52                            | 2.15 |  |
| Realized derivative impact                            | 0.07                            | 0.31 |  |
| Overall gas cost                                      | 2.59                            | 2.46 |  |
| Average NYMEX   | 2.99                            | 2.28 |  |
| Average AECO  | 2.12                            | 2.00 |  |

#### **POTASH**

- Potash gross profit declined by 67 percent compared to the same period last year due to lower global potash prices.
- Sales volumes were 10 percent lower in the current period primarily due to lower opening inventory levels this year.
- Realized selling prices have declined over the past year with selling prices down 33 percent internationally and 25 percent for North American markets compared to the same period last year.
- · Our cost of product sold per tonne was 16 percent lower than the same period last year due to a product mix with higher proportion of sales to offshore markets, where freight is excluded from cost of product sold. A weaker Canadian dollar and fixed cost savings also contributed to reduced costs this guarter. Cash cost of product manufactured on an annual basis also declined by 18 percent to \$79 per tonne compared to 2015 due to higher production volumes and lower fixed costs.

#### **PHOSPHATE**

- Phosphate gross profit was 78 percent lower than the same period last year due to continuing pressure on phosphate benchmark prices. Lower sales volumes also contributed to the decline in gross profit but were more than offset by lower cost of product sold per tonne.
- Sales volumes were 7 percent lower than the same period last year due to an early winter in Western Canada this quarter and a shorter window for fall applications of phosphate.
- . Cost of product sold per tonne was down 9 percent compared to the same period last year due to lower input costs and the lower Canadian dollar benefiting the Redwater phosphate facility.

#### WHOLESALE OTHER

#### Wholesale Other: gross profit breakdown

|                              | Three months ended December 31, |      |        |  |  |
|------------------------------|---------------------------------|------|--------|--|--|
| (millions of U.S. dollars)   | 2016                            | 2015 | Change |  |  |
| Ammonium sulfate             | 11                              | 16   | (5)    |  |  |
| ESN®                         | 8                               | 15   | (7)    |  |  |
| Product purchased for resale | -                               | 1    | (1)    |  |  |
| Other                        | 1                               | 2    | (1)    |  |  |
|                              | 20                              | 34   | (14)   |  |  |

· Gross profit from Wholesale Other was lower than the same period last year primarily due to overall lower realized nutrient prices. This was partly offset by higher sales volumes of ESN® and ammonium sulfate this quarter.

#### **EXPENSES**

 Wholesale expenses decreased by \$48-million in the current guarter due to higher equity earnings of \$32-million from our investments, primarily as a result of the Egyptian pound devaluation leading to a foreign exchange gain; a 16 percent reduction in selling, general and administrative expenses as a result of our on-going Operational Excellence initiatives; and a \$19-million goodwill impairment on our Europe purchased for resale business included in the same period last year. This was partially offset by a \$17-million gain on the sale of the West Sacramento nitrogen upgrading facility recognized in the same period last year.

#### Other

EBITDA for our Other non-operating business unit for the fourth quarter of 2016 had a net expense of \$115-million, compared to a net expense of \$92-million for the fourth quarter of 2015. The variance was primarily due to:

- Merger and related costs of \$14-million
- An increase of \$18-million in share-based payments expense as a result of an increase in our share price
- Impairment loss of \$15-million on an international investment
- Partially offset by a \$10-million decrease in gross profit elimination as a result of lower intersegment inventory held at the end of the fourth quarter of 2016

# CAPITAL SPENDING AND EXPENDITURES (a)

| millions of U.S. dollars) | Three months ended De | Three months ended December 31, |       |       |
|---------------------------|-----------------------|---------------------------------|-------|-------|
|                           | 2016                  | 2015                            | 2016  | 2015  |
| Retail                    |                       |                                 |       |       |
| Sustaining                | 23                    | 38                              | 111   | 141   |
| Investing                 | 21                    | 12                              | 50    | 37    |
|                           | 44                    | 50                              | 161   | 178   |
| Acquisitions (b)          | 26                    | 42                              | 342   | 127   |
| •                         | 70                    | 92                              | 503   | 305   |
| Wholesale                 |                       |                                 |       |       |
| Sustaining                | 38                    | 189                             | 244   | 388   |
| Investing                 | 90                    | 26                              | 312   | 604   |
|                           | 128                   | 215                             | 556   | 992   |
| Other                     |                       |                                 |       |       |
| Sustaining                | 1                     | 9                               | 4     | 12    |
| Investing                 | -                     | 4                               | 3     | 6     |
|                           | 1                     | 13                              | 7     | 18    |
| Total                     |                       |                                 |       |       |
| Sustaining                | 62                    | 236                             | 359   | 541   |
| Investing                 | 111                   | 42                              | 365   | 647   |
|                           | 173                   | 278                             | 724   | 1,188 |
| Acquisitions (b)          | 26                    | 42                              | 342   | 127   |
|                           | 199                   | 320                             | 1,066 | 1,315 |

This excludes capitalized borrowing costs.

- Our total capital expenditures decreased in the fourth quarter and twelve months of 2016 compared to the same periods last year due to the ramp-up of our Vanscoy potash facility in 2015 combined with decreased spending on the Borger project in 2016.
- We completed the acquisitions of 16 farm centers located in the provinces of Alberta and Saskatchewan from Andrukow Group Solutions Inc. and 18 farm centers located across the northern U.S. Corn Belt region from Cargill AgHorizons (U.S.) in 2016.

This represents business acquisitions and includes acquired working capital; property, plant and equipment; intangibles; goodwill; and investments in

# **RECONCILIATIONS OF FOURTH QUARTER NON-IFRS FINANCIAL MEASURES**

#### Cash selling and general and administrative expenses

|   | Three months ended December 31, |      |      |       |        |         |  |
|---|---------------------------------|------|------|-------|--------|---------|--|
| (millions of U.S. dollars)                                  | 2016                            | 2015 | 2016 | 2015  | 2016   | 2015    |  |
|   | Re                              | tail | Whol | esale | Consol | lidated |  |
| Selling   | 476                             | 462  | 9    | 7     | 480    | 465     |  |
| Depreciation and amortization in selling expense            | 66                              | 64   | -    | -     | 66     | 64      |  |
| Cash selling  | 410                             | 398  | 9    | 7     | 414    | 401     |  |
| General and administrative                                  | 26                              | 29   | 7    | 12    | 65     | 74      |  |
| Depreciation and amortization in general and administrative | 1                               | 1    | 1    | 1     | 8      | 6       |  |
| Cash general and administrative                             | 25                              | 28   | 6    | 11    | 57     | 68      |  |

#### Consolidated and business unit EBITDA

|   |        | Three months ended De                   | cember 31, |              |
|---|--------|---|------------|--------------|
| (millions of U.S. dollar)               | Retail | Wholesale                               | Other      | Consolidated |
| 2016                                    |        |   |            |              |
| Net earnings                            |        | •                                       | •          | 67           |
| Finance costs related to long-term debt |        | •                                       | •          | 51           |
| Other finance costs                     |        | *************************************** | •••••      | 21           |
| Income taxes                            |        | *************************************** | •••••      | 23           |
| EBIT                                    | 134    | 149                                     | (121)      | 162          |
| Depreciation and amortization           | 68     | 67                                      | 6          | 141          |
| EBITDA                                  | 202    | 216                                     | (115)      | 303          |
| 2015                                    |        |   |            |              |
| Net earnings                            |        | •                                       | •          | 200          |
| Finance costs related to long-term debt |        | •                                       | •          | 53           |
| Other finance costs                     | •      | •                                       | •          | 20           |
| Income taxes                            |        | •                                       | •          | 51           |
| EBIT                                    | 133    | 287                                     | (96)       | 324          |
| Depreciation and amortization           | 66     | 65                                      | 4          | 135          |
| EBITDA                                  | 199    | 352                                     | (92)       | 459          |

# **Key Assumptions and Risks in Respect of Forward-looking Statements**

All of the forward-looking statements contained in this MD&A are qualified by the cautionary statements contained herein and by stated or inherent assumptions and apply only as of the date of this MD&A. Except as required by law, Agrium disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information or future events.

The following table outlines significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements. Although Agrium believes the material assumptions outlined below are reasonable, this list is not exhaustive of the factors that may affect any of the forward-looking statements. Readers should not place undue reliance on these assumptions and such forward-looking statements.

| Forward-looking statements   | Material assumptions  | Material risk factors   |
|--|---|---|
| Expected Arrangement costs, operating synergies and incremental shareholder value generated from our merger with PotashCorp  | <ul> <li>Anticipated cost reductions from rail costs, logistic savings and distribution and warehouse optimization are achieved</li> <li>Integration of PotashCorp products through Agrium's Retail network is successful</li> <li>Planned operational efficiencies and savings are achieved</li> </ul> | <ul> <li>Arrangement is subject to various<br/>regulatory approvals</li> <li>Uncertainty surrounding the Arrangement<br/>could adversely affect customers, suppliers and<br/>personnel, which could negatively impact future<br/>business and operations</li> </ul> |
|  | See the heading "Anticipated Benefits of the Arrange in the Joint Proxy Circular for further information.   | ement" and "Risk Factors Related to the Arrangement"  |
| Expected results from our Operational<br>Excellence initiatives, including further costs   | Actual production levels are consistent with forecasts  | <ul> <li>Inflation and currency rate fluctuations that could<br/>affect Wholesale's costs</li> </ul>  |
| savings, continuous improvement on our utilization rates   | Expected prices of nutrient are consistent  | <ul> <li>Unexpected outages and turnarounds at<br/>our facilities</li> </ul>  |
|  |   | <ul> <li>Unexpected logistics issues that could<br/>affect distribution of Wholesale products using<br/>Retail's network</li> </ul>   |
|  |   | <ul> <li>Continued or further disruptions to natural<br/>gas supply at the Profertil and MOPCO<br/>nitrogen facilities</li> </ul>   |
| Factors that will drive improvement in Retail's key metrics and financial measures, including growth in our proprietary products, financial services and precision agriculture offerings | Retail business conditions are within normal parameters with respect to prices, margins,  | Retail's ability to effectively implement planned<br>business strategy  |
|  | product availability and supplier agreements for<br>our major products  | <ul> <li>Changes in general economic, market, business<br/>and weather conditions, industry competition an</li> </ul>   |
|  | <ul> <li>Agrium is able to identify suitable candidates for<br/>acquisitions and to negotiate acceptable terms</li> </ul>   | <ul> <li>various events that could disrupt operations</li> <li>General operating risks associated with</li> </ul>   |
|  | <ul> <li>Agrium is able to implement its standards,<br/>controls, procedures and policies at the acquired<br/>businesses to realize the expected synergies</li> </ul>   | investment in foreign jurisdictions   |
|  | <ul> <li>Financial service offerings of both AFS and ARM<br/>would expand across the entire Corn Belt and<br/>would attract additional customers and sales</li> </ul>   |   |
| Market outlook, including anticipated supply and demand for our three major crop   | Global demand for nitrogen, potash and<br>phosphate will remain stable or increase in 2017  | <ul> <li>Changes in global demand or supply for our three major crop nutrients</li> </ul>   |
| nutrients, product and input price outlook,<br>and other expected economic, legal and<br>business conditions   | Normal weather will allow intended crop area to<br>be planted within North America in 2017  | <ul> <li>Changes in government policies, legislation<br/>and regulations that could impose restrictions<br/>in exportation</li> </ul>   |
|  |   | <ul> <li>Volatility in global currency values</li> </ul>  |
|  |   | <ul> <li>Changes in the global prices of key raw materials<br/>for the production of crop nutrients</li> </ul>  |
|  |   | <ul> <li>Changes in global crop production level, general<br/>economic, market, business and weather<br/>conditions, industry competition and various<br/>events that could disrupt operations and/or crop<br/>input market conditions</li> </ul>                   |

| Forward-looking statements  | Material assumptions  | Material risk factors  |
|---|---|--|
| Expected increase in Wholesale's nitrogen capacity and production coming  | Actual capacity and production levels are consistent with forecasts   | Change in the demand for and viability of<br>the product   |
| from the Borger and MOPCO nitrogen expansion projects   | <ul> <li>Availability of gas supply</li> </ul>  | <ul> <li>Unexpected outages and turnarounds at<br/>our facilities</li> </ul>   |
|   |   | Expected volumes are below target  |
|   |   | <ul> <li>Interruptions in the gas supply</li> </ul>  |
| Our ability to sustain projected potash production with existing reserves and resources, including mine life estimates, and   | <ul> <li>Potash reserves are accessible and of<br/>sufficient quality to provide the required ore<br/>for long-term production</li> </ul>   | <ul> <li>Flooding and/or poor ground conditions limiting<br/>access to major sections of the ore body or<br/>resulting in poor ore quality</li> </ul>  |
| expected reductions in cost of production as facility continues to ramp up  | <ul> <li>Actual production levels are consistent<br/>with forecasts</li> </ul>  | Unexpected outages and turnarounds   |
| Agrium's ability to meet its capital  | North American and global economic growth   | Inflation, currency and interest rate fluctuations   |
| requirements, including the ability to expand existing sources of financing or to access  | <ul> <li>Access to capital markets</li> </ul>   | and changes in tax rates that could affect Agrium's ability to meet obligations  |
| other sources of financing and to meet debt repayments and future obligations in the foreseeable future   | <ul> <li>Agrium is able to maintain:         <ul> <li>Adequate credit ratios</li> <li>Investment grade credit ratings</li> <li>Adequate cash generated from operations</li> </ul> </li> </ul> | Level and performance of future capital expenditures   |
| Expected level of capital expenditures, existing or planned acquisitions, expansion and growth of our business and operations including the development of new markets and products | <ul> <li>Adequate cash is generated from operations and<br/>other sources of financing</li> <li>Agrium is able to utilize our available credit</li> </ul>                                     | <ul> <li>Integration risks that might cause anticipated<br/>synergies from our recent and future acquisitions<br/>to be less than expected</li> </ul>  |
|   | facilities or access capital markets for additional sources of financing  | <ul> <li>Changes in development plans for our expansion,<br/>efficiency, debottleneck and other major projects,<br/>including the potential for capital construction<br/>costs to be higher than expected or construction<br/>progress to be delayed due to various factors</li> </ul> |
|   |   | <ul> <li>The level of sustaining and investing capital may<br/>vary significantly depending on corporate priorities<br/>as the year progresses and based on changes in<br/>the rate of inflation or engineering costs</li> </ul>   |
|   |   | <ul> <li>Potential inability to access or utilize our credit<br/>facilities or access capital markets</li> </ul>   |
| Statements relating to the supply of our  | Commitments agreed with our suppliers   | Interruption in the supply of phosphate rock   |
| phosphate rock  |   | <ul> <li>Changes in the terms of agreements with<br/>our suppliers</li> </ul>  |
| Expected compliance with environmental requirements and associated costs, as well   | Tentative start-up of carbon capture technology in<br>the second half of 2018   | Carbon capture and storage funding not received from Alberta government  |
| as the installation and timing of emissions reduction technology and impact to Agrium   |   | <ul> <li>Upgrader projects (specifically the Northwest<br/>Upgrader) cancelled or delayed</li> </ul>   |
|   |   | <ul> <li>Issues with engineering/procurement or<br/>construction of the facility or pipeline</li> </ul>  |
| Anticipated environmental remediation liabilities and asset retirement obligations  | Timing and amount of expenditures   | Changes in government policies, legislation<br>and regulations that could change timing and  |
| maximues and assect extrement obligations   | Estimated discount and inflation rates  | estimate of costs  |
|   |   | Inflation, currency and interest rate fluctuations   |

# **Financial Statements and Notes**

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# **Financial Reporting Responsibilities**

| Party                | Responsibility for financial reporting  |
|----------------------|---|
| Board of Directors   | Reviews and approves the annual consolidated financial statements and notes and related Management's Discussion and Analysis contained in this Annual Report. The Board appoints the Audit Committee to carry out this responsibility on its behalf.  |
| Audit Committee      | Oversees Agrium's accounting and financial reporting processes and audits of its financial statements.  |
|                      | Recommends approval of the annual consolidated financial statements to the Board.   |
|                      | Considers, for review by the Board and approval by the shareholders, appointment of the independent auditors; reviews and approves the terms of the auditors' engagement as well as the fee, scope and timing of their services; evaluates the auditors' performance.   |
| Management           | Prepares (a) financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and (b) the information in the accompanying Management's Discussion and Analysis, and ensures that it is consistent with the consolidated financial statements. |
|                      | As disclosed in note 24 to the annual financial statements:   |
|                      | Makes reasonable estimates and judgments as an essential part of the preparation of financial statements; and   |
|                      | Considers alternative accounting methods and chooses those it considers most appropriate in the circumstances.  |
|                      | • Establishes and maintains adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.   |
| Independent Auditors | On behalf of the shareholders, KPMG LLP, an independent registered public accounting firm, as stated in their reports, which are included in this 2016 Annual Report:   |
|                      | <ul> <li>Audits the annual consolidated financial statements as at and for the years ended December 31, 2016 and 2015, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States); and</li> </ul>                                 |
|                      | <ul> <li>Audits the effectiveness of internal control over financial reporting as of December 31, 2016 in accordance with the standards of the Public Company Accounting Oversight Board (United States) based on the criteria described below.</li> </ul>  |

The Audit Committee is comprised entirely of independent directors. The auditors have full and unrestricted access to the Audit Committee and may meet with or without the presence of management.

# **Management's Report on Internal Control Over Financial Reporting**

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under our supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this report, based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this evaluation, management concluded that as of December 31, 2016, Agrium Inc. did maintain effective internal control over financial reporting.

**Steve Douglas** 

**Chuck Magro President & Chief Executive Officer** 

**Senior Vice President & Chief Financial Officer** 

February 22, 2017

# **Report of Independent Registered Public Accounting Firm**

#### TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AGRIUM INC.

We have audited Agrium Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Agrium Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Agrium Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Agrium Inc. as at December 31, 2016 and December 31, 2015, and the related consolidated statements of operations, comprehensive income, cash flows and shareholders' equity for the years then ended, and our report dated February 22, 2017 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

**Chartered Professional Accountants** 

KAMG LLP

February 22, 2017 Calgary, Canada

# **Independent Auditors' Report of Registered Public Accounting Firm**

#### TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AGRIUM INC.

We have audited the accompanying consolidated financial statements of Agrium Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of operations, comprehensive income, cash flows and shareholders' equity for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

# Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Agrium Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Agrium Inc.'s internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control -Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2017 expressed an unmodified (unqualified) opinion on the effectiveness of Agrium Inc.'s internal control over financial reporting.

**Chartered Professional Accountants** 

KAMG LLP

February 22, 2017 Calgary, Canada

# **Consolidated Statements of Operations**

Years ended December 31,

| (millions of U.S. dollars, unless otherwise stated)  | Notes | 2016   | 2015   |
|--|-------|--------|--------|
| Sales  |       | 13,665 | 14,795 |
| Cost of product sold   | 5     | 10,270 | 10,907 |
| Gross profit   |       | 3,395  | 3,888  |
| Expenses   |       |        |        |
| Selling  | 5     | 1,914  | 1,921  |
| General and administrative   | 5     | 242    | 268    |
| Share-based payments   | 5, 9  | 55     | 51     |
| (Earnings) loss from associates and joint ventures   | 15    | (66)   | 4      |
| Other expenses   | 5     | 152    | 28     |
| Earnings before finance costs and income taxes   |       | 1,098  | 1,616  |
| Finance costs related to long-term debt  | 6     | 204    | 181    |
| Other finance costs  | 6     | 74     | 71     |
| Earnings before income taxes   |       | 820    | 1,364  |
| Income taxes   | 7     | 224    | 376    |
| Net earnings   |       | 596    | 988    |
| Attributable to  |       |        |        |
| Equity holders of Agrium   |       | 592    | 988    |
| Non-controlling interest   |       | 4      | -      |
| Net earnings   |       | 596    | 988    |
|  |       |        |        |
| Earnings per share attributable to equity holders of Agrium  |       |        |        |
| Basic and diluted earnings per share   |       | 4.29   | 6.98   |
| Weighted average number of shares outstanding for basic and diluted earnings per share (millions of common shares) |       | 138    | 142    |
|  |       |        |        |

See accompanying notes.

# Basis of Preparation and Statement of Compliance

We prepared these financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Board of Directors of Agrium (the "Board") approved these consolidated financial statements for issuance on February 22, 2017.

The presentation currency of these financial statements is the U.S. dollar. We prepared the financial statements using the historical cost basis, with the exception of items that IFRS requires us to measure at fair value. Our significant accounting policies, judgments, assumptions and estimates are described in note 24.

# **Consolidated Statements of Comprehensive Income**

Years ended December 31,

| (millions of U.S. dollars)                                   | Notes | 2016 | 2015  |
|--|-------|------|-------|
| Net earnings   |       | 596  | 988   |
| Other comprehensive income (loss)                            |       |      |       |
| Items that are or may be reclassified to earnings            |       |      |       |
| Cash flow hedges   | 4     |      |       |
| Effective portion of changes in fair value                   |       | 7    | (45)  |
| Deferred income taxes  |       | (1)  | 12    |
| Share of comprehensive loss of associates and joint ventures | 15    | (34) | (6)   |
| Foreign currency translation                                 |       |      |       |
| Gains (losses)   |       | 59   | (617) |
| Reclassifications to earnings                                |       | -    | 8     |
|  |       | 31   | (648) |
| Items that will never be reclassified to earnings            |       |      |       |
| Post-employment benefits                                     | 8     |      |       |
| Actuarial (losses) gains                                     |       | (10) | 14    |
| Deferred income taxes  |       | 3    | (4)   |
|  |       | (7)  | 10    |
| Other comprehensive income (loss)                            |       | 24   | (638) |
| Comprehensive income   |       | 620  | 350   |
| Attributable to  |       |      |       |
| Equity holders of Agrium                                     |       | 616  | 350   |
| Non-controlling interest                                     |       | 4    | -     |
| Comprehensive income   |       | 620  | 350   |

# **Consolidated Balance Sheets**

|  | December 31, |  |         |  |
|--|--------------|--|---------|--|
| millions of U.S. dollars)                    | Notes        | 2016                                   | 2015    |  |
| Assets                                       |              |  |         |  |
| Current assets                               |              |  |         |  |
| Cash and cash equivalents                    | 10           | 412                                    | 515     |  |
| Accounts receivable                          | 11           | 2,208                                  | 2,053   |  |
| Income taxes receivable                      |              | 33                                     | 4       |  |
| Inventories                                  | 12           | 3,230                                  | 3,314   |  |
| Prepaid expenses and deposits                |              | 855                                    | 688     |  |
| Other current assets                         | 16           | 123                                    | 144     |  |
|  |              | 6,861                                  | 6,718   |  |
| Property, plant and equipment                | 13           | 6,818                                  | 6,333   |  |
| Intangibles                                  | 14           | 566                                    | 632     |  |
| Goodwill                                     | 14           | 2,095                                  | 1,980   |  |
| Investments in associates and joint ventures | 15           | 541                                    | 607     |  |
| Other assets                                 | 16           | 48                                     | 54      |  |
| Deferred income tax assets                   | 7            | 34                                     | 53      |  |
|  |              | 16,963                                 | 16,377  |  |
| Liabilities and shareholders' equity         |              |  |         |  |
| Current liabilities                          |              | ······································ |         |  |
| Short-term debt                              | 17           | 604                                    | 835     |  |
| Accounts payable                             | 18           | 4,662                                  | 3,919   |  |
| Income taxes payable                         |              | 17                                     | 82      |  |
| Current portion of long-term debt            | 17           | 110                                    | 8       |  |
| Current portion of other provisions          | 19           | 59                                     | 85      |  |
| · · · · · · · · · · · · · · · · · · ·        |              | 5,452                                  | 4,929   |  |
| Long-term debt                               | 17           | 4,398                                  | 4,513   |  |
| Post-employment benefits                     | 8            | 141                                    | 124     |  |
| Other provisions                             | 19           | 322                                    | 336     |  |
| Other liabilities                            | 20           | 68                                     | 85      |  |
| Deferred income tax liabilities              | 7            | 408                                    | 383     |  |
|  |              | 10,789                                 | 10,370  |  |
| Shareholders' equity                         |              |  |         |  |
| Share capital                                |              | 1,766                                  | 1,757   |  |
| Retained earnings                            |              | 5,634                                  | 5,533   |  |
| Accumulated other comprehensive loss         |              | (1,231)                                | (1,287) |  |
| Equity holders of Agrium                     |              | 6,169                                  | 6,003   |  |
| Non-controlling interest                     |              | 5                                      | 4       |  |
| Total equity                                 |              | 6,174                                  | 6,007   |  |
| ·  |              | 16,963                                 | 16,377  |  |

# **Consolidated Statements of Cash Flows**

Years ended December 31,

| (millions of U.S. dollars)                                   | Notes | 2016    | 2015   |
|--|-------|---------|--------|
| Operating  |       |         |        |
| Net earnings   |       | 596     | 988    |
| Adjustments for  |       |         |        |
| Depreciation and amortization                                |       | 532     | 480    |
| (Earnings) loss from associates and joint ventures           |       | (66)    | 4      |
| Share-based payments   |       | 55      | 51     |
| Unrealized loss (gain) on derivative financial instruments   |       | 36      | (21)   |
| Unrealized foreign exchange gain                             |       | (19)    | (35    |
| Interest income  |       | (66)    | (68    |
| Finance costs  |       | 278     | 252    |
| Income taxes   |       | 224     | 376    |
| Other  |       | 23      | (20)   |
| Interest received  |       | 66      | 70     |
| Interest paid  |       | (272)   | (212   |
| Income taxes paid  |       | (291)   | (111   |
| Dividends from associates and joint ventures                 |       | 116     | 2      |
| Net changes in non-cash working capital                      | 10    | 455     | (93    |
| Cash provided by operating activities                        |       | 1,667   | 1,663  |
| nvesting   |       |         |        |
| Business acquisitions, net of cash acquired                  | 21    | (342)   | (127   |
| Capital expenditures   |       | (724)   | (1,188 |
| Capitalized borrowing costs                                  |       | (24)    | (45    |
| Purchase of investments                                      |       | (77)    | (128   |
| Proceeds from sale of investments                            |       | 97      | 83     |
| Proceeds from sale of property, plant and equipment          |       | 16      | 104    |
| Other  |       | 33      | (4     |
| Net changes in non-cash working capital                      |       | 5       | (198)  |
| Cash used in investing activities                            |       | (1,016) | (1,503 |
| Financing  |       |         |        |
| Short-term debt  |       | (188)   | (514   |
| Long-term debt issued  |       | -       | 1,000  |
| Transaction costs on long-term debt                          |       | -       | (14    |
| Repayment of long-term debt                                  |       | (17)    | (19    |
| Dividends paid   |       | (482)   | (468   |
| Shares issued  |       | -       | 1      |
| Shares repurchased   |       | -       | (559   |
| Cash used in financing activities                            |       | (687)   | (573   |
| Effect of exchange rate changes on cash and cash equivalents |       | (67)    | 80     |
| Decrease in cash and cash equivalents                        |       | (103)   | (333   |
| Cash and cash equivalents — beginning of year                |       | 515     | 848    |
| Cash and cash equivalents – end of year                      | 10    | 412     | 515    |

# **Consolidated Statements of Shareholders' Equity**

Other comprehensive income (loss)

| (millions of U.S. dollars, except share data)          | Millions<br>of common<br>shares | Share<br>capital | Retained<br>earnings | Cash<br>flow<br>hedges | Comprehensive<br>loss of<br>associates<br>and joint<br>ventures | Foreign<br>currency<br>translation | Total   | Equity<br>holders of<br>Agrium | Non-<br>controlling<br>interest | Total<br>equity |
|--|---------------------------------|------------------|----------------------|------------------------|---|------------------------------------|---------|--------------------------------|---------------------------------|-----------------|
| December 31, 2014                                      | 144                             | 1,821            | 5,502                | (27)                   | (11)  | (605)                              | (643)   | 6,680                          | 7                               | 6,687           |
| Net earnings   | -                               | -                | 988                  | -                      | -   | -                                  | -       | 988                            | -                               | 988             |
| Other comprehensive income (loss), net of tax          |                                 |                  |                      |                        |   |                                    |         |                                |                                 |                 |
| Post-employment benefits                               | -                               | -                | 10                   | -                      | -   | -                                  | -       | 10                             | -                               | 10              |
| Other  | -                               | -                | -                    | (33)                   | (6)   | (609)                              | (648)   | (648)                          | -                               | (648)           |
| Comprehensive income (loss), net of tax                | -                               | -                | 998                  | (33)                   | (6)   | (609)                              | (648)   | 350                            | _                               | 350             |
| Dividends (\$3.405 per share)                          | -                               | -                | (478)                | -                      | -   | -                                  | -       | (478)                          | -                               | (478)           |
| Non-controlling interest transactions                  | -                               | -                | -                    | -                      | -   | -                                  | -       | -                              | (3)                             | (3)             |
| Shares repurchased                                     | (6)                             | (70)             | (489)                | -                      | -   | -                                  | -       | (559)                          | -                               | (559)           |
| Share-based payment transactions                       | -                               | 6                | -                    | -                      | -   | -                                  | -       | 6                              | -                               | 6               |
| Reclassification of<br>cash flow hedges,<br>net of tax | -                               | -                | -                    | 4                      | _   | -                                  | 4       | 4                              | -                               | 4               |
| December 31, 2015                                      | 138                             | 1,757            | 5,533                | (56)                   | (17)  | (1,214)                            | (1,287) | 6,003                          | 4                               | 6,007           |
| Net earnings   | -                               | -                | 592                  | -                      | -   | -                                  | -       | 592                            | 4                               | 596             |
| Other comprehensive income (loss), net of tax          |                                 |                  |                      |                        |   |                                    |         |                                |                                 |                 |
| Post-employment benefits                               | -                               | -                | (7)                  | -                      | -   | -                                  | -       | (7)                            | -                               | (7)             |
| Other  | -                               | -                | -                    | 6                      | (34)  | 59                                 | 31      | 31                             | -                               | 31              |
| Comprehensive income (loss), net of tax                | -                               | -                | 585                  | 6                      | (34)  | 59                                 | 31      | 616                            | 4                               | 620             |
| Dividends (\$3.50 per share)                           | -                               | -                | (484)                | -                      | -   | -                                  | -       | (484)                          | -                               | (484)           |
| Non-controlling interest transactions                  | -                               | -                | -                    | -                      | -   | -                                  | -       | -                              | (3)                             | (3)             |
| Share-based payment transactions                       | -                               | 9                | -                    | -                      | -   | -                                  | -       | 9                              | -                               | 9               |
| Reclassification of<br>cash flow hedges,<br>net of tax | -                               | -                | -                    | 25                     | -   | -                                  | 25      | 25                             | -                               | 25              |
| December 31, 2016                                      | 138                             | 1,766            | 5,634                | (25)                   | (51)  | (1,155)                            | (1,231) | 6,169                          | 5                               | 6,174           |

# **Notes to the Consolidated Financial Statements**

(millions of U.S. dollars unless otherwise stated)

#### CORPORATE MANAGEMENT

Agrium Inc. ("Agrium") is incorporated under the laws of Canada with common shares listed under the symbol "AGU" on the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX). Our Corporate head office is located at 13131 Lake Fraser Drive S.E., Calgary, Canada. We conduct our operations globally from our Wholesale head office in Calgary and our Retail head office in Loveland, Colorado, United States. In these financial statements, "we", "us", "our" and "Agrium" mean Agrium Inc., its subsidiaries and its joint arrangements.

Our Executive Leadership Team (ELT) comprises the following officers at the date of release of these financial statements:

- Charles (Chuck) V. Magro President & Chief Executive Officer
- Steve J. Douglas Senior Vice President & Chief Financial Officer
- Henry (Harry) Deans Senior Vice President and President, Wholesale Business Unit
- Stephen G. Dyer Senior Vice President and President, Retail Business Unit
- Susan C. Jones Senior Vice President & Chief Legal Officer
- Leslie A. O'Donoghue Executive Vice President, Corporate Development & Strategy & Chief Risk Officer
- Michael R. Webb Senior Vice President, Human Resources

ELT and Board of Directors compensation included in these financial statements:

#### Related party transactions

|                          | 2016 | 2015 |
|--------------------------|------|------|
| Short-term benefits      | 19   | 11   |
| Post-employment benefits | 2    | 2    |
| Share-based payments     | 24   | 20   |

The ELT is responsible for strategic decision making, resource allocation and assessing financial performance and is identified as our Chief Operating Decision Maker (CODM) for the purposes of reporting segment operations under IFRS. The CODM reviews the results of our operations and our financial position on consolidated, operating segment and business unit levels. Our operating segments are defined by the organization and reporting structure through which we operate our business. We categorize our operating segments within the Retail and Wholesale business units as follows:

- Retail: Distributes crop nutrients, crop protection products, seed and merchandise and provides financial and other services directly to growers through a network of farm centers in two geographical segments:
  - North America including the United States and Canada
  - International including Australia and South America
- Wholesale: Produces, markets and distributes crop nutrients and industrial products as follows:
  - Nitrogen: Manufacturing in Alberta and Texas
  - Potash: Mining and processing in Saskatchewan
  - Phosphate: Production facilities in Alberta and production and mining facilities in Idaho
  - Wholesale Other: Purchasing and reselling crop nutrient products from other suppliers to customers primarily in Europe; producing blended crop nutrients and Environmentally Smart Nitrogen polymer-coated nitrogen crop nutrients; and operating joint ventures and associates.

#### Principal subsidiaries, associates and joint ventures

|  | Relationship/<br>Ownership | Location      | Principal activity                             | Method of accounting |
|--|----------------------------|---------------|--|----------------------|
| Agrium, a general partnership              | Subsidiary, 100%           | Canada        | Manufacturer and distributor of crop nutrients | Consolidation        |
| Agrium U.S. Inc.                           | Subsidiary, 100%           | United States | Manufacturer and distributor of crop nutrients | Consolidation        |
| Agroservicios Pampeanos S.A.               | Subsidiary, 100%           | Argentina     | Crop input retailer                            | Consolidation        |
| Crop Production Services, Inc.             | Subsidiary, 100%           | United States | Crop input retailer                            | Consolidation        |
| Crop Production Services (Canada) Inc.     | Subsidiary, 100%           | Canada        | Crop input retailer                            | Consolidation        |
| Landmark Operations Ltd.                   | Subsidiary, 100%           | Australia     | Crop input retailer                            | Consolidation        |
| Loveland Products Inc.                     | Subsidiary, 100%           | United States | Crop input developer and retailer              | Consolidation        |
| Misr Fertilizers Production Company S.A.E. | Associate, 26%             | Egypt         | Manufacturer and distributor of crop nutrients | Equity method        |
| Profertil S.A.                             | Joint venture, 50%         | Argentina     | Manufacturer and distributor of crop nutrients | Equity method        |

# Planned Merger with Potash Corporation of Saskatchewan Inc. ("PotashCorp")

Agrium and PotashCorp entered into an agreement dated September 11, 2016 (the "Arrangement Agreement"), under which the companies will combine in a merger of equals into a newly incorporated parent entity ("New Parent") to be formed to manage and hold the combined businesses of Agrium and PotashCorp. The Arrangement Agreement will be implemented by a proposed plan of arrangement (the "Arrangement"). Under the Arrangement, Agrium shareholders will receive 2.23 New Parent shares for each Agrium share held, and PotashCorp shareholders will receive 0.40 of a New Parent share for each PotashCorp share held. Following the completion of the Arrangement Agreement, Agrium and PotashCorp will become wholly-owned subsidiaries of New Parent and New Parent will continue the operations of Agrium and PotashCorp on a combined basis. Each of the share-based payment awards for each of Agrium and PotashCorp, whether vested or unvested, that are outstanding immediately prior to the completion of the Arrangement will convert into a New Parent award.

On November 3, 2016, shareholders of both Agrium and PotashCorp approved the Arrangement. The Arrangement is anticipated to be completed in mid-2017, subject to customary closing conditions including receipt of regulatory and court approvals.

The estimated costs to be incurred by Agrium and PotashCorp with respect to the Arrangement and related matters are expected to aggregate approximately \$140-million.

The Arrangement Agreement contains provisions that restrict Agrium's and PotashCorp's ability to pursue alternatives to the Arrangement and, in specified circumstances, Agrium or PotashCorp could be required to pay the other party a non-completion fee of \$485-million or \$50-million as reimbursement for related expenses. The Arrangement Agreement also restricts Agrium and PotashCorp from increasing dividends or repurchasing their shares before completion of the Arrangement.

Additional information and the full text of the Arrangement Agreement and the Arrangement are included in Agrium and PotashCorp's joint proxy circular filed on SEDAR on October 6, 2016.

# 2. OPERATING SEGMENTS

#### **Segment information**

|   | 2016             |               |            |          |        |           |                    |           |           |        |  |
|---|------------------|---------------|------------|----------|--------|-----------|--------------------|-----------|-----------|--------|--|
|   | North<br>America | International | Retail (a) | Nitrogen | Potash | Phosphate | Wholesale<br>Other | Wholesale | Other (b) | Total  |  |
| Sales – external                                      | 9,565            | 2,158         | 11,723     | 860      | 280    | 356       | 446                | 1,942     | -         | 13,665 |  |
| – inter-segment                                       | 43               | -             | 43         | 284      | 139    | 211       | 130                | 764       | (807)     | -      |  |
| Total sales   | 9,608            | 2,158         | 11,766     | 1,144    | 419    | 567       | 576                | 2,706     | (807)     | 13,665 |  |
| Earnings (loss) before finance costs and income taxes | 676              | 141           | 817        | 329      | 10     | 31        | 139                | 509       | (228)     | 1,098  |  |
| Depreciation and amortization                         | 249              | 25            | 274        | 75       | 99     | 55        | 13                 | 242       | 16        | 532    |  |
| EBITDA (c)  | 925              | 166           | 1,091      | 404      | 109    | 86        | 152                | 751       | (212)     | 1,630  |  |
| Earnings (loss) from associates and joint ventures    | 4                | 2             | 6          | -<br>-   |        | <u>-</u>  | 61                 | 61        | (1)       | 66     |  |
| Total assets  | 8,144            | 1,338         | 9,482      | 1,812    | 3,666  | 808       | 675                | 6,961     | 520       | 16,963 |  |
| Additions to non-current assets (d)                   | 405              | 30            | 435        | 444      | 70     | 46        | 20                 | 580       | 5         | 1,020  |  |

#### **Segment information**

|   | 2015             |               |        |          |        |           |                    |           |           |        |
|---|------------------|---------------|--------|----------|--------|-----------|--------------------|-----------|-----------|--------|
|   | North<br>America | International | Retail | Nitrogen | Potash | Phosphate | Wholesale<br>Other | Wholesale | Other (b) | Total  |
| Sales – external                                      | 10,093           | 2,075         | 12,168 | 1,129    | 364    | 471       | 663                | 2,627     | -         | 14,795 |
| – inter-segment                                       | 31               | -             | 31     | 401      | 151    | 270       | 153                | 975       | (1,006)   | -      |
| Total sales   | 10,124           | 2,075         | 12,199 | 1,530    | 515    | 741       | 816                | 3,602     | (1,006)   | 14,795 |
| Earnings (loss) before finance costs and income taxes | 686              | 93            | 779    | 699      | 143    | 116       | 115                | 1,073     | (236)     | 1,616  |
| Depreciation and amortization                         | 229              | 25            | 254    | 72       | 71     | 51        | 17                 | 211       | 15        | 480    |
| EBITDA (c)  | 915              | 118           | 1,033  | 771      | 214    | 167       | 132                | 1,284     | (221)     | 2,096  |
| Earnings (loss) from associates and joint ventures    | 3                | 2             | 5      | -        | -      | -         | (10)               | (10)      | 1         | (4)    |
| Total assets  | 7,797            | 1,167         | 8,964  | 1,556    | 3,614  | 745       | 782                | 6,697     | 716       | 16,377 |
| Additions to non-current assets (d)                   | 272              | 22            | 294    | 525      | 436    | 88        | 27                 | 1,076     | 16        | 1,386  |

- (a) Included within the Retail business unit is a separate Financial Services operating segment with total sales of \$16-million and EBITDA of \$15-million.
- (b) Non-cash share-based payments expense of \$55-million (2015 \$51-million) is recorded in our Other segment.
- (c) EBITDA is net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations.
- (d) Additions to non-current assets include property, plant and equipment, intangibles and goodwill.

#### Retail sales by product line

|                    | 2016   | 2015   |
|--------------------|--------|--------|
| Crop nutrients     | 4,310  | 4,944  |
|                    | 4,684  | 4,543  |
| Seed               | 1,462  | 1,425  |
| Merchandise        | 621    | 638    |
| Services and other | 689    | 649    |
|                    | 11,766 | 12,199 |

#### Key data by geographic region

|                         | 2016      |                        | 2015      |                           |
|-------------------------|-----------|------------------------|-----------|---------------------------|
|                         | Sales (a) | Non-current assets (b) | Sales (a) | Non-current<br>assets (b) |
| Canada                  | 2,437     | 4,430                  | 2,774     | 4,294                     |
| United States           | 8,880     | 4,898                  | 9,706     | 4,461                     |
| Europe<br>South America | 182       | 5                      | 231       | 7                         |
| South America           | 396       | 197                    | 331       | 276                       |
| Australia               | 1,769     | 222                    | 1,752     | 246                       |
| Egypt Other             | -         | 285                    | -         | 283                       |
| Other                   | 1         | 3                      | 1         | 2                         |
|                         | 13,665    | 10,040                 | 14,795    | 9,569                     |

<sup>(</sup>a) Sales by location of customers.

Our CODM measures performance and allocates resources based on information it considers most relevant in evaluating the results of business units and operating segments relative to other entities that operate in similar industries. The main operating measures the CODM reviews on a regular basis are consolidated, business unit and segment EBITDA. The CODM does not review Retail net earnings information by product line, reflecting how Retail aggregates expenses and net earnings in its accounting records and financial reports. The CODM also does not regularly review (a) financial information aggregated on any other product line or geographic basis or (b) segment finance costs, income taxes or balance sheet information. We have not aggregated any operating segments in determining our reportable segments.

We continually monitor changes in facts and circumstances that could change the composition of our operating segments, as determined by the information regularly reviewed by the CODM. In 2016, the CODM modified the regular reports it reviews to disclose the results of our newly created financial services operating segment. We have modified our segment reporting to reflect this change.

The accounting policies of segments are the same as the accounting policies described in note 24. We record sales between operating segments at prices equivalent to those charged to third parties. We eliminate such sales on consolidation. We report a non-operating segment, "Other", for inter-segment eliminations and corporate functions.

#### CAPITAL MANAGEMENT

### Policies and Objectives in Managing Capital

Agrium defines capital as adjusted total debt plus total equity. Our objectives for managing capital are to (a) maintain a strong balance sheet and flexible capital structure to optimize the cost of capital at an acceptable level of risk, (b) support an investment grade credit rating profile, (c) improve the overall efficiency of our assets and deliver on our growth opportunities to grow our earnings, and (d) maximize total shareholder return.

To maintain or adjust our capital structure, we may adjust the amount of dividends paid to shareholders, issue new shares, buy back shares, issue or redeem debt, sell trade receivables through our securitization program, or adjust anticipated future capital expenditures and resources available for other growth opportunities. Our authorized share capital consists of unlimited common shares without par value and unlimited preferred shares.

<sup>(</sup>b) Excludes financial instruments and deferred tax assets.

#### Information monitored to manage capital

|  | 2016 Target | December 31, | ,     |
|--|-------------|--------------|-------|
|  |             | 2016         | 2015  |
| Net debt to EBITDA   |             | 2.9          | 2.3   |
| Debt covenant ratios (a)   |             |              |       |
| Interest coverage (b)  | ≥ 2.5       | 6            | 8     |
| Debt-to-capital <sup>(c)</sup>   | ≤ 0.65      | 0.44         | 0.46  |
| Retail measures (%)  |             |              |       |
| Average non-cash working capital to sales                                  | 17          | 17           | 18    |
| Return on operating capital employed (d)                                   | N/A         | 18           | 17    |
| Return on capital employed (e)   | N/A         | 10           | 9     |
| Components of ratios   |             |              |       |
| EBITDA   |             | 1,630        | 2,096 |
| Calculation of components of ratios  |             |              |       |
| 1) Net debt  |             |              |       |
| Short-term debt  |             | 604          | 835   |
| Long-term debt, including current portion                                  |             | 4,508        | 4,521 |
| Cash and cash equivalents  |             | (412)        | (515) |
| Net debt   |             | 4,700        | 4,841 |
| 2) Adjusted total debt   |             |              |       |
| Guarantees and letters of credit (specified in credit facility agreements) |             | 242          | 222   |
| Adjusted total debt  |             | 4,942        | 5,063 |

<sup>(</sup>a) Our revolving credit facilities and trade receivable securitization program require that we maintain these ratios as well as other non-financial covenants. We were in compliance with all covenants at December 31, 2016.

- (b) EBITDA divided by finance costs, which includes finance costs related to long-term debt plus other finance costs.
- (c) Adjusted total debt divided by the sum of adjusted total debt and total equity.
- (d) Last 12 months' earnings from continuing operations before finance costs and income taxes (EBIT) less income taxes at a tax rate of 28 percent (2015 – 28 percent) divided by rolling four quarter average operating capital employed. Operating capital employed includes non-cash working capital, property, plant and equipment, investments in associates and joint ventures, and other assets.
- (e) Last 12 months' EBIT less income taxes at a tax rate of 28 percent (2015 28 percent) divided by rolling four quarter average capital employed. Capital employed includes operating capital employed, intangibles and goodwill.

We maintain a base shelf prospectus, which permits issuance to June 2018 in Canada and the United States, of common shares, debt and other securities up to \$2.5-billion. Issuance of securities under the base shelf prospectus requires filing a prospectus supplement and is subject to the availability of funding in capital markets.

In 2016, we entered into a trade receivable securitization program. Under this program, we sell certain trade receivables to a special purpose vehicle, which is a consolidated entity within Agrium. We control and retain substantially all the risks and rewards of the receivables sold to the special purpose vehicle. Should we wish to draw funds under the program, the sold accounts receivable balances may be used as capacity for collateralized borrowings from a third party financial institution. At December 31, 2016, we have not drawn down on the capacity made available under this securitization program.

#### FINANCIAL RISK MANAGEMENT 4.

#### a) Financial Risk Management Objectives and Policies

In the normal course of business, our balance sheet, results of operations and cash flows are exposed to various risks. Annually, the Board approves a strategic plan that takes into account the opportunities and major risks of our business and mitigating factors to reduce these risks. The Board sets upper limits on the time periods and transactional and balance sheet exposures management can manage. Our Corporate Financial Risk Committee reviews risk management policies and procedures annually and monitors compliance with these limits and associated exposure management activity. We manage risk in accordance with our Global Exposure Management Policy, whose objective is to reduce volatility in cash flows and net earnings. We hold all derivative financial instruments for risk management purposes only.

Risks we manage are described under Risk Management Policies in section (j).

### b) Market Risk - Currency Risk

#### Foreign exchange derivative financial instruments outstanding

|   |          |  |   | Decemb                                   | er 31,                                  |            |                                  |  |
|---|----------|--|---|--|---|------------|----------------------------------|--|
|   |          | 201                                    | 6   |  |   | 2015       |                                  |  |
| Sell/Buy<br>(notional amounts in<br>millions of U.S. dollars) | Notional | Maturities                             | Average<br>contract<br>price <sup>(a)</sup> | Fair value<br>of assets<br>(liabilities) | Notional                                | Maturities | Average<br>contract<br>price (a) | Fair value<br>of assets<br>(liabilities) |
| Forwards  |          |  |   |  |   |            |                                  |  |
| USD/CAD   | -        | -                                      | -   | -  | 190                                     | 2016       | 1.38                             | (1)                                      |
| CAD/USD   | 180      | 2017                                   | 1.34  | -  | 1,805                                   | 2016       | 1.35                             | 45                                       |
| USD/AUD   | 14       | 2017                                   | 1.32  | (1)                                      | 73                                      | 2016       | 1.42                             | 2  |
| AUD/USD   | 22       | 2017                                   | 1.34  | 1  | 143                                     | 2016       | 1.43                             | (3)                                      |
| CNY/AUD   | 23       | 2017                                   | 7.16  | -  | -                                       | -          | -                                | -  |
| Options   |          | ······································ | •   |  | ••••••••••••••••••••••••••••••••••••••• | ·····      | •                                |  |
| USD/AUD – buy<br>USD puts                                     | -        | -                                      | -   | -  | 59                                      | 2016       | 1.38                             | (1)                                      |
|   |          |  |   | -  |   |            |                                  | 42                                       |

<sup>(</sup>a) Foreign currency per U.S. dollar

We determine the functional currency of our subsidiaries in reference to the primary economic environment in which each entity operates. We are exposed to currency risk from financial instruments denominated in currencies other than the functional currency of an operation. The majority of this currency risk arises from exposure to the Canadian dollar. We manage this exposure by entering into foreign currency derivative contracts. Although the derivatives have not been designated in hedging relationships, our risk management strategy is to offset substantially all of the earnings impact from the translation of the underlying financial instruments that could occur from a reasonably possible strengthening or weakening of the U.S. dollar.

### c) Market risk – Commodity Price Risk

#### **COMMODITY PRICE RISK MANAGEMENT AND CASH FLOW HEDGES**

Natural gas is a significant component of our cost of product sold for nitrogen-based fertilizers. We use physical contracts and financial derivative contracts to manage the risk of market fluctuations in natural gas prices and to reduce the variability of cash flows from our planned purchases of natural gas used in our fertilizer production facilities. Our Board of Directors has established limits on risk management activities, including the following:

#### Use of derivatives to hedge exposure to natural gas market price risk

| Term (gas year – 12 months ending October 31)                        | 2017 | 2018 | 2019 | 2020              |
|--|------|------|------|-------------------|
| Maximum allowable (% of forecast gas requirements)                   | 75   | 75   | 75   | 25 <sup>(a)</sup> |
| Forecast average monthly natural gas consumption (millions of MMBtu) | 9    | 9    | 9    | 9                 |
| Gas requirements hedged using derivatives designated as hedges (%)   | 24   | 24   | -    | -                 |

<sup>(</sup>a) Maximum monthly hedged volume may not exceed 90 percent of planned monthly requirements.

We designate all of our natural gas derivatives as qualifying hedges for accounting purposes. The contracts settle in the months hedged using AECO futures price indexes, which we use to determine fair value. The contracts are denominated in Canadian dollars for purchases of gas in Canadian dollars. At the inception of each designated derivative contract, we prepare formal designation and documentation of the hedging relationship and our risk management objective and strategy for undertaking the hedge. We record the effective portion of changes in fair value to other comprehensive income. We record any ineffective portion to earnings.

The underlying risk of the derivative contracts is identical to the hedged risk; accordingly, we have established a ratio of 1:1 for all natural gas hedges. Due to a strong correlation between AECO future contract prices and our delivered cost, we did not experience any ineffectiveness on our hedges, and accordingly we have recorded the full change in the fair value of the natural gas derivative contracts designated as hedges to other comprehensive income.

Potential sources of ineffectiveness are changes in timing of forecast transactions, changes in volume delivered or changes in credit risk of Agrium or the counterparty.

#### Natural gas derivative financial instruments outstanding

|   | December 31, |            |                                  |  |          |            |   |  |
|---|--------------|------------|----------------------------------|--|----------|------------|---|--|
|   | 2016         |            |                                  |  |          | 201        | 5   |  |
| (notional amounts in millions of MMBtu) | Notional     | Maturities | Average<br>contract<br>price (a) | Fair value<br>of assets<br>(liabilities) | Notional | Maturities | Average<br>contract<br>price <sup>(a)</sup> | Fair value<br>of assets<br>(liabilities) |
| AECO swaps                              | 48           | 2017-2018  | 2.90                             | (21)                                     | 74       | 2016-2018  | 2.78  | (56)                                     |

(a) U.S. dollars per MMBtu

#### Maturities of natural gas derivative contracts

|            | Fair Va | lue  |
|------------|---------|------|
|            | 2017    | 2018 |
| AECO swaps | (5)     | (16) |

#### Natural gas derivative financial instruments outstanding

|                                    | <u> </u> | December 31, |          |        |         |          |  |  |  |
|------------------------------------|----------|--------------|----------|--------|---------|----------|--|--|--|
|                                    |          | 2016         |          | 2015   |         |          |  |  |  |
|                                    | Gross    |              | Carrying | Gross  |         | Carrying |  |  |  |
|                                    | amount   | Netting      | amount   | amount | Netting | amount   |  |  |  |
| Accounts receivable                | 65       | (64)         | 1        | 48     | (48)    | -        |  |  |  |
| Other assets                       | 51       | (51)         | -        | 101    | (101)   | -        |  |  |  |
| Accounts payable                   | (73)     | 67           | (6)      | (71)   | 48      | (23)     |  |  |  |
| Accounts payable Other liabilities | (64)     | 48           | (16)     | (134)  | 101     | (33)     |  |  |  |
|                                    | (21)     | -            | (21)     | (56)   | -       | (56)     |  |  |  |

#### Impact of change in fair value of natural gas derivative financial instruments

|   | Decem | ber 31, |
|---|-------|---------|
|   | 2016  | 2015    |
| A \$10-million impact to other comprehensive income requires movement in gas prices per MMBtu | 0.29  | 0.28    |

# d) Market risk – Interest Rate Risk

#### Impact of change in short-term debt (basis points)

|  | December 31, |
|--|--------------|
|  | 2016         |
| A \$10-million decrease in net earnings requires an increase in interest rates | 228          |

#### Sensitivity – impact of change in fair value of debentures

|                              | December 31, |
|------------------------------|--------------|
|                              | 2016         |
| Interest rate increase of 1% | (401)        |
| Interest rate decrease of 1% | 470          |

The weighted average effective interest rate on long-term debt at December 31, 2016, was 5 percent (December 31, 2015 – 5 percent).

### e) Credit Risk

#### Maximum exposure to credit risk

|                           |       | December 31, |       |  |
|---------------------------|-------|--------------|-------|--|
|                           | Notes | 2016         | 2015  |  |
| Cash and cash equivalents |       | 412          | 515   |  |
| Accounts receivable       | 11    | 2,208        | 2,053 |  |
| Other current assets      |       | 121          | 142   |  |
| Other non-current assets  |       | 28           | 37    |  |
|                           |       | 2,769        | 2,747 |  |

#### DERIVATIVES AND CASH AND CASH EQUIVALENTS - RISK CONCENTRATION

At December 31, 2016, all counterparties to derivative financial instruments have maintained an investment grade credit rating, and we have no indication that any counterparty to a derivative financial contract or to cash and cash equivalents will be unable to meet its obligations.

# f) Liquidity Risk

The table below summarizes the maturity profile of our financial liabilities based on contractual undiscounted payments, including estimated interest payments. The amounts included for derivative financial instruments are subject to change as interest rates, exchange rates or commodity prices change.

| December 31, 2016                     | Carrying<br>amount | Contractual cash flows | Less than one year | One to three years | Four to five years | More than five years |
|---------------------------------------|--------------------|------------------------|--------------------|--------------------|--------------------|----------------------|
| Short-term debt                       | 604                | 604                    | 604                | -                  | -                  | -                    |
| Accounts payable                      | 3,098              | 3,098                  | 3,098              | -                  | -                  | -                    |
| Current portion of long-term debt     | 110                | 114                    | 114                | -                  | -                  | -                    |
| Long-term debt                        | 4,398              | 7,825                  | 219                | 904                | 366                | 6,336                |
| Other liabilities                     | 13                 | 13                     | -                  | 13                 | -                  | -                    |
| Foreign exchange derivative contracts | 1                  | 1                      | 1                  | -                  | -                  | -                    |
| Natural gas derivative contracts      | 22                 | 22                     | 6                  | 16                 | -                  | -                    |
|                                       | 8,246              | 11,677                 | 4,042              | 933                | 366                | 6,336                |

### g) Netting Arrangements

We enter into derivative transactions under master netting arrangements, under which we aggregate the amounts owed by each counterparty for all contracts outstanding in the same currency or commodity into a single net amount receivable or payable by us or our counterparty. If a default occurs, all outstanding transactions under the arrangement are terminated and the net termination value is receivable or payable for settlement purposes.

We record the carrying amounts of our foreign exchange derivative contracts on a gross basis and the carrying amounts of our natural gas derivative contracts on a net basis.

#### h) Gain (loss) on Derivative Financial Instruments Included in Earnings

|                                  |                      | 2016                      |                      |                         | 2015                      |                      |
|----------------------------------|----------------------|---------------------------|----------------------|-------------------------|---------------------------|----------------------|
|                                  | Realized gain (loss) | Unrealized<br>gain (loss) | Total<br>gain (loss) | Realized<br>gain (loss) | Unrealized<br>gain (loss) | Total<br>gain (loss) |
| Foreign exchange derivatives     |                      |                           |                      |                         |                           |                      |
| Recorded in sales                | (4)                  | 1                         | (3)                  | 14                      | -                         | 14                   |
| Recorded in cost of product sold | 2                    | -                         | 2                    | -                       | -                         | -                    |
| Recorded in other expenses       | (7)                  | (37)                      | (44)                 | 246                     | 21                        | 267                  |
|                                  | (9)                  | (36)                      | (45)                 | 260                     | 21                        | 281                  |
| Commodity derivatives            |                      |                           |                      |                         |                           |                      |
| Recorded in cost of product sold | (34)                 | -                         | (34)                 | (7)                     | -                         | (7)                  |
|                                  | (34)                 | -                         | (34)                 | (7)                     | -                         | (7)                  |
|                                  | (43)                 | (36)                      | (79)                 | 253                     | 21                        | 274                  |

### i) Fair Value Hierarchy

We determine the fair value of financial instruments classified as Level 1 using independent quoted market prices for identical instruments in active markets. For financial instruments classified as Level 2, we estimate fair value using quoted prices for similar instruments in active markets or prices for identical or similar instruments in markets that are not active, or using valuation techniques based on industry-accepted third-party models that make maximum use of market-based inputs. We classify fair value estimates not based on observable market data as Level 3. We consider a market active if quoted prices are readily and regularly available and based on actual and regularly occurring market transactions. For any significant Level 3 measurements, we employ a valuation team or retain valuation experts to calculate certain measurements, and we review any third-party information we use.

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or market liquidity generally drive changes in the availability of observable market data. Changes in the availability of observable market data that may result in changing the valuation technique used are generally the cause of transfers between hierarchy levels. We have not made any transfers between levels during 2016 or 2015. We do not measure any of our financial instruments using Level 3 inputs.

#### FAIR VALUE MEASUREMENT TECHNIQUES AND INPUTS FOR FINANCIAL INSTRUMENTS MEASURED USING LEVEL 2 INPUTS

| Financial instrument                                  | Measurement technique | Key inputs   |
|---|-----------------------|--|
| Foreign exchange forward contracts, swaps and options | Discounted cash flow  | Forward exchange rates, contract forward and interest rates, observable yield curves   |
| Natural gas swaps                                     | Market comparison     | Current market and contractual prices, forward pricing curves, quoted forward prices, basis differentials, volatility factors and interest rates |

|   |          |         | December | r <b>31</b> , |         |          |
|---|----------|---------|----------|---------------|---------|----------|
|   |          | 2016    |          |               | 2015    |          |
|   | Fair val | ue      | Carrying | Fair value    |         | Carrying |
|   | Level 1  | Level 2 | value    | Level 1       | Level 2 | value    |
| Financial instruments measured at fair value on a recurring basis |          |         |          |               |         |          |
| Cash and cash equivalents   | -        | 412     | 412      | -             | 515     | 515      |
| Accounts receivable – derivatives                                 | -        | 2       | 2        | -             | 48      | 48       |
| Other current financial assets — marketable securities (a)        | 22       | 99      | 121      | 20            | 122     | 142      |
| Accounts payable – derivatives                                    | -        | 7       | 7        | -             | 29      | 29       |
| Other financial liabilities – derivatives                         | -        | 16      | 16       | -             | 33      | 33       |
| Financial instruments measured at amortized cost                  |          |         |          | •             | •       |          |
| Current portion of long-term debt (b)                             | •••••    | •       |          |               | •       |          |
| Debentures  | -        | 101     | 100      | -             | -       | -        |
| Fixed and floating rate debt                                      | -        | 10      | 10       | -             | 8       | 8        |
| Long-term debt (b)  | •        | •••••   |          |               | •••••   |          |
| Debentures  | -        | 4,600   | 4,373    | -             | 4,464   | 4,469    |
| Fixed and floating rate debt                                      | -        | 25      | 25       | -             | 44      | 44       |

Marketable securities consist of equity and fixed income securities. We determine the fair value of equity securities based on the bid price of identical instruments in active markets. We value fixed income securities using quoted prices of instruments with similar terms and credit risk.

<sup>(</sup>b) We determine the fair value of long-term debt based on comparable debt instruments with similar maturities to our debt, adjusted where necessary to our credit spread, based on information published by financial institutions. Carrying amount of floating rate debt approximates fair value.

# j) Risk Management Policies

| Item   | Primarily affected by   | Risk management policies   |
|--|---|--|
| Sales  | Product prices and foreign currency exchange rates  | Foreign currency forward and swap contracts  |
| Cost of product sold – natural gas and power   | Prices of natural gas and power   | Natural gas forward, swap and option contracts; power swap contracts   |
| Cost of product sold — inventory purchased for resale  | Prices of nutrients purchased for resale  | Nutrient swaps and fixed price product purchase commitments  |
| Cost of product sold, selling, general<br>and administrative, and other expenses<br>denominated in local currencies                                | Foreign currency exchange rates   | Foreign currency forward and swap contracts  |
| Capital expenditures   | Foreign currency exchange rates   | Foreign currency forward and swap contracts  |
| Finance costs  | USD interest rates  | Maintaining a combination of fixed and floating rate debt; interest rate swaps to manage risk for up to 10 years   |
| Financial instruments  |   |  |
| Market risk — currency risk  | USD balances in Canadian, Australian, European<br>and South American subsidiaries; foreign currencies<br>held in USD-denominated subsidiaries | Foreign currency forward and swap contracts to manage risk for up to three years   |
| Market risk – commodity price risk<br>(natural gas, power and nutrient price risk)   | Market prices of natural gas, power and nutrients   | Natural gas forward, swap and option contracts;<br>power swap contracts to manage power price risk<br>for up to five years; nutrient swap contracts up to<br>one year                    |
| Market risk — interest rate risk<br>Floating: short-term debt, floating rate<br>long-term debt, cash and cash equivalents<br>Fixed: long-term debt | Changes in market interest rates  | Maintaining a combination of fixed and floating rate debt; interest rate swaps to manage risk for up to 10 years; cash management policies   |
| Credit risk  | Ability of customers or counterparties to financial instruments to meet obligations   | Credit approval and monitoring practices;<br>counterparty policies; master netting arrangements;<br>counterparty credit policies and limits;<br>arrangements with financial institutions |
| Liquidity risk   | Fluctuations in cash flows  | Preparing and monitoring forecasts of cash<br>flows; cash management policies; multiple-year<br>credit facilities  |

#### **5**. **EXPENSES**

We present expenses in our statements of operations by function. IFRS also requires us to provide information about expenses by nature.

#### **Expenses by nature**

|   | 2016    | 2015    |
|---|---------|---------|
| Decrease in finished goods inventory                        | 7       | 19      |
| Purchased and produced raw materials and product for resale | 10,798  | 11,297  |
| Rebates   | (1,195) | (1,100) |
| Freight and distribution                                    | 631     | 657     |
| Short-term employee benefits                                | 1,306   | 1,288   |
| Post-employment benefits                                    | 54      | 59      |
| Share-based payments  | 55      | 51      |
| Depreciation of property, plant and equipment               | 424     | 375     |
| Amortization of intangibles                                 | 108     | 105     |
| Operating leases  | 203     | 206     |
| Other   | 90      | 190     |
|   | 12,481  | 13,147  |
| Expense line items  |         |         |
| Cost of product sold  | 10,270  | 10,907  |
| Selling   | 1,914   | 1,921   |
| General and administrative                                  | 242     | 268     |
| Share-based payments  | 55      | 51      |
|   | 12,481  | 13,147  |

#### Other expenses

|   | 2016 | 2015 |
|---|------|------|
| Loss on foreign exchange and related derivatives and commodity derivatives not designated as hedges | 13   | 8    |
| Interest income   | (66) | (68) |
| Gain on sale of assets  | -    | (55) |
| Asset impairment  | 15   | 19   |
| Environmental remediation and asset retirement obligations  | 10   | 16   |
| Bad debt expense  | 35   | 32   |
| Potash profit and capital tax   | 12   | 16   |
| Merger and related costs  | 31   | -    |
| Litigation settlements and related fees   | 18   | -    |
| Outsourcing costs   | 14   | -    |
| Other   | 70   | 60   |
|   | 152  | 28   |

#### **FINANCE COSTS** 6.

#### Finance costs related to long-term debt

|   | 2016 | 2015 |
|---|------|------|
| Gross finance costs related to long-term debt                     | 228  | 226  |
| Less: Borrowing costs capitalized at a rate of 4.4% (2015 – 4.4%) | 24   | 45   |
|   | 204  | 181  |

# Other finance costs

|   | 2016 | 2015 |
|---|------|------|
| Accretion of environmental remediation and asset retirement obligations | 7    | 7    |
| Other interest expense  | 67   | 64   |
|   | 74   | 71   |

#### **INCOME TAXES** 7.

#### **Components of income taxes**

|   | 2016 | 2015 |
|---|------|------|
| Current tax expense                               | 197  | 326  |
| Current income taxes                              | 197  | 326  |
| Origination and reversal of temporary differences | 32   | 53   |
| Change in income tax rate (a)                     | -    | 18   |
| Previously unrecognized tax assets                | (5)  | (21) |
| Deferred income taxes                             | 27   | 50   |
|   | 224  | 376  |

<sup>(</sup>a) Alberta corporate income tax rate increased from 10 percent to 12 percent effective July 1, 2015.

#### Reconciliation of statutory tax rate to effective tax rate

|   | 2016 | 2015  |
|---|------|-------|
| Earnings before income taxes                                    |      |       |
| Canada  | 79   | 642   |
| Foreign   | 741  | 722   |
|   | 820  | 1,364 |
| Statutory rate (%)  | 27   | 26    |
| Income taxes at statutory rate                                  | 221  | 359   |
| Foreign currency losses (gains) relating to Canadian operations | 9    | (3)   |
| Differences in foreign tax rates                                | 6    | 20    |
| (Earnings) loss from associates and joint ventures              | (15) | 3     |
| Canadian tax rate adjustment                                    | -    | 18    |
| Recognition of previously unrecognized tax assets               | (5)  | (21)  |
| Other   | 8    | -     |
| Income taxes  | 224  | 376   |
| Current   |      |       |
| Canada  | 23   | 112   |
| Foreign   | 174  | 214   |
|   | 197  | 326   |
| Deferred  |      |       |
| Canada  | 7    | 63    |
| Foreign   | 20   | (13)  |
|   | 27   | 50    |
|   | 224  | 376   |

| Components of deferred income taxes                       | Components of d<br>income tax liabiliti |       | Components rec<br>in earning | •    | Components recognized in e |      |
|---|---|-------|------------------------------|------|----------------------------|------|
|   | 2016                                    | 2015  | 2016                         | 2015 | 2016                       | 2015 |
| Receivables, inventories and accrued liabilities          | (162)                                   | (133) | (29)                         | (30) | -                          | 2    |
| Property, plant and equipment                             | 633                                     | 529   | 92                           | 131  | 12                         | (59) |
| Intangibles   | 83                                      | 111   | (31)                         | (21) | 3                          | (6)  |
| Asset retirement and environmental remediation provisions | (132)                                   | (137) | 7                            | 1    | (2)                        | 7    |
| Deferred partnership income                               | -                                       | 58    | (61)                         | (44) | 3                          | (17) |
| Loss carry-forwards (a)                                   | (13)                                    | (44)  | 32                           | 8    | (1)                        | 7    |
| Other   | (35)                                    | (54)  | 17                           | 5    | 2                          | (1)  |
| Net deferred income tax liabilities                       | 374                                     | 330   | 27                           | 50   | 17                         | (67) |
| Deferred income tax assets                                | (34)                                    | (53)  |                              |      |                            |      |
| Deferred income tax liabilities                           | 408                                     | 383   |                              |      |                            |      |
| Net deferred income tax liabilities                       | 374                                     | 330   |                              |      |                            |      |

<sup>(</sup>a) We have not recognized unused tax losses of \$58-million (2015 - \$43-million) expiring through 2036 (2015 - expiring through 2035) in the financial statements. We have recognized unused tax losses of \$9-million (2015 - \$30-million) as we expect to earn future taxable income in that tax jurisdiction in 2017 and following years, and the tax losses do not expire under current tax legislation.

### **POST-EMPLOYMENT BENEFITS**

We sponsor post-employment pension and medical plans subject to broadly similar regulatory frameworks in Canada and the United States. For funded plans, we contribute to trustee-administered plans that are legally separate from Agrium. Regulations in each country govern the administration of assets that we hold in trust for the plans. We are responsible for governance, which includes oversight of all aspects of the plans, including investment and contribution decisions. Our pension committee assists in managing the plans, including the appointment of independent trustees, actuaries and investment professionals. Fewer than 5 percent of our employees are members of defined benefit pension plans that provide pension benefits at retirement based on years of service and/or earnings. Entitlement to benefits is generally conditional on the employee remaining in service for a minimum period or reaching a specified age. We engage a qualified actuary to perform calculations of our net benefit obligations using the projected unit credit method.

Post-employment benefit plans expose us to actuarial risks such as longevity risk, interest rate risk and market (investment) risk. We fund the cost of the registered and qualified defined benefit pension plans based on minimum statutory requirements. Our contributions include the cost of any current year accrual and any amortized payments relating to past service. We have the right to increase contributions beyond the minimum requirement. We do not fund the majority of pension obligations for executive plans. Employees cannot contribute to the defined benefit pension plans. The estimated contribution to fund our defined benefit pension plans for 2017 is \$4-million.

#### Continuity of obligation and plan assets

|   | Defined be | enefit pension p | olans | Other post-employment benefit plans |        |      |       |
|---|------------|------------------|-------|-------------------------------------|--------|------|-------|
|   |            | Plan             |       |                                     | Plan   |      |       |
|   | Obligation | assets           | Net   | Obligation                          | assets | Net  | Total |
| December 31, 2015                         | (310)      | 253              | (57)  | (67)                                | -      | (67) | (124) |
| Expense included in earnings              |            | _                |       |                                     |        |      |       |
| Service cost                              | (6)        | -                | (6)   | (3)                                 | -      | (3)  | (9)   |
| Past service cost                         | (2)        | -                | (2)   | -                                   | -      | -    | (2)   |
| Interest (expense) income                 | (13)       | 10               | (3)   | (2)                                 | -      | (2)  | (5)   |
| Settlements                               | 3          | -                | 3     | -                                   | -      | -    | 3     |
|   | (18)       | 10               | (8)   | (5)                                 | -      | (5)  | (13)  |
| Included in other comprehensive income    |            |                  |       |                                     |        |      |       |
| Actuarial gain (loss) arising from:       | •          |                  |       |                                     |        |      |       |
| Liability experience adjustments          | (1)        | -                | (1)   | (1)                                 | -      | (1)  | (2)   |
| Changes in financial assumptions          | (12)       | -                | (12)  | (1)                                 | -      | (1)  | (13)  |
| Return on plan assets, excluding interest | -          | 5                | 5     | -                                   | -      | -    | 5     |
|   | (13)       | 5                | (8)   | (2)                                 | -      | (2)  | (10)  |
| Cash flows                                |            |                  |       |                                     |        |      |       |
| Employee contributions                    | -          | -                | -     | (1)                                 | -      | (1)  | (1)   |
| Employer contributions                    | 2          | 7                | 9     | 2                                   | -      | 2    | 11    |
| Benefits paid                             | 14         | (14)             | -     | 1                                   | -      | 1    | 1     |
|   | 16         | (7)              | 9     | 2                                   | -      | 2    | 11    |
| Foreign currency translation              | (6)        | 5                | (1)   | (4)                                 | -      | (4)  | (5)   |
| December 31, 2016                         | (331)      | 266              | (65)  | (76)                                | -      | (76) | (141) |
| Arising from:                             |            |                  |       |                                     |        |      |       |
| Funded plans                              | (276)      |                  |       | -                                   |        |      | (276) |
| Unfunded plans                            | (55)       |                  |       | (76)                                |        |      | (131) |
| December 31, 2016                         | (331)      |                  |       | (76)                                |        |      | (407) |

#### Continuity of obligation and plan assets

|   | Defined benefit pension plans |   |      | Other post-employment benefit plans |   |  |       |
|---|-------------------------------|---|------|-------------------------------------|---|--|-------|
|   |                               | Plan                                    |      |                                     | Plan                                    |  |       |
|   | Obligation                    | assets                                  | Net  | Obligation                          | assets                                  | Net                                    | Total |
| December 31, 2014                         | (354)                         | 281                                     | (73) | (78)                                | -                                       | (78)                                   | (151) |
| Expense included in earnings              |                               |   |      |                                     |   |  |       |
| Service cost                              | (6)                           | -                                       | (6)  | (3)                                 | -                                       | (3)                                    | (9)   |
| Past service cost                         | (2)                           | -                                       | (2)  | 1                                   | -                                       | 1                                      | (1)   |
| Interest (expense) income                 | (12)                          | 10                                      | (2)  | (2)                                 | -                                       | (2)                                    | (4)   |
| Administrative costs                      | -                             | (1)                                     | (1)  | -                                   | -                                       | -                                      | (1)   |
|   | (20)                          | 9                                       | (11) | (4)                                 | -                                       | (4)                                    | (15)  |
| Included in other comprehensive income    |                               |   |      |                                     |   |  |       |
| Actuarial gain (loss) arising from:       | •••••                         | *************************************** |      | •                                   | *************************************** | •                                      |       |
| Liability experience adjustments          | 3                             | -                                       | 3    | 3                                   | -                                       | 3                                      | 6     |
| Changes in financial assumptions          | 7                             | -                                       | 7    | -                                   | -                                       | -                                      | 7     |
| Return on plan assets, excluding interest | -                             | 1                                       | 1    | -                                   | -                                       | -                                      | 1     |
|   | 10                            | 1                                       | 11   | 3                                   | -                                       | 3                                      | 14    |
| Cash flows                                |                               |   |      |                                     |   |  |       |
| Employee contributions                    | -                             | -                                       | -    | (1)                                 | 1                                       | -                                      | -     |
| Employer contributions                    | -                             | 8                                       | 8    | -                                   | -                                       | -                                      | 8     |
| Benefits paid                             | 16                            | (13)                                    | 3    | 3                                   | (1)                                     | 2                                      | 5     |
|   | 16                            | (5)                                     | 11   | 2                                   | -                                       | 2                                      | 13    |
| Foreign currency translation              | 38                            | (33)                                    | 5    | 10                                  | -                                       | 10                                     | 15    |
| December 31, 2015                         | (310)                         | 253                                     | (57) | (67)                                | -                                       | (67)                                   | (124) |
| Arising from:                             |                               |   |      |                                     |   |  |       |
| Funded plans                              | (262)                         | •                                       |      | -                                   | ······································  | ······································ | (262) |
| Unfunded plans                            | (48)                          | •                                       |      | (67)                                | ······································  |  | (115) |
| December 31, 2015                         | (310)                         |   |      | (67)                                |   |  | (377) |

### Post-employment benefits expense

|                                     | 2016 | 2015 |
|-------------------------------------|------|------|
| Defined contribution pension plans  | 50   | 54   |
| Defined benefit pension plans       | 8    | 11   |
| Other post-employment benefit plans | 5    | 4    |
|                                     | 63   | 69   |
| Expense line items                  |      |      |
| Cost of product sold                | 30   | 32   |
| General and administrative          | 24   | 27   |
| Other expenses                      | 4    | 5    |
| Other finance costs                 | 5    | 5    |
|                                     | 63   | 69   |

# **Assumptions and Sensitivities**

| Actuarial assumptions (%)                   | Future benefi | Future benefits obligation Future benefits expense |      |      |
|---|---------------|--|------|------|
| (expressed as weighted averages)            | 2016          | 2015   | 2016 | 2015 |
| Defined benefit pension plans               |               |  |      |      |
| Discount rate                               | 4             | 4  | 3    | 4    |
| Expected long-term rate of return on assets | N/A           | N/A  | 3    | 4    |
| Rate of increase in compensation levels     | 3             | 3  | 3    | 4    |
| Other post-employment benefit plans         |               |  | •    |      |
| Discount rate                               | 4             | 4  | 4    | 4    |

| _ |      |     |     |        |      |     |
|---|------|-----|-----|--------|------|-----|
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|   |      |     |     |        |      |     |

| , .                         |   |
|-----------------------------|---|
| Discount rate – liabilities | High-quality (minimum AA) fixed income investments with cash flows that match the currency, timing and amount of the expected cash flows of the plans |
| Rate of return — assets     | Long-term expectations of inflation and real return for each asset class, weighted in accordance with the investment policy for the plans             |
| Real returns and inflation  | Current market conditions, historical capital market data and future expectations   |
| Life expectancy             | Actuarial mortality tables published in Canada and the United States  |

|  | 2016 | 2015 |
|--|------|------|
| Assumed and ultimate health care cost trend rates                                      |      |      |
| Health care cost trend rate assumed for the next fiscal year (%)                       | 7    | 7    |
| Ultimate health care cost trend rate (%)   | 5    | 5    |
| Fiscal year the rate reaches the ultimate trend rate                                   | 2023 | 2021 |
| Mortality assumptions per latest available standard mortality tables (remaining years) |      |      |
| Average life expectancy – currently aged 65 years (2015 – 65 years)                    |      |      |
| Male   | 22   | 22   |
| Female   | 24   | 24   |
| Average duration of benefit obligation (years)   |      |      |
| Active members   | 18   | 17   |
| Retired members  | 11   | 11   |
| Average duration of the benefit obligation   | 14   | 14   |

A 1 percent change in discount rate would change our defined benefit obligation by approximately \$55-million.

### Asset Allocation and Investment Strategy

Our investment objective for our defined benefit pension plans is to maximize long-term return on plan assets using a mix of equities and fixed-income investments while maintaining an appropriate level of risk. Our policy is to not invest in commodities, precious metals, mineral rights, bullion or collectibles. We may use derivative financial instruments to create a desirable asset mix position, adjust the duration of a fixed income portfolio, replicate the investment performance of interest rates or a recognized capital market index, manage currency exposure or reduce risk. We do not use derivative financial instruments to create exposures to securities that our investment policy would not permit.

| Defined benefit pension plans – asset allocation | Target allocation | Plan as | sets |
|--|-------------------|---------|------|
| Asset categories (%)                             | 2017              | 2016    | 2015 |
| Equity securities (with quoted market prices)    | 31                |         |      |
| Canadian equity funds                            |                   | 11      | 8    |
| U.S. equity funds                                |                   | 1       | 2    |
| International equity funds                       |                   | 15      | 18   |
| Emerging market equity funds                     |                   | 4       | 4    |
| Debt securities (with quoted market prices)      | 68                |         |      |
| Canadian debt securities                         |                   | 34      | 32   |
| U.S. debt securities                             |                   | 22      | 35   |
| Cash and other                                   | 1                 | 13      | 1    |

#### **SHARE-BASED PAYMENTS** 9.

Our share-based payments plans provide performance incentives to our officers, senior management, directors and, on a performance-based discretionary basis, other employees.

#### Plan features

| Form of payment                                      | Eligibility                                     | Granted  | Vesting period                     | Term     | Settlement   |
|--|---|--|------------------------------------|----------|--|
| Stock Options  | Officers and employees                          | Annually                                       | 25% per year over four years       | 10 years | Shares   |
| Stock Appreciation Rights<br>("SARs") <sup>(a)</sup> | Certain employees<br>outside Canada             | Annually                                       | 25% per year over<br>four years    | 10 years | Cash   |
| Performance Share Units<br>("PSUs")                  | Executive officers and other eligible employees | Annually                                       | On third anniversary of grant date | N/A      | Cash   |
| Restricted Share Units ("RSUs")                      | Eligible employees                              | Annually                                       | On third anniversary of grant date | N/A      | Cash   |
| Director Deferred Share<br>Units ("DSUs")            | Non-executive directors                         | At the discretion of the<br>Board of Directors | Fully vested upon<br>grant         | N/A      | In cash on director's<br>departure from<br>the Board |

<sup>(</sup>a) Effective January 1, 2015, tandem stock appreciation rights (TSARs) were no longer issued to eligible officers and employees. TSARs granted in Canada prior to January 1, 2015 have similar terms and vesting conditions to SARs and also provide the holder with the ability to choose between (a) receiving the price of our shares on the date of exercise in excess of the exercise price of the right and (b) receiving common shares by paying the exercise price of the right. Our past experience and future expectation is that substantially all option holders will elect to exercise their options as a SAR, surrendering their options and receiving settlement in cash.

# Stock Option and Stock Appreciation Rights Plans

#### Stock option and SAR activity

|   | 2016                                    |                | 2015                                    |                |
|---|---|----------------|---|----------------|
| (number of units in thousands; weighted average exercise price in U.S. dollars) | Units                                   | Exercise price | Units                                   | Exercise price |
| Outstanding, beginning of year  | 2,130                                   | 92.78          | 2,185                                   | 82.06          |
| Granted   | 603                                     | 84.37          | 522                                     | 115.87         |
| Forfeited   | (8)                                     | 68.39          | (87)                                    | 100.76         |
| Exercised   | (329)                                   | 73.31          | (487)                                   | 67.99          |
| Expired   | (3)                                     | 90.52          | (3)                                     | 91.13          |
| Outstanding, end of year (a)  | 2,393                                   | 93.33          | 2,130                                   | 92.78          |
| Exercisable, end of year  | 1,088                                   | 90.70          | 1,041                                   | 81.58          |
| Maximum available for future grants, end of year                                | 4,973                                   |                | 5,197                                   |                |
| Cash received from equity-settled awards  | *************************************** | -              | ••••••••••••••••••••••••••••••••••••••• | 1              |
| Weighted average fair value of outstanding                                      | *************************************** | 24.24          | ••••••••••••••••••••••••••••••••••••••• | 25.66          |
| Weighted average share price at exercise date                                   | •                                       | 99.01          | ••••••••••••••••••••••••••••••••••••••• | 106.86         |

Includes 1,456 thousand SARs (2015 - 1,707 thousand), of which 960 thousand (2015 - 1,257 thousand) issued prior to January 1, 2015 have options attached. Stock options and SARs with options attached are potentially dilutive.

Stock options and SARs outstanding (number of units in thousands; weighted average remaining contractual life in years; weighted average exercise price in U.S. dollars)

| At December 31, 2016     |                            | Options outstar | Options exercisable |       |                |
|--------------------------|----------------------------|-----------------|---------------------|-------|----------------|
| Range of exercise prices | Remaining contractual life | Units           | Exercise<br>price   | Units | Exercise price |
| Less than \$82.15        | 2                          | 180             | 56.19               | 180   | 56.19          |
| \$82.16 to \$86.32       | 9                          | 604             | 84.37               | 1     | 84.51          |
| \$86.33 to \$90.83       | 7                          | 617             | 89.98               | 364   | 89.60          |
| \$90.84 to \$108.50      | 4                          | 497             | 99.36               | 419   | 99.02          |
| \$108.51 to \$115.87     | 8                          | 495             | 115.87              | 124   | 115.87         |
|                          | 7                          | 2,393           | 93.33               | 1,088 | 90.70          |

#### Performance and Restricted Share Units

Each PSU and RSU confers a right to the holder to receive a cash payment of the fair market value of a common share of Agrium. Holders are also entitled to the value of dividends paid on common shares in the form of additional rights or units.

PSUs vest based on total shareholder return over a three-year performance cycle, compared to the average quarterly total shareholder return of a peer group of companies over the same period. For PSUs granted subsequent to January 1, 2015, free cash flow per share over a three-year performance cycle is compared to Board-approved targets as an additional performance condition. We base the value of each PSU granted on the average closing price of our common shares on the NYSE during the last five days of the three-year cycle. RSUs are not subject to performance conditions and vest at the end of the three-year vesting period.

We determine the fair value of stock options and SARs using a Black-Scholes model and the fair value of PSUs and RSUs using a Monte Carlo simulation model. We estimate expected annual volatility taking into consideration historic share price volatility.

#### PSU and RSU activity (number of units in thousands)

|  | 2016   |        | 2015   |       |
|--|--------|--------|--------|-------|
|  | PSU    | RSU    | PSU    | RSU   |
| Outstanding, beginning of year             | 608    | 121    | 623    | -     |
| Outstanding, beginning of year Granted     | 198    | 146    | 220    | 128   |
| Forfeited                                  | (4)    | (5)    | (18)   | (7)   |
| Exercised                                  | (188)  | -      | (217)  | -     |
| Outstanding, end of year                   | 614    | 262    | 608    | 121   |
| Weighted average fair value of outstanding | 121.41 | 100.25 | 109.43 | 90.50 |

#### Other information

#### Compensation expense by plan

|                      | 2016 | 2015 |
|----------------------|------|------|
| Stock options        | 8    | 5    |
| SARs                 | 3    | -    |
| TSARs PSUs RSUs DSUs | 1    | -    |
| PSUs                 | 29   | 36   |
| RSUs                 | 10   | 5    |
| DSUs                 | 4    | 5    |
|                      | 55   | 51   |

#### Liabilities for cash-settled plans

|   | December 31, |     |
|---|--------------|-----|
|   | 2016         |     |
| Total fair value liability for cash-settled plans | 115          | 106 |
| Total intrinsic liability for cash-settled plans  | 100          | 69  |

At December 31, 2016, unrecognized compensation expense for unvested awards was \$45-million. During 2016, we settled \$41-million of awards in cash.

#### Valuation model inputs

|  | December 31, | ,     |
|--|--------------|-------|
|  | 2016         | 2015  |
| Grant price (NYSE closing price on day immediately preceding grant date) | 92.86        | 80.41 |
| Share price (NYSE closing price at December 31)                          | 100.55       | 89.34 |
| Expected annual volatility (%)   | 28.33        | 31.57 |
| Risk-free interest rate (%)  | 1.54         | 1.55  |
| Expected annual dividend yield (%)                                       | 3.48         | 3.92  |
| Expected life (years)  | 5            | 5     |
| Expected life (years) Forfeiture rate (%)                                | 0.59         | 3.98  |

# 10. CASH FLOW INFORMATION

#### Cash and cash equivalents

|  | December 31, |      |  |
|--|--------------|------|--|
|  | 2016         | 2015 |  |
| Cash   | 408          | 503  |  |
| Short-term investments (original maturity of three months or less) | 4            | 12   |  |
|  | 412          | 515  |  |

#### Net changes in non-cash operating working capital

|                               | 2016  | 2015  |
|-------------------------------|-------|-------|
| Accounts receivable           | (173) | (106) |
| Inventories                   | 210   | 79    |
| Prepaid expenses and deposits | (137) | 10    |
| Accounts payable              | 555   | (76)  |
|                               | 455   | (93)  |

# 11. ACCOUNTS RECEIVABLE

Trade accounts receivable are primarily concentrated in the agriculture sector. We determine and monitor concentrations of credit risk using our aging analysis of trade receivables.

|                                  | Decem | December 31, |  |  |
|----------------------------------|-------|--------------|--|--|
|                                  | 2016  | 2015         |  |  |
| Trade accounts                   | 1,980 | 1,859        |  |  |
| Allowance for doubtful accounts  | (76)  | (81)         |  |  |
| Rebates                          | 250   | 150          |  |  |
| Other non-trade accounts         | 36    | 51           |  |  |
| Derivative financial instruments | 2     | 48           |  |  |
| Other taxes                      | 16    | 26           |  |  |
|                                  | 2,208 | 2,053        |  |  |

#### Trade accounts receivable - aging

|   |       | December 31,                          |       |                                       |  |
|---|-------|---------------------------------------|-------|---------------------------------------|--|
|   | 2016  |                                       | 2015  |                                       |  |
|   | Gross | Allowance<br>for doubtful<br>accounts | Gross | Allowance<br>for doubtful<br>accounts |  |
| Not past due  | 1,597 | (10)                                  | 1,431 | (10)                                  |  |
| 30 days or less   | 152   | (3)                                   | 192   | (4)                                   |  |
| Not past due 30 days or less 31-60 days 61-90 days Greater than 90 days | 43    | (2)                                   | 46    | (3)                                   |  |
| 61-90 days  | 21    | (2)                                   | 23    | (3)                                   |  |
| Greater than 90 days  | 167   | (59)                                  | 167   | (61)                                  |  |
|   | 1,980 | (76)                                  | 1,859 | (81)                                  |  |

#### Trade Accounts Receivable – Risk Concentration

Geographic and industry diversity and crop insurance programs in Canada and the United States mitigate concentration of risk in the agriculture sector. Our Wholesale business unit diversifies and mitigates risk concentration by selling to industrial customers outside the agriculture sector and by using letters of credit and credit insurance. Based on historical information about default rates and our analysis of current receivables, we do not expect any significant losses from trade accounts receivable other than the amounts classified as doubtful accounts. No single customer accounts for more than 10 percent of our sales.

We also mitigate credit risk in accounts receivable in our Retail operations in Western Canada through an agency agreement with a Canadian financial institution wherein the financial institution provides credit to qualifying Agrium customers to assist in financing their crop input purchases. Through the agency agreement, which expires in 2018, customers have loans directly with the institution while Agrium has only a limited recourse involvement to the extent of an indemnification of the institution for 50 percent of its future bad debts to a maximum of 5 percent of the qualified customer loans. Outstanding customer credit with the financial institution was \$534-million at December 31, 2016, which is not recognized in our consolidated balance sheet. Historical indemnification losses on this arrangement have been negligible, and the average aging of the customer loans with the financial institution is current.

#### 12. INVENTORIES

Wholesale inventories consist primarily of crop nutrients, operating supplies and raw materials, including both direct and indirect production and purchase costs, depreciation and amortization of assets employed directly in production, and freight to transport product to storage facilities.

Retail inventories consist primarily of crop nutrients, crop protection products, seed and merchandise and include the cost of delivery to move the product to storage facilities.

|                        | Dec  | December 31,   |  |  |
|------------------------|------|----------------|--|--|
|                        | 201  | <b>6</b> 2015  |  |  |
| Product for resale (a) | 2,45 | <b>4</b> 2,570 |  |  |
| Raw materials          | 40   |                |  |  |
| Finished goods         | 37   |                |  |  |
|                        | 3,23 | <b>0</b> 3,314 |  |  |

<sup>(</sup>a) Includes biological assets of \$17-million (2015 – \$28-million) measured at fair value less costs of disposal, a Level 3 measurement

# 13. PROPERTY, PLANT AND EQUIPMENT

|                              |      | Buildings<br>and | Machinery<br>and | Assets<br>under  |       |         |
|------------------------------|------|------------------|------------------|------------------|-------|---------|
| December 31, 2016            | Land | improvements     | equipment        | construction (a) | Other | Total   |
| Cost                         |      |                  |                  |                  |       |         |
| December 31, 2015            | 126  | 3,307            | 4,379            | 1,209            | 185   | 9,206   |
| Additions                    | 4    | 42               | 174              | 528              | 1     | 749     |
| Business acquisitions        | 6    | 52               | 61               | -                | -     | 119     |
| Disposals                    | (3)  | (25)             | (68)             | -                | -     | (96)    |
| Transfers                    | -    | 43               | 230              | (291)            | 18    | -       |
| Other adjustments            | -    | (37)             | (14)             | -                | -     | (51)    |
| Foreign currency translation | 1    | 75               | 83               | 7                | 4     | 170     |
| December 31, 2016            | 134  | 3,457            | 4,845            | 1,453            | 208   | 10,097  |
| Accumulated depreciation     |      |                  |                  |                  |       |         |
| December 31, 2015            | -    | (603)            | (2,208)          | -                | (62)  | (2,873) |
| Depreciation                 | -    | (103)            | (317)            | -                | (11)  | (431)   |
| Disposals                    | -    | 20               | 47               | -                | -     | 67      |
| Foreign currency translation | -    | (6)              | (35)             | -                | (1)   | (42)    |
| December 31, 2016            | -    | (692)            | (2,513)          | -                | (74)  | (3,279) |
| Net book value               | 134  | 2,765            | 2,332            | 1,453            | 134   | 6,818   |

<sup>(</sup>a) Assets under construction include assets in the following operating segments: nitrogen assets of \$1.2-billion, potash assets of \$140-million and \$113-million in various other operating segments. Assets in the nitrogen and potash operating segments include greenfield assets of \$116-million and brownfield assets of \$860-million.

|                              |      | Buildings           | Machinery        | Assets                |       |         |
|------------------------------|------|---------------------|------------------|-----------------------|-------|---------|
| December 31, 2015            | Land | and<br>improvements | and<br>equipment | under<br>construction | Other | Total   |
| Cost                         |      |                     |                  |                       |       |         |
| December 31, 2014            | 137  | 1,307               | 4,016            | 3,502                 | 190   | 9,152   |
| Additions                    | 4    | 65                  | 240              | 954                   | 1     | 1,264   |
| Business acquisitions        | 2    | 20                  | 30               | -                     | -     | 52      |
| Disposals                    | (5)  | (27)                | (114)            | -                     | -     | (146)   |
| Transfers <sup>(a)</sup>     | -    | 2,214               | 805              | (3,031)               | 12    | -       |
| Other adjustments            | (3)  | (12)                | (34)             | 3                     | -     | (46)    |
| Foreign currency translation | (9)  | (260)               | (564)            | (219)                 | (18)  | (1,070) |
| December 31, 2015            | 126  | 3,307               | 4,379            | 1,209                 | 185   | 9,206   |
| Accumulated depreciation     |      |                     |                  |                       |       |         |
| December 31, 2014            | -    | (566)               | (2,254)          | -                     | (60)  | (2,880) |
| Depreciation                 | -    | (89)                | (284)            | -                     | (8)   | (381)   |
| Disposals                    | -    | 11                  | 89               | -                     | -     | 100     |
| Foreign currency translation | -    | 41                  | 241              | -                     | 6     | 288     |
| December 31, 2015            | -    | (603)               | (2,208)          | -                     | (62)  | (2,873) |
| Net book value               | 126  | 2,704               | 2,171            | 1,209                 | 123   | 6,333   |

<sup>(</sup>a) We transferred \$2.6-billion related to the Vanscoy expansion project from assets under construction to buildings and improvements and machinery and equipment when the assets became available for use.

#### Depreciation of property, plant and equipment

|                                    | 2016 | 2015 |
|------------------------------------|------|------|
| Cost of product sold               | 243  | 210  |
| Selling                            | 160  | 145  |
| General and administrative         | 21   | 20   |
|                                    | 424  | 375  |
| Depreciation recorded in inventory | 24   | 17   |

#### Turnaround costs included in machinery and equipment

|                            | 2016  | 2015  |
|----------------------------|-------|-------|
| Cost                       |       |       |
| Balance, beginning of year | 273   | 246   |
| Additions                  | 44    | 79    |
| Retirements                | (1)   | (50)  |
| Other adjustments          | -     | (2)   |
| Balance, end of year       | 316   | 273   |
| Accumulated depreciation   |       |       |
| Balance, beginning of year | (102) | (94)  |
| Depreciation               | (68)  | (58)  |
| Retirements                | 1     | 50    |
| Balance, end of year       | (169) | (102) |
| Net book value             | 147   | 171   |

Turnaround costs include replacement or overhaul of equipment and items such as compressors, turbines, pumps, motors, valves, piping and other parts; assessment of production equipment; replacement of aged catalysts; new installation or recalibration of measurement and control devices; and other costs. We capitalize turnaround costs only if they meet the capitalization criteria of IFRS.

#### 14. INTANGIBLES AND GOODWILL

Intangibles and goodwill primarily arise from business acquisitions. We amortize intangibles based on their estimated useful life except for certain acquired trade names that have indefinite useful lives.

| December 31, 2016                              | Trade   | Customer elationships (b) | Technology | Other | Total<br>intangibles | Goodwill |
|--|---------|---------------------------|------------|-------|----------------------|----------|
| Cost   | numos 1 | oracionompo               | Toomiology | Other | mangibios            | GOUGHIII |
| December 31, 2015                              | 30      | 755                       | 148        | 233   | 1,166                | 2,177    |
| Additions                                      | -       | -                         | 15         | 7     | 22                   | -        |
| Business acquisitions                          | -       | 3                         | -          | 22    | 25                   | 105      |
| Other adjustments                              | -       | (17)                      | 26         | 16    | 25                   | 10       |
| Foreign currency translation                   | -       | 1                         | 2          | -     | 3                    | (2)      |
| December 31, 2016                              | 30      | 742                       | 191        | 278   | 1,241                | 2,290    |
| Accumulated amortization and impairment losses |         |                           |            |       |                      |          |
| December 31, 2015                              | (5)     | (346)                     | (45)       | (138) | (534)                | (197)    |
| Amortization                                   | (1)     | (56)                      | (18)       | (33)  | (108)                | -        |
| Other adjustments                              | -       | -                         | (26)       | (7)   | (33)                 | -        |
| Foreign currency translation                   | -       | -                         | -          | -     | -                    | 2        |
| December 31, 2016                              | (6)     | (402)                     | (89)       | (178) | (675)                | (195)    |
| Net book value                                 | 24      | 340                       | 102        | 100   | 566                  | 2,095    |

<sup>(</sup>a) Trade names with a net book value of \$17-million have indefinite useful lives for accounting purposes.

<sup>(</sup>b) The remaining amortization period of customer relationships at December 31, 2016, is approximately seven years.

| December 31, 2015                              | Trade<br>names <sup>(a)</sup> | Customer relationships | Technology | Other | Total<br>intangibles | Goodwill |
|--|-------------------------------|------------------------|------------|-------|----------------------|----------|
| Cost   | Hamos                         | Totationompo           | Toomiology | Othor |                      | Goodwiii |
| December 31, 2014                              | 32                            | 739                    | 197        | 227   | 1,195                | 2,214    |
| Additions                                      | -                             | -                      | 18         | -     | 18                   | -        |
| Business acquisitions                          | -                             | 35                     | -          | 17    | 52                   | -        |
| Disposals                                      | -                             | -                      | (45)       | -     | (45)                 | -        |
| Other adjustments                              | -                             | -                      | -          | (9)   | (9)                  | 4        |
| Foreign currency translation                   | (2)                           | (19)                   | (22)       | (2)   | (45)                 | (41)     |
| December 31, 2015                              | 30                            | 755                    | 148        | 233   | 1,166                | 2,177    |
| Accumulated amortization and impairment losses |                               |                        |            |       |                      |          |
| December 31, 2014                              | (4)                           | (297)                  | (78)       | (121) | (500)                | (200)    |
| Amortization                                   | (1)                           | (56)                   | (21)       | (27)  | (105)                | -        |
| Impairment losses                              | -                             | -                      | -          | -     | -                    | (19)     |
| Disposals                                      | -                             | -                      | 45         | -     | 45                   | -        |
| Other adjustments                              | -                             | -                      | -          | 8     | 8                    | -        |
| Foreign currency translation                   | -                             | 7                      | 9          | 2     | 18                   | 22       |
| December 31, 2015                              | (5)                           | (346)                  | (45)       | (138) | (534)                | (197)    |
| Net book value                                 | 25                            | 409                    | 103        | 95    | 632                  | 1,980    |

<sup>(</sup>a) Trade names with a net book value of \$18-million have indefinite useful lives for accounting purposes.

#### Amortization of finite-lived intangibles

|                            | 2016 | 2015 |
|----------------------------|------|------|
| Cost of product sold       | 3    | 3    |
| Selling                    | 103  | 99   |
| General and administrative | 2    | 3    |
|                            | 108  | 105  |

# **Goodwill Impairment Testing**

#### Goodwill by cash generating unit

|                        | Decen | December 31, |  |  |
|------------------------|-------|--------------|--|--|
|                        | 2016  | 2015         |  |  |
| Retail – North America | 1,972 | 1,858        |  |  |
| Retail – Australia     | 115   | 115          |  |  |
| Other                  | 8     | 7            |  |  |
|                        | 2,095 | 1,980        |  |  |

In calculating the recoverable amount for goodwill, we selected the fair value less costs of disposal (FVLCD) methodology and incorporated assumptions an independent market participant would apply. We adjust discount rates for each group of cashgenerating units (CGU) for the risk associated with achieving our forecasts (five-year projections) and for the currency in which we expect to generate cash flows. FVLCD is a Level 3 measurement. We use our market capitalization and comparative market multiples to corroborate discounted cash flow results.

The key assumptions with the greatest influence on our calculation of the recoverable amounts are the discount rates, terminal growth rates and cash flow forecasts for each CGU as derived from our Board-approved strategic plan. Key inputs to our test of Retail - North America included a pre-tax discount rate of 11.1 percent and a terminal growth rate per annum of 2.5 percent.

### 15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

We maintain strategic investments in entities in the crop nutrients and related industries. On a continuous basis we assess our ability to exercise significant influence or joint control over our investments.

|  | Reporting period | Interest (%) | Location  | December 31, |      |
|--|------------------|--------------|-----------|--------------|------|
|  |                  |              |           | 2016         | 2015 |
| Investments in associates  |                  |              |           |              |      |
| Misr Fertilizers Production Company S.A.E. ("MOPCO") – a nitrogen producer | September 30     | 26           | Egypt     | 285          | 283  |
| Other  |                  |              |           | 94           | 82   |
|  |                  |              |           | 379          | 365  |
| Investments in joint ventures  |                  |              |           |              |      |
| Profertil S.A. ("Profertil")   | December 31      | 50           | Argentina | 162          | 242  |
|  |                  |              |           | 162          | 242  |
|  |                  |              |           | 541          | 607  |

#### **Associates**

As we have representation on MOPCO's Board of Directors as well as employees who participate in management decision-making, we maintain significant influence over MOPCO. We record our share of MOPCO's earnings on a one-quarter lag because financial statements of MOPCO are not available on the date of issuance of our financial statements. We adjust for the effects of any significant unrecorded transactions or events between MOPCO's period-end date and our fiscal year-end date. Future conditions, including those related to MOPCO operating in Egypt, which has been subject to political instability and civil unrest, may restrict our ability to obtain dividends from MOPCO. We are also exposed to currency risk related to fluctuations in the Egyptian pound against the U.S. dollar.

#### Summarized financial information of MOPCO

|   | December 31, |       |
|---|--------------|-------|
|   | 2016         | 2015  |
| Current assets  | 29           | 129   |
| Non-current assets                                      | 1,510        | 1,840 |
|   | 1,539        | 1,969 |
| Current liabilities                                     | 207          | 233   |
| Non-current liabilities                                 | 538          | 966   |
|   | 745          | 1,199 |
| Net assets of MOPCO                                     | 794          | 770   |
| Proportionate ownership interest in MOPCO               | 206          | 200   |
| Dividend receivable                                     | 29           | 29    |
| Unamortized purchase price adjustment                   | 50           | 54    |
| Carrying amount of interest in MOPCO                    | 285          | 283   |
|   | 2016         | 2015  |
| Sales   | 128          | 87    |
| Net earnings (loss)                                     | 149          | (4)   |
| Other comprehensive loss                                | (131)        | -     |
| Total comprehensive income (loss)                       | 18           | (4)   |
| Proportionate share of MOPCO income (loss)              | 39           | (1)   |
| Purchase price adjustment amortization                  | (4)          | (4)   |
| Earnings (loss) from MOPCO                              | 35           | (5)   |
| Proportionate share of MOPCO other comprehensive income | (34)         | -     |
| Proportionate share of MOPCO total comprehensive income | 1            | (5)   |

We own a one-third interest in Canpotex Limited ("Canpotex"), which exports the portion of our produced potash that Canpotex sells outside of Canada and the United States. Canpotex is an industry association owned equally by us and two other producers of potash in Canada. We have significant influence through our ability to appoint directors to the board of Canpotex. We account for our investment based on our economic interest of 10.3 percent (2015 - 7.3 percent), which is our allocation of production capacity among the members of the association.

We are contractually obligated to reimburse Canpotex for our 10.3 percent share of any operating losses or other liabilities incurred by Canpotex. We believe the probability of conditions arising that would trigger this guarantee is remote. Reimbursements, if any, would be made through reductions of our cash receipts from Canpotex.

In 2016, we acquired a 28 percent equity interest in Agrifund, LLC and Ag Resource Holdings, Inc., Delaware limited liability companies, as part of our strategy to grow our Financial Services segment. These companies offer loans and crop insurance products to retail agriculture markets.

# Joint Ventures

We have a 50 percent ownership interest in Profertil. Based in Argentina, Profertil is a producer and wholesale distributor of nitrogen crop nutrients. A contractual agreement establishes joint control over Profertil and provides us with 50 percent of the voting rights.

#### **Summarized financial information of Profertil**

|  | December 31, | December 31, |  |
|--|--------------|--------------|--|
|  | 2016         | 2015         |  |
| Current assets (a)                             | 176          | 262          |  |
| Non-current assets                             | 595          | 588          |  |
|  | 771          | 850          |  |
| Current liabilities (b)                        | 195          | 366          |  |
| Non-current liabilities (c)                    | 251          | 208          |  |
|  | 446          | 574          |  |
| Net assets of Profertil                        | 325          | 276          |  |
| Proportionate share of net assets of Profertil | 163          | 138          |  |
| Elimination of unrealized profit               | (1)          | (1)          |  |
| Loans and accrued interest                     | -            | 105          |  |
| Carrying amount of interest in Profertil       | 162          | 242          |  |

- (a) Includes cash and cash equivalents of \$22-million (2015 \$86-million)
- (b) Includes current financial liabilities (excluding trade and other payables and provisions) of \$59-million (2015 \$150-million)
- (c) Includes non-current financial liabilities (excluding trade and other payables and provisions) of \$116-million (2015 \$78-million)

|  | 2016 | 2015 |
|--|------|------|
| Sales  | 392  | 394  |
| Depreciation and amortization                    | 26   | 36   |
| Interest expense                                 | 24   | 24   |
| Income taxes                                     | 39   | 14   |
| Net earnings (loss)                              | 51   | (10) |
| Total comprehensive income (loss)                | 51   | (10) |
| Proportionate share of Profertil earnings (loss) | 26   | (5)  |
| Elimination of unrealized profit                 | 1    | 1    |
| Dividends and interest received from Profertil   | 108  | -    |

Summarized financial information of associates and joint ventures represents amounts that investees have recorded in their financial statements, adjusted for any fair value adjustments at acquisition and adjusted for differences in accounting policies.

# Transactions with Associates and Joint Ventures

|                                  | 2016 | 2015 |
|----------------------------------|------|------|
| For the year ended December 31,  |      |      |
| Sales to Canpotex                | 162  | 189  |
| Purchases from MOPCO             | 9    | 5    |
| Purchases from Profertil         | 61   | 53   |
| As at December 31,               |      |      |
| Amounts receivable from Canpotex | 29   | 18   |
| Amounts owed to Profertil        | 7    | 4    |

# 16. OTHER ASSETS

Other current assets consist primarily of an investment portfolio supporting the requirements of insurance obligations. All marketable securities are rated as investment grade or higher and are capable of liquidation within five trading days.

#### Other current assets

|                            | December 31, |      |
|----------------------------|--------------|------|
|                            | 2016         | 2015 |
| Other financial assets     |              |      |
| Marketable securities (a)  | 121          | 142  |
| Other non-financial assets | 2            | 2    |
|                            | 123          | 144  |

#### Other assets

|                            | December 31,   |    |  |
|----------------------------|----------------|----|--|
|                            | <b>2016</b> 20 |    |  |
| Other financial assets     |                |    |  |
| Receivables (b)            | 28             | 37 |  |
| Other non-financial assets | <br>20         | 17 |  |
|                            | 48             | 54 |  |

<sup>(</sup>a) Comprised primarily of U.S. equities (14 percent), U.S. Government debt (30 percent) and U.S. corporate debt (46 percent).

<sup>(</sup>b) Unsecured term loan receivable bearing interest at 3.4 percent per annum, repayable \$8-million annually until 2020.

# **17. DEBT**

We issue debt for various purposes, including maintaining or adjusting our capital structure. We have access to short-term facilities that we renegotiate periodically. We also have access to the capital markets through our base shelf prospectus.

|                                   |   |              | December 31, |          |  |
|-----------------------------------|---|--------------|--------------|----------|--|
|                                   |   |              | 2016         | 2015     |  |
|                                   | Maturity                                | Rate (%) (a) | Utilized     | Utilized |  |
| Short-term debt                   |   |              |              |          |  |
| Commercial paper (b)              | 2017                                    | 1.05         | 306          | 632      |  |
| Credit facilities (c)(d)          | ••••••••••••••••••••••••••••••••••••••• | 4.37         | 298          | 203      |  |
|                                   |   |              | 604          | 835      |  |
| Long-term debt <sup>(e)</sup>     |   |              |              |          |  |
| Floating rate bank loans          | 2017                                    |              | 10           | -        |  |
| Fixed rate bank loans             | ••••••••••••••••••••••••••••••••••••••• |              | -            | 8        |  |
| 7.7% debentures                   | 2017                                    |              | 100          | 100      |  |
| 6.75% debentures                  | 2019                                    |              | 500          | 500      |  |
| 3.15% debentures                  | 2022                                    |              | 500          | 500      |  |
| 3.5% debentures                   | 2023                                    |              | 500          | 500      |  |
| 3.375% debentures                 | 2025                                    |              | 550          | 550      |  |
| 7.8% debentures                   | 2027                                    |              | 125          | 125      |  |
| 4.125% debentures                 | 2035                                    |              | 450          | 450      |  |
| 7.125% debentures                 | 2036                                    |              | 300          | 300      |  |
| 6.125% debentures                 | 2041                                    |              | 500          | 500      |  |
| 4.9% debentures                   | 2043                                    |              | 500          | 500      |  |
| 5.25% debentures                  | 2045                                    |              | 500          | 500      |  |
| Other                             | •                                       |              | 25           | 44       |  |
|                                   |   |              | 4,560        | 4,577    |  |
| Unamortized transaction costs     |   |              | (52)         | (56)     |  |
| Current portion of long-term debt |   |              | (110)        | (8)      |  |
|                                   |   |              | 4,398        | 4,513    |  |

<sup>(</sup>a) Weighted average rates at December 31, 2016

# **Debt capacity available**

|                                      | December 31, |
|--------------------------------------|--------------|
|                                      | 2016         |
| Multi-jurisdictional credit facility | 2,500        |
| European facilities                  | 211          |
| South American facilities            | 134          |
| Australian facilities                | 50           |
| Accounts receivable securitization   | 500          |
|                                      | 3,395        |
| Short-term debt drawn                | (604)        |
| Letters of credit issued             | (1)          |
| Debt capacity available              | 2,790        |

<sup>(</sup>b) Program maximum U.S. \$2.5-billion. Amounts borrowed under the commercial paper program reduce our borrowing capacity under the multi-jurisdictional

<sup>(</sup>c) Short-term debt is unsecured and consists of U.S. dollar-denominated debt of \$236-million, euro-denominated debt of \$53-million and other debt of \$9-million (2015 - \$110-million, \$72-million and \$21-million).

<sup>(</sup>d) Total capacity available on our multi-jurisdictional credit facility, which expires in 2020, is \$2.5-billion.

<sup>(</sup>e) Debentures have various provisions that allow redemption prior to maturity, at our option, at specified prices.

# 18. ACCOUNTS PAYABLE

We incur significant payables for procurement of product for resale inventories and for prepayments made by customers wishing to purchase our products for the upcoming growing season.

|  | December 31 | December 31, |  |
|--|-------------|--------------|--|
|  | 2016        | 2015         |  |
| Trade                                    | 2,235       | 1,495        |  |
| Customer prepayments                     | 1,449       | 1,375        |  |
| Customer prepayments Accrued liabilities | 670         | 729          |  |
| Other taxes                              | 32          | 27           |  |
| Accrued interest                         | 72          | 72           |  |
| Dividends                                | 121         | 121          |  |
| Derivative financial instruments         | 7           | 29           |  |
| Share-based payments                     | 76          | 71           |  |
|  | 4,662       | 3,919        |  |

# 19. OTHER PROVISIONS

We make significant estimates for various litigation matters in the normal course of business and for asset retirement and environmental remediation matters.

|   | Notes | Environmental remediation (a) | Asset retirement (b) | Litigation | Total |
|---|-------|-------------------------------|----------------------|------------|-------|
| December 31, 2015                             |       | 158                           | 229                  | 34         | 421   |
| Additional provisions or changes in estimates | 23    | 9                             | (1)                  | 14         | 22    |
| Draw-downs                                    |       | (29)                          | (6)                  | (31)       | (66)  |
| Reversals                                     |       | -                             | -                    | (8)        | (8)   |
| Accretion                                     |       | 2                             | 5                    | -          | 7     |
| Foreign currency translation                  |       | 1                             | 4                    | -          | 5     |
| December 31, 2016                             |       | 141                           | 231                  | 9          | 381   |
| Current portion                               |       | 41                            | 9                    | 9          | 59    |
| Non-current portion                           |       | 100                           | 222                  | -          | 322   |
|   |       | 141                           | 231                  | 9          | 381   |

We estimate that we will settle our environmental remediation liabilities between 2017 and 2042. We discount obligations using rates ranging from 0.65 percent to 4.00 percent (2015 - 0.65 percent to 4.19 percent). Provisions include \$36-million for our Idaho phosphate mining and processing sites. No individual site provision is material.

# 20. OTHER LIABILITIES

|                                  | December 31, | December 31, |  |
|----------------------------------|--------------|--------------|--|
|                                  | 2016         | 2015         |  |
| Other financial liabilities      |              |              |  |
| Derivative financial instruments | 16           | 33           |  |
| Other                            | 13           | 17           |  |
|                                  | 29           | 50           |  |
| Other non-financial liabilities  |              |              |  |
| Share-based payments             | 39           | 35           |  |
|                                  | 68           | 85           |  |

<sup>(</sup>b) Mining, extraction, processing and distribution activities result in asset retirement obligations in the normal course of operations. Obligations include closure, dismantlement, site restoration or other legal or constructive obligations for termination and retirement of assets. Expenditures may occur before and after closure. We expect to incur expenditures for our phosphate obligations over the next 57 years. We expect to make payments for our potash and nitrogen obligations after that time. Timing of expenditures depends on a number of factors, such as the life and nature of the asset, legal requirements and technology. We estimate obligations using discount rates ranging from 1.22 percent to 4.55 percent (2015 – 1.39 percent to 4.55 percent). Provisions include \$159-million for our Idaho phosphate mining and processing sites. No other site provision is material.

# 21. BUSINESS ACQUISITIONS

# Andrukow Group Solutions Inc. ("Andrukow") and Cargill AgHorizons (U.S.) ("Cargill") Acquisitions

In September 2016, our Retail business unit acquired 16 farm centers in Alberta and Saskatchewan from Andrukow and 18 farm centers across the northern U.S. Corn Belt from Cargill for purchase consideration of \$195-million, subject to working capital adjustments. Benefits of the acquisitions include expansion of geographical coverage for the sale of crop inputs in Canada and the U.S., acquisition of existing customer base and workforce, the value of synergies between Agrium and the acquired businesses and cost savings opportunities.

We have engaged an independent valuation firm to assist in determining the fair value of assets acquired, liabilities assumed (including contingent liabilities and provisions), and related deferred income tax impacts. We have not completed the allocation of the purchase price for these acquisitions as we are still gathering and analyzing information about the related assets and liabilities, including fair values and the resulting income tax impact.

#### Provisional estimate of fair values of assets acquired and liabilities assumed for all business acquisitions by the Retail business unit

|                               | At acquisition date |
|-------------------------------|---------------------|
| Accounts receivable           | 31                  |
| Inventories                   | 95                  |
| Other current assets          | 33                  |
| Property, plant and equipment | 119                 |
| Intangibles                   | 25                  |
| Goodwill                      | 105                 |
| Other non-current assets      | 31                  |
| Accounts payable              | (97)                |
| Total consideration           | 342                 |

#### Financial information related to our business acquisitions

|   | 2016 <sup>(a)</sup> |
|---|---------------------|
| Sales from the date of acquisition                                    | 171                 |
| Estimated sales if acquisitions occurred at the beginning of the year | 597                 |

<sup>(</sup>a) Net earnings (loss) and pro forma net earnings related to these acquisitions are \$(2)-million and \$41-million, respectively.

# 22. COMMITMENTS

# Operating Leases

Operating lease commitments consist primarily of leases for railcars and contractual commitments at distribution facilities in our Wholesale business unit, vehicles and application equipment in our Retail business unit, and office equipment and property leases throughout our operations. Commitments represent minimum payments under each agreement.

# Future minimum lease payments for operating leases

|                      | Dece | December 31, |  |  |
|----------------------|------|--------------|--|--|
|                      | 2016 | 2015         |  |  |
| Less than one year   | 139  | 137          |  |  |
| One to five years    | 283  | 250          |  |  |
| More than five years | 171  | 100          |  |  |
|                      | 593  | 487          |  |  |

# Other Commitments (a)

|                                       | 2017  | 2018 | 2019 | 2020 | 2021 |
|---------------------------------------|-------|------|------|------|------|
| Operating                             |       |      |      |      |      |
| Long-term debt – interest             | 219   | 219  | 185  | 183  | 183  |
| Cost of product sold                  |       |      |      |      |      |
| Natural gas and other (b)(c)          | 312   | 26   | 16   | 16   | 13   |
| Power, sulfuric acid and other (d)(e) | 148   | 131  | 41   | 37   | 38   |
| Purchase commitments                  | 367   | 1    | -    | -    | -    |
| Derivative financial instruments      |       |      |      |      |      |
| Foreign exchange                      | 1     | -    | -    | -    | -    |
| Natural gas                           | 6     | 16   | -    | -    | -    |
| Other commitments                     | 90    | 61   | 47   | 19   | 19   |
|                                       | 1,143 | 454  | 289  | 255  | 253  |
| Capital <sup>(f)</sup>                |       |      |      |      |      |
| Long-term debt – principal repayments | 100   | -    | 500  | -    | -    |
| Asset retirement obligations          | 9     | 11   | 14   | 21   | 7    |
| Environmental remediation liabilities | 41    | 15   | 13   | 12   | 10   |
|                                       | 150   | 26   | 527  | 33   | 17   |
|                                       | 1,293 | 480  | 816  | 288  | 270  |

- (a) Our post-employment benefits obligations are not included in this table. Refer to note 8 for additional information.
- (b) Our minimum commitments for North American natural gas purchases, which include both floating rate and fixed rate contracts, are calculated using the prevailing NYMEX forward prices for U.S. facilities and AECO forward prices for Canadian facilities at December 31, 2016.
- Commitments include our proportionate share of commitments of joint ventures. Profertil has long-term gas contracts denominated in U.S. dollars and expiring in 2017, which account for approximately 65 percent of Profertil's gas requirements. YPF S.A., our joint venture partner in Profertil, supplies approximately 33 percent of the gas under these contracts.
- We have a power co-generation agreement for our Carseland facility that expires on December 31, 2026. The maximum commitment under this agreement is to purchase 60 megawatt-hours of power per hour through 2026. 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 provided to the facility for power generation.
- Our phosphate rock supply agreement includes a minimum commitment to purchase 798,000 tonnes until 2018, with a potential to nominate additional volumes and extend to 2020. In 2016 we decided not to nominate any additional volumes past 2018. The purchase price is based on a formula that tracks finished product pricing and key published phosphate input costs. We entered into a freight contract to import phosphate rock extending to 2019, with a total commitment of \$84-million at December 31, 2016.
- Future capital expenditures for the Texas nitrogen expansion project not included above are approximately \$70-million for pre-commissioning and commissioning costs.

# 23. CONTINGENT LIABILITIES

From time to time, we become involved in legal or administrative proceedings related to our current and acquired businesses. Such proceedings expose us to possible losses, and we expect our involvement in such matters to continue in the normal conduct of our business. We will represent our interests vigorously in all of the proceedings in which we are involved. Legal and administrative proceedings involving possible losses are inherently complex, and we apply significant judgment in estimating probable outcomes. As a result, potential exists for adjustments to liabilities and material variance between actual costs and estimates.

Information on the amounts accrued for litigation, environmental remediation and asset retirement are disclosed in note 19. Our assessment of specific matters at the date of issuance of these financial statements is set out below.

# **Environmental Contingencies**

We are responsible for environmental remediation of certain facilities and sites. Work at these sites is in various stages of environmental management: we are assessing and investigating some sites and remediating or monitoring others. We have established a provision for our estimated liabilities (see note 19). However, new information, including changes in regulations or results of investigations, could lead to reassessment of our exposure related to these matters. In addition, we may revise our estimates of our future obligations because they are dependent on a number of uncertain factors including the method and extent of the remediation as well as cost-sharing arrangements with other parties involved.

For the matters described below, at the date of issuance of these financial statements, we determined that we could not make a reliable estimate of the amount and timing of any financial effect in excess of the amounts accrued.

#### **IDAHO PHOSPHATE MINING AND PROCESSING SITES**

We are subject to investigations by U.S. federal and state agencies of existing and former phosphate mining and processing sites in Idaho. Nu-West Industries, Inc. ("Nu-West"), a wholly owned subsidiary of Agrium, has been notified of potential violations of federal and state statutes. Nu-West is working co-operatively with federal and state agencies and, depending on the site, is in the investigation or risk assessment stage or has, for some sites, begun preliminary work under agreements with the agencies. Completion of investigations, risk assessments or preliminary work will enable Nu-West and the agencies to determine what, if any, remediation work will be required. During 2016, Nu-West completed substantial remedial construction and investigative fieldwork for certain of the Idaho sites. Remedial actions have not been determined for the sites. In 2015, Nu-West received a Notice of Intent advising that trustees for U.S. federal and state agencies will conduct a damage assessment at the Idaho phosphate mining and processing sites. Discussions with the trustees commenced in 2016 and the assessment may take many years to mature to a stage where the trustees assert a claim for damages.

#### **MANITOBA MINING PROPERTIES**

In 1996, Agrium acquired Viridian Inc. ("Viridian"), which is now a wholly owned Canadian subsidiary of Agrium. Viridian has retained certain liabilities associated with the Fox Mine - a closed mineral processing site near Lynn Lake, Manitoba. Viridian is currently treating water draining from the site to meet provincial downstream water quality standards. Viridian has substantially completed the investigation phase of remediation and is currently in discussions with the Province of Manitoba regarding remedial alternatives selection. Concurrence and approval from the Province of a remedial design are expected within the next 12 - 36 months. For this matter, we have not disclosed information about the amount accrued for site remediation because disclosure of such information would seriously prejudice our position in discussions with the Province. There were no significant developments in 2016.

# 24. ACCOUNTING POLICIES, JUDGMENTS, ASSUMPTIONS AND ESTIMATES

We describe below significant accounting policies, without repeating or restating the actual text of the accounting standards, where disclosure would assist users in understanding how we reflect transactions and other events and conditions in our financial statements. In addition, IFRS requires us to describe (a) information about the assumptions and estimates we make in applying our accounting policies and (b) judgments we have made in the process of applying our accounting policies.

# a) Accounting Policies and Underlying Assumptions and Estimates

In preparing financial statements, we make assumptions and estimates based on our historical experience, current trends and all available information we believe is relevant at the time we prepare the financial statements. However, we cannot determine future events and their effects with certainty. Accordingly, as confirming events occur, actual results could ultimately differ from our assumptions and estimates. Such differences could be material. We have provided analysis of sensitivity to assumptions elsewhere in the notes to these financial statements in instances where it is relevant to understanding management's assumptions about the future. Sensitivity analysis presents the impact of reasonably possible hypothetical changes to one assumption at December 31, 2016, while holding other assumptions constant. In practice, it is unlikely that the hypothetical change would occur in isolation as variables may have interdependencies. Accordingly, such analysis provides only an approximation of the sensitivity to the individual assumptions shown and may not be representative of the full impact on our financial position and results of operations.

#### **Financial statement area**

#### **Accounting policy**

#### **Assumptions and estimation uncertainty**

#### **Revenue recognition (IAS 18)**

We recognize revenue when we meet the requirements of IAS 18. For the sale of goods, risks and rewards of ownership pass to our customers based on the contractual terms of the arrangement. In most cases, the terms of the arrangement are such that risks and rewards transfer when product is:

- Picked up by our customer at our Retail farm centers or at a Wholesale manufacturing site or a distribution facility
- Delivered to the destination specified by our customer if we retain inventory risk during the delivery period
- Delivered to the vessel on which the product will be shipped, or
- Delivered to the destination port.

We recognize revenue for nutrient or crop protection application services and agronomic and precision agriculture services when the service is complete. We deduct provisions for returns, trade discounts and rebates from revenue.

We provide customer incentives, such as rebates, based on value or tonnage purchased. We make various estimates to recognize the impact of rebates and other incentives on revenue, including our ability to collect consideration for a sale, the impact of estimated customer product returns and some customer incentive programs, whether we are acting as an agent or principal in a sale, and whether a service is complete. We make estimates of returns and incentives based on historical and forecasted data, contractual terms and current conditions. Because of the nature of our sales of goods and services, any single estimate would have only a negligible impact on revenue recognition.

Because of the short-term nature of our contracts with customers, recognition of revenue does not result in significant estimation uncertainty.

# Property, plant and equipment (IAS 16, IAS 23, IAS 36, IAS 37)

In our mining, milling and other manufacturing facilities, we capitalize components requiring replacement at regular intervals, major inspections and overhauls, spare parts used in connection with specific equipment and standby equipment. We capitalize such costs if they meet the asset recognition criteria of IAS 16 and the asset has an estimated useful life of greater than one year. We immediately write off remaining carrying value of components replaced. We depreciate each component over the lesser of its estimated useful life and the remaining period until the next replacement or major inspection or overhaul.

If the construction or preparation for use of property, plant or equipment extends over more than 12 months, we capitalize borrowing costs up to the date of completion as part of the cost of acquisition or construction.

We move an asset from the construction phase to the production phase and begin depreciation when the asset is available for use in the manner intended by management.

We present property, plant and equipment at cost net of accumulated depreciation and accumulated impairment losses.

We depreciate property, plant and equipment directly related to our nitrogen, phosphate and potash operations using the units of production method. We depreciate the rest of our property, plant and equipment using the straight-line method using the following estimated useful lives, which we reassess annually:

Buildings and improvements 2-60 years Machinery and equipment 1-60 years Other 1-45 years

We make assumptions about the use of an asset based on the level of capital expenditures compared to construction cost estimates; completion of a reasonable period of testing of the asset; ability to produce product in saleable form within specifications; and ability to sustain ongoing production.

We depreciate potash-related assets over the shorter of estimates of reserves and service lives and nitrogen and phosphate plant assets based on their productive capacity.

| Financial statement area                          | Accounting policy   | Assumptions and estimation uncertainty  |  |  |  |
|---|---|---|--|--|--|
| Intangible assets other than<br>goodwill (IAS 38) | We initially measure finite-lived intangible assets, such as customer relationships, at cost and amortize them over their estimated useful lives. Intangible assets with indefinite useful lives, such as certain brand names, are not amortized. We capitalize costs for internally generated intangible assets, such as development costs, when costs meet criteria for feasibility. We expense research and development expenditures that do not meet the capitalization criteria. | We amortize finite-lived intangible assets on a straight-line basis using the following estimated useful lives, which we reassess annually:  Trade names $5-10$ years Customer relationships $7-10$ years Technology $3-7$ years Other $5-20$ years   |  |  |  |
| Rebates (IAS 2)                                   | Our vendors may offer us various incentives to purchase products for resale. We account for vendor rebates and prepay discounts as a reduction of the prices of the suppliers' products. Rebates based on the amount of materials purchased reduce cost of product as we sell inventory. We offset rebates based on sales volume to cost of product sold if we have earned the rebate based on sales volume of products.  | We participate in diverse vendor arrangements, some of which are highly complex. We record accruals for some vendor rebates by estimating the point at which we will have completed our performance under an agreement. To determine this, we analyze and review historical trends to apply rates negotiated with our vendors to estimated and actual purchase volumes to determine accruals. Estimated amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected volumes. |  |  |  |
|   | We accrue rebates that are probable and that we can reasonably estimate. We accrue rebates that are not probable or estimable when we achieve certain milestones. We accrue rebates not covered by binding agreements or published vendor programs when we obtain conclusive documentation of right of receipt.   | actual parchase volumes unter nom projected volumes.  |  |  |  |
| Inventories (IAS 2)                               | We measure inventories at the lower of cost on a weighted average basis and net realizable value.   | We calculate the net realizable value of inventories based on estimates and assumptions about a combination of interrelated factors affecting forecasted selling prices, including demand and supply variables. Demand variables include grain and oilseed prices, stock-to-use ratios and changes in inventories in distribution channels. Supply variables include forecasted prices of raw materials such as natural gas, operating rates and crop nutrient inventory levels.  |  |  |  |
| Provisions (IAS 37)                               | Our most significant provisions relate to asset retirement of our nitrogen and phosphate manufacturing facilities at our Idaho phosphate mining and processing sites, environmental remediation at our Idaho phosphate mining and processing sites, and Manitoba mining properties.   | Estimating the ultimate settlement of provisions requires us to make complex and interrelated assumptions based on experience with similar matters, past history, precedents, evidence and facts specific to each matter.   |  |  |  |
|   | We discount a provision to its present value using a pre-tax, risk-free discount rate. We do not recognize contingent liabilities (obligations that we cannot measure with sufficient reliability or obligations for which it is not probable that an outflow of resources will be required to settle the obligation). We have described policy choices applying to provisions and contingent liabilities in notes 19 and 23.   |   |  |  |  |
| Share-based compensation<br>(IFRS 2)              | We recognize share-based payment transactions when we obtain services from an employee. With the exception of stock options, we expect to settle our share-based compensation plans in cash. These cash-settled awards are measured at the fair value of the liability and we remeasure liabilities at the end of each reporting period and at the date of settlement. We have described our policy choices applying to our plans in note 9.  | In valuing our share-based payment transactions and liabilities, we make assumptions about the future volatility of our share price, expected dividend yield, future employee turnover rates, future employee stock option exercise behavior and corporate performance. Such estimates and assumptions are inherently uncertain.  |  |  |  |
| Leases (IAS 17, IFRIC 4)                          | An arrangement may be or contain a lease according to the substance of the arrangement. This is the case if the arrangement is dependent on the use of an asset or conveys a right to use an asset, even if not explicitly stated.  | Leasing arrangements primarily relate to railcars and other rolling stock, which we have classified as operating leases as we do not have substantially all the risks and rewards of ownership of the leased assets.  |  |  |  |

| Financial statement area   | Accounting policy  | Assumptions and estimation uncertainty  |
|--|--|---|
| Income taxes (IAS 12)  | The largest components of our deferred income tax balances relate to asset retirement and environmental remediation provisions and property, plant and equipment.  | We make assumptions to estimate the exposures associated with our various filing positions. We recognize a provision when it becomes probable that we will incur additional tax   |
|  | In determining our provision for income taxes, we use<br>an annual effective income tax rate based on annual<br>income, permanent differences between book and tax   | liabilities for such exposures. Changes in tax law, the level and geographic mix of earnings and the results of tax audits also affect our effective income tax rate.   |
|  | income, and substantially enacted income tax rates. We adjust our annual effective income tax rate as additional information on outcomes or events becomes available.  | Determining tax provisions requires that we make assumptions about the ultimate outcome of a filing position, which can change over time depending on facts and circumstances.  |
|  | We recognize a tax benefit or liability for an uncertain tax position when our best estimate is that the position is more likely than not to be sustained on examination, based on a qualitative assessment of all relevant factors.   |   |
| Employee future benefits<br>(IAS 19)                                   | The funding of our employee future benefit liabilities is roughly evenly split between defined benefit pension plans and unfunded medical plans. Expenses for employee future benefits primarily consist of annual costs for unfunded defined contribution pension plans. For defined benefit pension plans, we recognize a defined benefit obligation, based on actuarial assumptions, net of the fair value of plan assets.  | We use actuarial assumptions to determine the obligations for employee future benefits at each reporting period. These assumptions include the discount rate, expected long-term rate of return on assets, rate of increase in compensation levels, mortality rates, and health care cost trend rates. We have provided detailed information on the assumptions used in note 8. |
| Impairment of goodwill and indefinite-lived intangible assets (IAS 36) | In completing our goodwill impairment testing, we selected FVLCD methodology. For some impairment calculations, we may use an income approach with a discounted cash flow technique. For other calculations, we may use a market approach based on prices and other information generated by market transactions. We deduct the incremental cost of disposing of the asset in determining FVLCD. We do not calculate value in use if there is no impairment under FVLCD. | Refer to note 14 for significant assumptions and estimates.   |

# b) Accounting Policy Choices Requiring Judgments That Have the Most Significant Effect on the Amounts Recognized in the Financial Statements

We consider judgments made in recording impairment of property, plant and equipment, goodwill and indefinite-lived intangible assets, foreign currency and provisions to be critical accounting estimates that require our most difficult, subjective and complex assumptions.

| Financial statement area                   | Accounting policy judgment  | Judgment factors  |
|--|---|---|
| Long-lived assets (IAS 16, IAS 36, IAS 38) | For property, plant and equipment and finite-lived intangible assets, we review for indicators of impairment at each reporting period. We perform this review at the CGU level. A CGU may be a single asset or a group of assets if we cannot identify independent cash flows from an asset. If indicators of impairment of a CGU exist, we will calculate its recoverable amount.  We perform an impairment test of goodwill and indefinite-lived intangibles in the fourth quarter annually or earlier if indicators of impairment exist. We allocate goodwill to CGU groups based on the level at which goodwill is monitored internally by management. This level does not exceed the level of our operating segments before aggregation. | We determine CGUs based on geographic regions, economic and commercial influences, product lines, extent of shared infrastructure and interdependence of cash flows. We grouped (a) Wholesale assets by product lines because of differing production processes and inputs for each nutrient and (b) Retail assets by geographic regions based on customers, products and distribution methods.  We have allocated substantially all of the carrying amount of goodwill to two groups of CGUs within the Retail business unit: Retail - North America and Retail - Australia. |
| Foreign currency (IAS 21)                  | The U.S. dollar is the presentation currency of our consolidated financial statements. The functional currency of our operations is generally the local currency. The majority of our operations use the U.S. or Canadian dollar as the functional currency. We also make judgments about whether an entity may have multiple branches with different functional currencies.  | In determining the functional currency of our operations, we primarily considered the currency that determines the pricing of transactions rather than focusing on the currency in which transactions are denominated.  |
| Provisions (IAS 37)                        | We distinguish between provisions and contingent liabilities based on the probability of an outflow of resources embodying economic benefits and the availability of information to make a sufficiently reliable estimate. We make judgments as to whether an obligation exists and whether an outflow of resources embodying economic benefits for a liability of uncertain timing or amount is probable, not probable, or remote. These judgments determine whether we recognize or disclose an amount in the financial statements.   | Our provisions are measured based on our best estimate of the amount and timing of expected future cash outflows to settle the obligation. We consider all available information relevant to each specific matter. In 2016, we continued to review our litigation, asset retirement and environmental remediation provisions.   |

# c) Recent Accounting Pronouncements

The IASB has issued the following accounting pronouncements, which we have either adopted or will adopt in the future, and which could have a material impact.

| New or amended | Standard/<br>interpretation | Description   | Agrium's date and method of adoption   | Impact  |
|----------------|-----------------------------|---|--|---|
| New            | IFRS 15                     | Revenue from Contracts with Customers establishes a new model for revenue earned from a contract with a customer. The standard provides specific guidance on identifying separate performance obligations in the contract and allocating the transaction price to the separate performance obligations. | Agrium expects<br>to adopt beginning<br>January 1, 2018.   | We completed the first stage of our planned review of our contracts with customers. We expect this standard will impact the timing of recognition of certain revenues. Our preliminary conclusion is that the impact will not be material as the majority of our contracts with customers are short term.   |
| New            | IFRS 16                     | Leases applies a single model for all recognized leases, which would require recognition of lease-related assets and liabilities and the related interest and depreciation expense in the financial statements.   | Agrium expects<br>to adopt beginning<br>January 1, 2019.   | Similar to IFRS 15, we have completed the first stage of our planned review of our contracts that may contain a lease provision. We expect that adoption will result in a material increase in our assets, liabilities and EBITDA. However, we are not able, at this time, to estimate the impact. Once we complete further phases of our review, we will estimate and quantify the impact on our financial statements. |
| Amended        | Various                     | <ul> <li>IAS 7 Statement of Cash Flows</li> <li>IAS 12 Income Taxes</li> <li>IFRS 2 Share-based Payment</li> </ul>  | Agrium expects to<br>adopt IAS 7 and<br>IAS 12 amendments<br>beginning January 1,<br>2017 and IFRS 2<br>amendments beginning<br>January 1, 2018. | Reconciliation between the opening and closing balances for liabilities from financing activities will be disclosed upon adoption of IAS 7 amendments.  We do not expect amendments in IAS 12 and IFRS 2 to have an impact.   |

# 10-YEAR FINANCIAL HIGHLIGHTS (UNAUDITED)

| (millions of U.S. dollars, except per share data and ratios)                    | 2007 (a) | 2008 (a) | 2009 (a) | 2010 (a) | 2011   | 2012 (b) | 2013   | 2014   | 2015   | 2016   |
|---|----------|----------|----------|----------|--------|----------|--------|--------|--------|--------|
| Operations  |          |          |          |          |        |          |        |        |        |        |
| Sales   | 5,270    | 10,031   | 9,129    | 10,743   | 15,470 | 16,024   | 15,727 | 16,042 | 14,795 | 13,665 |
| Gross profit  | 1,598    | 3,223    | 1,943    | 2,648    | 4,333  | 4,308    | 3,773  | 3,552  | 3,888  | 3,395  |
| EBIT (c)(h)(i)(j)(k)(l)(m)(n)   | 715      | 2,016    | 581      | 1,113    | 2,223  | 2,216    | 1,630  | 1,160  | 1,616  | 1,098  |
| EBITDA (d)(f)(k)(l)(m)(n)   | 888      | 2,321    | 823      | 1,447    | 2,604  | 2,629    | 2,102  | 1,710  | 2,096  | 1,630  |
| Earnings (loss) from continuing operations (h/ki/ji/ki/l/m/kn)                  | 441      | 1,322    | 366      | 730      | 1,508  | 1,516    | 1,080  | 798    | 988    | 596    |
| Diluted earnings (loss) per share from continuing operations (h)(X)(X)(M)(m)(n) | 3.25     | 8.34     | 2.33     | 4.62     | 9.52   | 9.67     | 7.31   | 5.51   | 6.98   | 4.29   |
| Finance costs   | 70       | 105      | 110      | 119      | 160    | 130      | 156    | 132    | 252    | 278    |
| Dividends declared per common share   | 0.11     | 0.11     | 0.11     | 0.11     | 0.28   | 1.00     | 2.50   | 3.03   | 3.41   | 3.50   |
| Cash Flow   |          |          |          |          |        |          |        |        |        |        |
| Cash provided by operating activities   | 494      | 1,058    | 1,399    | 589      | 1,350  | 2,070    | 1,767  | 1,312  | 1,663  | 1,667  |
| Capital expenditures  | 454      | 506      | 313      | 441      | 663    | 1,225    | 1,755  | 2,021  | 1,188  | 724    |
| Balance Sheet   |          |          |          |          |        |          |        |        |        |        |
| Non-cash working capital from continuing operations                             | 979      | 2,564    | 1,712    | 2,262    | 2,612  | 2,366    | 2,302  | 2,113  | 1,973  | 1,588  |
| Total assets  | 5,832    | 9,837    | 9,785    | 12,892   | 13,140 | 15,805   | 15,977 | 17,108 | 16,377 | 16,963 |
| Total debt  | 950      | 2,232    | 1,805    | 2,760    | 2,363  | 3,901    | 3,888  | 5,097  | 5,356  | 5,112  |
| Shareholders' equity  | 3,088    | 4,110    | 4,592    | 5,193    | 6,428  | 6,920    | 6,796  | 6,687  | 6,007  | 6,174  |
| Common Share Statistics   |          |          |          |          |        |          |        |        |        |        |
| Weighted average common shares outstanding (in millions)                        | 135      | 158      | 157      | 157      | 158    | 156      | 148    | 144    | 142    | 138    |
| Closing share price (USD)   | 72.21    | 34.13    | 61.50    | 91.75    | 67.11  | 99.87    | 91.48  | 94.72  | 89.34  | 100.55 |
| Market capitalization (USD) (g)   | 11,409   | 5,358    | 9,656    | 14,497   | 10,603 | 14,881   | 13,173 | 13,613 | 12,344 | 13,894 |
| Profitability Ratios  |          |          |          |          |        |          |        |        |        |        |
| Return on operating capital employed (%) (e)                                    | 20       | 31       | 11       | 19       | 29     | 26       | 15     | 10     | 13     | 8      |
| Return on capital employed (%) (e)  | 18       | 22       | 7        | 12       | 19     | 17       | 11     | 7      | 10     | 6      |
| Return on average shareholders' equity (%)                                      | 20       | 37       | 8        | 15       | 26     | 23       | 16     | 12     | 16     | 10     |
| Debt Ratios   |          |          |          |          |        |          |        |        |        |        |
| Debt to debt-plus-equity (%)  | 24       | 35       | 28       | 35       | 27     | 36       | 36     | 43     | 47     | 45     |
| Interest coverage   | 12.7     | 22.1     | 7.5      | 12.2     | 16.3   | 20.2     | 13.5   | 13.0   | 8.3    | 5.9    |

<sup>(</sup>a) Years prior to 2010 have not been adjusted for the transition to IFRS.

<sup>(</sup>b) Restated for the application of IFRS 11 Joint Arrangements requiring equity accounting for joint ventures. Also restated for discontinued operations of the Turf and Ornamental and Direct Solutions businesses where required. Prior years have not been restated.

<sup>(</sup>c) Earnings (loss) from continuing operations before finance costs and income taxes

<sup>(</sup>d) Net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations

<sup>(</sup>e) Tax rate applied on return on operating capital employed and return on capital employed ratio calculations was 28 percent for 2015 - 2016, 27 percent for 2013 - 2014 and 28 percent for 2010 - 2012.

This is a non-IFRS financial measure and is not a measure of financial performance under previous Canadian generally accepted accounting principles.

<sup>(</sup>g) Market capitalization is calculated as period end common shares outstanding multiplied by share price in U.S. dollars on the NYSE on the last trading day of the accounting period.

<sup>(</sup>h) Data for 2008 includes an inventory and purchase commitment write-down of \$216-million (\$149-million net of tax).

Data for 2008 includes an impairment charge on our EAgrium investment of \$87-million (\$45-million net of non-controlling interest).

Data for 2009 includes an inventory and purchase commitment write-down of \$63-million (\$49-million net of tax).

<sup>(</sup>k) Data for 2011 includes an impairment charge on our Hanfeng investment of \$61-million (\$47-million net of tax).

Data for 2013 includes a goodwill impairment charge on our Retail Australia operations of \$220-million and a purchase gain on the Viterra acquisition of \$257-million. Combined amount of \$37-million with no tax impact.

<sup>(</sup>m) Data for 2015 includes a goodwill impairment charge on our Wholesale Europe operations of \$19-million (\$14-million net of tax).

<sup>(</sup>n) Data for 2016 includes an asset impairment charge on an international investment of \$15-million (\$11-million net of tax).

# **RATIOS**

|   | 2016 | 2015 |
|---|------|------|
| Liquidity ratios (:1 except percentages)      |      |      |
| Quick ratio                                   | 0.7  | 0.7  |
| Current ratio                                 | 1.3  | 1.4  |
| Working capital to sales                      | 0.1  | 0.1  |
| Average non-cash working capital to sales (%) | 16   | 15   |
| Sales to total assets                         | 0.8  | 0.9  |
| Total asset turnover                          | 0.8  | 0.9  |
| Profitability ratios (%)                      |      |      |
| Return on operating capital employed          | 8    | 13   |
| Return on capital employed                    | 6    | 10   |
| Return on average shareholders' equity        | 10   | 16   |
| Cash operating coverage                       | 55   | 49   |
| EBITDA to sales                               | 12   | 14   |
| Debt ratios (:1 except percentages)           |      |      |
| Debt to debt-plus-equity (%)                  | 45   | 47   |
| Net-debt to net-debt-plus-equity (%)          | 43   | 45   |
| Interest coverage                             | 5.9  | 8.3  |
| EBIT interest coverage                        | 3.9  | 6.4  |

# **Ratio definitions**

| Quick ratio =                               | <u>current assets - inventories</u><br>current liabilities  |
|---|---|
| Current ratio =                             | current assets / current liabilities  |
| Working capital =                           | (current assets - assets held for sale) - (current liabilities - liabilities held for sale)   |
| Non-cash working capital =                  | (current assets - cash and cash equivalents - other current assets - assets held for sale) - (current liabilities - short-term debt - current portion of long-term debt - liabilities held for sale)  |
| Average non-cash working capital to sales = | rolling four quarter average non-cash working capital / sales   |
| Total asset turnover =                      | sales / average total assets  |
| EBIT =                                      | earnings (loss) from continuing operations before finance costs and income taxes  |
| EBITDA =                                    | net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations   |
| Return on operating capital employed =      | <u>last 12 months' EBIT less income taxes (tax rate: 28% for 2016, 28% for 2015)</u> rolling four quarter average (non-cash working capital + property, plant and equipment + investments in associates and joint ventures + other assets)                          |
| Return on capital employed =                | <u>last 12 months' EBIT less income taxes (tax rate: 28% for 2016, 28% for 2015)</u> rolling four quarter average (non-cash working capital + property, plant and equipment + investments in associates and joint ventures + other assets + intangibles + goodwill) |
| Return on average shareholders' equity =    | net earnings (loss) from continuing operations<br>average shareholders' equity  |
| Cash operating coverage =                   | gross profit excluding depreciation and amortization - EBITDA<br>gross profit excluding depreciation and amortization   |
| Debt to debt-plus-equity =                  | <u>debt (short-term debt and long-term debt)</u><br>debt + shareholders' equity   |
| Net-debt to net-debt-plus-equity =          | net-debt (short-term debt and long-term debt, less cash and cash equivalents)<br>net-debt + shareholders' equity  |
| Interest coverage =                         | EBITDA / finance costs  |
| EBIT interest coverage =                    | EBIT / finance costs  |

# **DIRECTORS AND OFFICERS**

# Agrium's Board of Directors

Derek G. Pannell, Board Chair

Charles (Chuck) V. Magro

Maura J. Clark

David C. Everitt

**Russell K. Girling** 

Russell J. Horner

Miranda C. Hubbs

The Honourable Anne McLellan, P.C.

Mayo M. Schmidt

William S. Simon

# Agrium's Officers

Charles (Chuck) V. Magro President & Chief Executive Officer

Senior Vice President & Chief Financial Officer Steve J. Douglas

Senior Vice President and President, Wholesale Business Unit Henry (Harry) Deans Stephen G. Dyer Senior Vice President and President, Retail Business Unit

Susan C. Jones Senior Vice President & Chief Legal Officer

Leslie A. O'Donoghue Executive Vice President, Corporate Development & Strategy & Chief Risk Officer

Michael R. Webb Senior Vice President, Human Resources

Angela S. Lekatsas Vice President & Treasurer

Andrew J. Kelemen Vice President, Corporate Development

Fredrick R. Thun Vice President, Finance

Thomas E. Warner Vice President, North America Retail

Gary J. Daniel Corporate Secretary

Please visit Agrium's website (www.agrium.com) for biographies of Agrium's Board of Directors and leadership team members.

# SHAREHOLDER INFORMATION

# Annual Meeting

The Annual General Meeting of the shareholders of Agrium Inc. will be held at 11:00 a.m. (MDT) on Tuesday, May 2, 2017 at Agrium Place, Main Floor Rotunda, 13131 Lake Fraser Drive SE, Calgary, Alberta. Shareholders of record on March 9, 2017 are urged to attend and participate in the business of the meeting. It will be carried live on the Company's website at www.agrium.com.

# Stock Exchanges and Trading Symbol

Common shares are listed on the Toronto and New York Stock Exchanges (NYSE) under the symbol "AGU".

# Compliance with NYSE Listing Standards on Corporate Governance

Our common shares are listed on the NYSE under the symbol "AGU". As Agrium is a listed foreign private issuer, the NYSE does not require us to comply with all of its listing standards regarding corporate governance. Notwithstanding this exemption, we are in compliance in all material respects with the NYSE listing standards, and we intend to continue to comply with those standards to ensure there are no significant differences between our corporate governance practices and those practices required by the NYSE of domestic publicly listed companies. Readers are also referred to the Corporate Governance Section of our website at www.agrium.com for further information.

#### Dividend Information

A cash dividend of eighty-seven and a half cents U.S. per common share was paid on January 19, 2017, to shareholders of record on December 30, 2016.

A cash dividend of eighty-seven and a half cents U.S. per common share was paid on October 20, 2016, to shareholders of record on September 30, 2016.

A cash dividend of eighty-seven and a half cents U.S. per common share was paid on July 21, 2016, to shareholders of record on June 30, 2016.

A cash dividend of eighty-seven and a half cents U.S. per common share was paid on April 21, 2016, to shareholders of record on March 31, 2016.

### **Electronic Financial Data Tool**

An interactive electronic database of over seven years' historical financial information is available in the investor section of Agrium's website (www.agrium.com/en/investors). Viewers can select quarterly or annual information, refine results by business segments and view interactive charts. The complete database is also available for download in spreadsheet format for modelling or further analysis. Results are updated in the data tool simultaneously with each quarterly and annual earnings announcement.

## Investor and Media Relations Contacts

#### **Richard Downey**

Vice President, Investor and Corporate Relations **Telephone** 403-225-7357

#### **Todd Coakwell**

Director, Investor Relations **Telephone** 403-225-7437

E-mail aginvest@agrium.com

# **Privacy Officer**

**Telephone** 403-225-7542 Toll-free 877-247-4866 E-mail privacyofficer@agrium.com

## **Auditors**

#### **KPMG LLP**

Suite 3100, 205 - 5 Avenue SW Calgary, Alberta, Canada T2P 4B9

**Telephone** 403-691-8000 Fax 403-691-8008

# Transfer Agent – Common Shares

#### **CST Trust Company**

P.O. Box 700 Station B Montreal, Quebec, Canada H3B 3K3

#### **Telephone**

Outside North America 416-682-3860 Inside North America 800-387-0825

Outside North America 514-985-8843 Inside North America 888-249-6189

E-mail inquiries@canstockta.com

Website www.canstockta.com

# Trustee – Senior Unsecured Notes

#### The Bank of New York Mellon

P.O. Box 396

111 Sanders Creek Parkway East Syracuse, New York, U.S. 13057 Attention: Bondholder Relations

**Telephone** 800-254-2826

Website www.bnymellon.com

# **CORPORATE INFORMATION**

# Corporate and Wholesale Head Office

#### AGRIUM INC.

13131 Lake Fraser Drive SE Calgary, Alberta, Canada T2J 7E8 **Telephone** 403-225-7000

#### Retail Head Offices

#### **CROP PRODUCTION SERVICES. INC.**

3005 Rocky Mountain Avenue Loveland, Colorado, U.S. 80538 **Telephone** 970-685-3300

#### **CANADA**

# **CROP PRODUCTION SERVICES (CANADA) INC.**

Box 5234 64137 Hwy 543 E., High River, Alberta, Canada T1V 1M4 **Telephone** 403-603-6000

#### **SOUTH AMERICA**

#### AGROSERVICIOS PAMPEANOS S.A.

Dardo Rocha 3278. Piso 2 (B1640FTX) Martinez Provincia de Buenos Aires Argentina

**Telephone** +54-11-4717-6441

# **AUSTRALIA**

#### LANDMARK OPERATIONS LIMITED

380 La Trobe Street Melbourne, Victoria 3000 Australia

Telephone +61-3-9209-0001

#### Wholesale Sales Offices

#### CANADA

#### AGRIUM INC.

13131 Lake Fraser Drive SE Calgary, Alberta, Canada T2J 7E8 **Telephone** 403-225-7000

#### UNITED STATES OF AMERICA

#### AGRIUM U.S. INC.

4582 South Ulster Street, Suite 1700 Denver, Colorado, U.S. 80237 Telephone 303-804-4400

#### After June 30, 2017:

5296 Harvest Lake Drive Loveland, Colorado, U.S. 80538

#### **ARGENTINA**

#### PROFERTIL S.A.

Puerto Ingeniero White Zona Cangrejales Bahia Blanca (8103) Provincia de Buenos Aires Argentina **Telephone** +54-291-459-8191

**EUROPE** 

#### **AGRIUM EUROPE S.A.**

Avenue Louise 326/36 1050 Bruxelles Belaium

**Telephone** +32-2-646-7000

# Corporate Website

## www.agrium.com

Please direct inquiries about shareholdings, share transfer requirements, elimination of duplicate mailings, address changes or lost certificates to CST Trust Company.

#### **Trademarks**

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