Agrium Inc.

Management's Discussion and Analysis

For the year ended

December 31, 2017

February 20, 2018

## Management's Discussion and Analysis
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February 20, 2018

# Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) of operations and financial condition focuses on Agrium's historical performance for the years ended December 31, 2017 and 2016. The Board of Directors of Agrium Inc. ("Agrium") carried out its responsibility for review of this disclosure and, prior to publication, approved this disclosure.

Throughout this MD&A, "we", "us", "our", "the Company" and "Agrium" mean Agrium Inc., its subsidiaries and its joint arrangements, until December 31, 2017.

This MD&A is as of February 20, 2018, and should be read in conjunction with the consolidated annual financial statements of Agrium for the 12 months ended December 31, 2017 (the "Consolidated Financial Statements").

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, 2017, 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. Financial information presented and discussed in this MD&A, except as noted otherwise, is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The 2016 comparative period has been restated to exclude the results of CPO (as defined herein), which are presented under discontinued operations. Refer to "Discontinued Operations" section for more details.

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 "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 selling and general and administrative costs, cash cost of product manufactured |
| Normalized comparable store sales |
| Consolidated and business unit net earnings (loss) before finance costs, income taxes, depreciation and amortization, and net earnings (loss) from discontinued operations (EBITDA), EBITDA to sales |
| Wholesale measures that include Agrium's proportionate share of results of joint ventures: sales, cost of product sold, gross profit |

## FORWARD-LOOKING STATEMENTS

Certain statements and other information included in this MD&A constitute "forward-looking 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 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 "Key Assumptions and Risks in Respect of Forward-looking Statements" section for further details.

# 2017 Key Priorities and Results

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

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

**Result:** Achieved

**Comments:** In 2017, Agrium had a strong safety performance with lower rates of recordable injuries, lost time injuries and environmental incidents than in 2016. We rolled out a company-wide Safety Culture Action Plan with a focus on safety leadership. This included centralizing many EHS&S functions to better serve the business operations and implementing a Leader Commitment program to develop a culture of commitment to safety. Despite overall improvement in our safety performance, Agrium reported one fatality this year.

| Cases per 200,000 hours worked | **2017 Actual** | 2016 Actual |
|---|---|---|
| Combined Total Recordable Injury Rate | **1.21** | 1.57 |
| Employee Lost Time Injury Rate | **0.49** | 0.56 |
| Environmental Incident Rate | **0.07** | 0.09 |
| Serious Environmental Events | **18** | 16 |

2. **Operational Excellence**

**Goal:** In Wholesale, continue to improve capacity utilization and reduce fixed costs across the business

**Result:** Not achieved

**Comments:** Wholesale did not achieve target utilization rates in 2017 due to longer-than-expected planned maintenance turnarounds and other outages. Additional maintenance time was required to reduce outage risk and to transition these facilities to a four-year versus a two-year turnaround cycle. Wholesale achieved fixed-cost reductions of $16-million in 2017, bringing the cumulative savings to approximately $80-million since 2015.

| Capacity Utilization (%) | **2017 Actual** | 2016 Actual | 2017 Target [(a)] |
|---|---|---|---|
| Ammonia [(b)] | **87** | 95 | 98 |
| Potash [(c)] | **80** | 88 | 91 |
| Phosphoric acid | **71** | 91 | 88 |

(a) Annual December 31, 2017 targets. Certain amounts have been restated to exclude CPO.
(b) Excludes results from Joffre nitrogen facility. Ammonia capacity is adjusted for normal outages and planned maintenance.
(c) The capacity utilization target and 2017 actual reflect the full post-expansion capacity.

**Goal:** In Retail, achieve higher year-over-year normalized comparable store sales and EBITDA margin and achieve lower non-cash working capital and operating costs on a comparable store basis

**Result:** Partly achieved

**Comments:** Retail achieved improvement in EBITDA to sales and cash operating coverage ratios and maintained the other key metrics in a challenging agricultural environment this year.

| | **2017** | 2016 |
|---|---|---|
| Normalized comparable store sales (%) | **2** | 2 |
| EBITDA to sales (%) | **10** | 9 |
| Average non-cash working capital to sales (%) | **17** | 17 |
| Cash operating coverage ratio | **60** | 61 |

**Goal:** Achieve further reductions in Corporate general and administrative cash costs

**Result:** Not achieved

**Comments:** Corporate cash general and administrative costs increased by $8-million in 2017 and were comparable to costs in 2015.

3. **Growth**

**Goal:** Continue to grow U.S. Retail market share through organic growth, acquisition opportunities and new build Retail locations
**Result:** Achieved
**Comments:** In 2017, Agrium acquired 44 locations in North America and Australia, which are expected to add approximately $300-million in sales in 2018.

Retail is pursuing greenfield location builds in seven U.S. states. In 2017, two locations became operational and we expect construction will be completed on another six locations in 2018. Several other locations are under design and at different stages of construction.

**Goal:** Continue to grow proprietary seed, plant health, and crop protection product businesses
**Result:** Achieved
**Comments:** Retail increased its total proprietary product sales as a percentage of total sales by 2 percentage points. We achieved growth in proprietary product sales as a percentage of total sales in crop nutrients, crop protection products and seed.

We expect our acquisition of a hybrid rice breeding facility, which is expected to commence commercial sales in 2020, to support our proprietary seed portfolio and future growth potential.

**Goal:** Continue to expand our precision agriculture offerings and ECHELON® footprint
**Result:** Achieved
**Comments:** Currently, we provide this multi-crop service offering to more than 84,000 growers. We have mapped close to 50 million acres across our retail footprint and created more than 8.4 million acres of fertility prescriptions based on soil testing and other proprietary methods. All key metrics have seen significant growth year-over-year, and the ECHELON platform continues to deliver great value to grower customers.

**Goal:** Expand Agrium Financial Services™ offering throughout the U.S.
**Result:** Achieved
**Comments:** In 2017, Agrium Financial Services established partnerships with suppliers of crop inputs to offer competitive financing to growers on a suite of seed and crop protection products. The scope of in-house finance offerings has expanded to provide general grower financing across the U.S. In 2017, the number of customer finance accounts and the total loan principal managed by Agrium Financial Services increased by 38 percent and 178 percent, respectively. Additional supplier finance programs and continued market penetration are expected to drive incremental finance business growth in 2018.

4. **Complete Merger and Commence Integration with Potash Corporation of Saskatchewan Inc. ("PotashCorp")**

**Goal:** Complete merger with PotashCorp (the "Merger") within target timeframe
**Result:** Partially achieved
**Comments:** The Merger with PotashCorp took longer than originally anticipated due to requests by certain government regulatory approval bodies for specific asset divestures. The Merger was completed on January 1, 2018, and the first day of operations for Nutrien Ltd., the resulting parent company, was January 2, 2018.

**Goal:** Complete integration planning and achieve meaningful integration progress in 2017
**Result:** Achieved
**Comments:** Significant integration planning and progress was made in 2017 which allowed the new parent company, Nutrien, to successfully commence operations in 2018.

**Goal:** Begin capturing identified synergies from the Merger
**Result:** Achieved
**Comments:** Agrium and PotashCorp have clearly identified synergy opportunities and developed processes to begin capturing these in 2018. The synergy target remains at $500-million for Nutrien, with 50 percent of the synergies expected to be captured by the end of 2018 and the remaining 50 percent by the end of 2019.

## Merger with PotashCorp

In late December 2017, Agrium and PotashCorp received all the required regulatory approvals to complete the Merger, which was completed effective January 1, 2018. Agrium shareholders received 2.23 common shares of Nutrien for each Agrium share held, and PotashCorp shareholders received 0.40 of a common share of Nutrien for each PotashCorp share held. Nutrien common shares commenced trading on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") on January 2, 2018 under the ticker symbol "NTR". Trading of common shares of Agrium and PotashCorp was halted on the TSX and NYSE concurrently with the listing of Nutrien common shares on such exchanges, and were delisted shortly thereafter.

Immediately after completion of the Merger, Nutrien held all of the issued and outstanding common shares of Agrium through its wholly owned subsidiary, Agrium AcquisitionCo ULC. On February 1, 2018, Agrium amalgamated with Agrium AcquisitionCo ULC, and is currently a wholly-owned subsidiary of Nutrien.

In connection with obtaining certain regulatory approvals required in respect of the Merger, Agrium and PotashCorp agreed to certain conditions, including:

- the divestment of Agrium's Conda, Idaho phosphate production facility and adjacent phosphate mineral rights ("CPO") and North Bend, Ohio nitric acid facility ("North Bend Facility"); and
- the divestment of PotashCorp's minority shareholdings in Arab Potash Company, Sociedad Quimica y Minera de Chile S.A., Israel Chemicals Ltd. ("ICL") and Sinofert Holdings Limited within certain specified time periods over the 18 months following the Merger.

On January 12, 2018, the dispositions of CPO and the North Bend Facility were completed. The disposition of ICL by PotashCorp was completed on January 24, 2018.

Refer to note 1 of the 2017 Financial Statements. For additional information with respect to the Merger, please refer to the Material Change Report of Agrium dated January 2, 2018, a copy of which has been filed on SEDAR under Agrium's profile at www.sedar.com.

The reportable segments for Nutrien are Retail, Potash, Nitrogen, Phosphate and Sulfate, and Other. Currently, Agrium's reportable segments include Retail North America, Retail International, Nitrogen, Potash, Phosphate, Wholesale Other, and Other. Reportable segments are determined based on how the Chief Operating Decision Maker measures performance and allocates resources based on information it considers most relevant in evaluating the results of operating segments relative to other entities that operate in similar industries.

## Discontinued Operations

In November 2017, we announced the planned sale of CPO to Itafos Conda LLC ("Itafos") and of the North Bend Facility to Trammo Nitrogen Products, Inc. These divestitures were intended to address certain conditions imposed with respect to the Merger and were subject to the U.S. Federal Trade Commission approval.

As part of the CPO disposition, Agrium entered into several long-term strategic supply and offtake agreements with Itafos, some of which extend to 2023. Under the terms of certain of such agreements, Agrium agreed to supply 100 percent of the ammonia requirements of CPO and purchase 100 percent of the monoammonium phosphate (MAP) product produced at CPO. The MAP production is estimated at 330,000 tonnes per year.

The North Bend facility is a nitrogen product upgrade site. It has produced on average approximately 70,000 tonnes of nitric acid per year over the past two years.

Both divestiture transactions were completed on January 12, 2018.

We have reclassified the results of operations of CPO as discontinued and recorded the assets held for sale at fair value less cost to sell. We have restated for the comparative year ended December 31, 2016. Refer to notes 1 and 21 of the Consolidated Financial Statements for additional information.

# Retail Overview and 2017 Results

## Agrium's Retail business is a global leader in providing agricultural crop inputs and complete solutions including fertilizer, crop protection products, seed, services and advice to growers. As the world's largest retail distributor of crop inputs, we operate more than 1,500 retail facilities across the U.S., Canada, Australia and key areas of South America.

We have approximately 3,300 agronomists and field experts working directly with growers, helping them optimize crop yields and maximize economic returns on their farms. Our experts help growers implement the best management practices based on a thorough understanding of soils, climate conditions and crop requirements and utilizing our portfolio of leading products and services.

We also manufacture and sell several advanced 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 a portfolio of useful and competitive choices to successfully grow and protect their agricultural products.

Precision agriculture is the practice of using the latest technology to allow growers to better address variability in yield potential across their fields to more accurately and effectively utilize crop inputs and farming practices to improve yields. Precision agriculture technology, combined with best farming practices such as the 4R program, enable growers to increase their crop yields using the same or potentially lower levels of crop inputs, which can both improve their economic returns and lead to significant benefits to the environment. Our Retail business provides the latest in technology through our proprietary ECHELON® platform, which allows our crop consultants to better analyze and demonstrate the value of our recommendations and products while increasing economic opportunities for our grower customers.

We have a large global network and decades of hands-on industry experience. Our Retail operations provide the key crop inputs and services needed in each region in which they operate. As a result, there is some diversity in our products and services offered in each region, often associated with the type of agricultural production or the history of products and services provided in that region. For virtually all regions we provide fertilizer, crop protection products, seed and application services. However, in Australia we also provide valuable livestock marketing and auction services and facilitate an extensive offering of insurance products and financial services. In Western Canada, we also market crop storage bins, provide fuel sales and services, and offer financial services to our customers.

## Retail >> Financial Results

**Retail performance**

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| **Sales** | **12,103** | 11,766 |
| **Cost of product sold** | **9,157** | 8,980 |
| **Gross profit** | **2,946** | 2,786 |
| **Expenses** | | |
| Selling | **2,007** | 1,899 |
| General and administrative | **100** | 102 |
| Earnings from associates and joint ventures | **(9)** | (6) |
| Other income | **(42)** | (26) |
| **EBIT** (a) | **890** | 817 |
| **EBITDA** | **1,179** | 1,091 |

(a) Net earnings (loss) before finance costs, income taxes, and net earnings (loss) from discontinued operations.

- Total Retail sales and gross profit were slightly higher this year due to the contribution from recent acquisitions and organic growth related to the strength of our proprietary products.
- North American Retail EBITDA increased in 2017 compared to the prior year primarily as a result of strong earnings in the U.S., driven by contributions from acquisitions, higher proprietary product sales and continued focus on Operational Excellence initiatives.
- International Retail also delivered strong earnings in 2017 as Australia achieved yet another year of record earnings.

## Retail >> Expenses

- Retail 2017 selling expenses were slightly higher than in 2016, however selling expenses as a percentage of sales were comparable to 2016. General and administrative expenses were also consistent with 2016 levels. After adjusting for acquisitions made in 2017, cash selling, general and administrative costs as a percentage of sales were comparable to 2016.
- Depreciation and amortization expense increased to $289-million in 2017 from $274-million in 2016 due to additional property, equipment and intangibles associated with the recent acquisitions and sustaining capital expenditures.

## Retail >> Product Line Performance

**Product line performance**

| | Sales | | Gross profit | | Gross profit (%) | |
|---|---|---|---|---|---|---|
| (millions of U.S. dollars, except as noted) | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Crop nutrients | **4,121** | 4,310 | **848** | 832 | **21** | 19 |
| Crop protection products | **4,937** | 4,684 | **1,185** | 1,114 | **24** | 24 |
| Seed | **1,628** | 1,462 | **325** | 297 | **20** | 20 |
| Merchandise | **683** | 621 | **106** | 103 | **16** | 17 |
| Services and other | **734** | 689 | **482** | 440 | **66** | 64 |
| Total | **12,103** | 11,766 | **2,946** | 2,786 | **24** | 24 |

**Crop nutrients**

- Agrium's Retail crop nutrient sales decreased in 2017 due to lower global nutrient prices, especially for ammonia products, compared to 2016. This was partially offset by an increase in crop nutrient sales volumes to 10.2 million tonnes from 10.0 million in 2016. The higher volumes resulted from strong sales, particularly in the U.S. and Canada this year, as well as recent acquisitions.
- Crop nutrient gross profit increased in 2017 compared to 2016 due to higher sales volumes, which more than offset the impact of lower average selling prices. Crop nutrient average margin per tonne was 1 percent lower despite a 7 percent decline in average realized selling prices, due to improved cost of goods sold per tonne.

**Crop protection products**

- Crop protection products sales and gross profit were higher in 2017 than in 2016 due to strong demand for herbicide and adjuvant products in North America and as a result of recent acquisitions. Crop protection proprietary product sales were also higher in 2017 and increased by one percentage point as a percentage of total crop protection sales.

**Seed**

- Seed sales were 11 percent higher in 2017 compared to 2016, and gross profit was 9 percent higher despite lower total seeded acreage and lower corn acreage in the U.S. this year. The higher seed sales and gross profit levels were primarily supported by an increase in higher-margin proprietary seed sales, higher cotton and soybean acreage in the U.S., and higher canola acreage in Canada this year.

**Merchandise**

- Merchandise sales increased in 2017, primarily due to strong results from our Australian business, which achieved 13 percent higher sales primarily from animal health and management services.
- Merchandise gross profit also increased by $3-million in 2017, while gross profit as a percentage of sales decreased by one percentage point. This was the result of a lower proportion of higher-margin product sales in Australia and a higher percentage of earnings from our lower-margin fuel business in Canada.

**Services and Other**

- Sales of application and other services increased by 7 percent in 2017 compared to 2016, while gross profit increased by 10 percent. This was driven by higher demand for livestock export services in Australia.

# Wholesale Overview and 2017 Results

**Agrium's Wholesale business unit is one of the world's largest producers of crop nutrients, with combined global capacity of approximately 11 million product tonnes per year. We produce and market all three major crop nutrients, which are essential for farmers to optimize crop yields and quality. Our North American production portfolio benefits from significant competitive advantages and enables us to manufacture and distribute fertilizers efficiently, delivering world-class, high quality products to our customers on a timely basis. We strive to produce, distribute and promote the use of these products as safely and sustainably as possible.**

Our Wholesale operations include nine nitrogen, one potash and one phosphate production facilities (excluding CPO) and four other upgrade facilities across North America. We also have significant equity interests in nitrogen facilities in Argentina and Egypt. In total, our annual nitrogen capacity is almost six million product tonnes, our potash capacity is three million tonnes and our phosphate capacity is over half a 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.

Our Wholesale operations have an extensive logistics network across North America that optimizes delivery of our products to our agricultural and industrial customers even during highly seasonal peak periods of demand. In total, our North American distribution and storage capacity amounts to approximately 2.1 million tonnes. We have more than 4,900 railcars under long-term operating leases. We also use barges, pipelines and ocean vessels to transport our products. Agrium Europe owns and leases approximately 200,000 tonnes of dry and liquid storage capacity at both port and inland sites. 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.

## Wholesale >> Financial Results

**Wholesale performance**

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| **Sales** | **2,359** | 2,428 |
| **Cost of product sold** | **1,888** | 1,872 |
| **Gross profit** | **471** | 556 |
| **Expenses** | | |
| Selling | **24** | 31 |
| General and administrative | **26** | 28 |
| Earnings from associates and joint ventures | **(30)** | (61) |
| Other expenses | **34** | 57 |
| **EBIT** | **417** | 501 |
| **EBITDA** | **639** | 704 |

- Wholesale sales in 2017 were 3 percent lower than in 2016 due to lower sales volumes and selling prices for nitrogen and phosphate compared to the prior year. This was partially offset by higher sales volumes of potash from the continuing ramp-up of the Vanscoy potash facility and higher realized potash selling prices. Gross profit was 15 percent lower due to the lower sales volumes and selling prices as well as higher cost of product sold in 2017 compared to 2016.
- Cost of product sold was 1 percent higher overall in 2017 compared to 2016, primarily due to higher natural gas costs and the strengthening of the Canadian dollar during the year.
- Wholesale selling, general and administrative expenses in 2017 were significantly lower than in 2016 due to an ongoing focus on Operational Excellence initiatives and cost reviews.
- Earnings from associates and joint ventures in 2017 were significantly below 2016 levels, mainly due to the impact of non-recurring items. In 2016, we recognized a higher foreign exchange gain in Misr Fertilizers Production Company S.A.E. ("MOPCO") from the devaluation of the Egyptian pound and also a reversal of a gas provision in Profertil S.A. ("Profertil").
- Other expenses decreased by $23-million from 2016, primarily due to non-recurring losses incurred in 2016 relating to the termination of a distribution agreement and cancellation of a Canpotex terminal.

## Nitrogen

**Nitrogen performance**

| (millions of U.S. dollars) | **2017** Consolidated | **2017** Equity accounted joint venture | **2017** Total [(a)] | 2016 Consolidated | 2016 Equity accounted joint venture | 2016 Total [(a)] |
|---|---|---|---|---|---|---|
| Sales | **1,009** | **216** | **1,225** | 1,144 | 196 | 1,340 |
| Cost of product sold | **757** | **167** | **924** | 757 | 164 | 921 |
| Gross profit | **252** | **49** | **301** | 387 | 32 | 419 |

(a) Wholesale measures including share of joint venture.

### Nitrogen gross profit

- Nitrogen gross profit decreased by 35 percent in 2017 due to lower sales volumes, lower realized selling prices and a higher cost of product sold per tonne.

### 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 44 percent of Agrium's nitrogen sales volumes in 2017.
- Nitrogen sales volumes declined by 6 percent in 2017, primarily due to lower product availability.
- Agrium's operating rates declined in 2017 compared to 2016 due to major planned maintenance turnarounds and unplanned downtime in the second half of the year. Ammonia capacity utilization was 87 percent in 2017 compared to 95 percent in 2016 and our 2017 target of 98 percent.

### Nitrogen prices

- Realized nitrogen selling prices decreased by 6 percent in 2017 compared to 2016, while benchmark prices remained relatively flat. The NOLA urea benchmark averaged $229 per tonne in 2017. The lower realized selling price reflects a greater proportion of sales being made during the first half of 2017 relative to 2016, when benchmark prices were lower on a year-over-year basis and timing of forward sales activity.

### Nitrogen product and gas cost

- Nitrogen cost of product sold per tonne increased in 2017 due to higher natural gas costs as well as lower utilization rates compared to 2016. Overall gas cost in 2017 was $2.52 per MMBtu compared to $2.16 per MMBtu in 2016.
- Production asset depreciation and amortization expense of $23 per tonne in 2017 (compared to $22 per tonne in 2016) is included in cost of product sold.
- For 2018 and 2019, we have hedged approximately 33 percent and 24 percent, respectively, of expected natural gas requirements at an average of approximately $2.57 per MMBtu and $2.08 per MMBtu (excluding gas requirements for industrial sales, which are naturally hedged as the contracts are on a cost-plus basis).

## Potash

**Potash performance**

| (millions of U.S. dollars) | **2017** North America | **2017** International | **2017** Total | 2016 North America | 2016 International | 2016 Total |
|---|---|---|---|---|---|---|
| Sales | **341** | **178** | **519** | 257 | 162 | 419 |
| Cost of product sold | | | **390** | | | 367 |
| Gross profit | | | **129** | | | 52 |

### Potash gross profit

- Potash gross profit strengthened significantly in 2017 compared to 2016 due to higher production and sales volumes from our Vanscoy potash facility and improved global potash pricing.

### Potash sales volumes and operating rates

- Potash sales volumes increased 9 percent in 2017, due to the continued ramp up of production capacity at our Vanscoy potash facility and strong demand in 2017. We reached 2.4 million tonnes of production in 2017.

**Potash prices**

- North American and international benchmark potash prices improved in 2017 compared to 2016 as the global supply and demand balance tightened and prices experienced upward momentum.
- Benchmark prices in the U.S. Corn Belt were higher than in 2016, with Midwest potash prices averaging $282 per tonne in 2017 compared to $263 per tonne in 2016.
- 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 sales volumes. 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 costs per tonne due to the inclusion of freight and distribution costs in the North American cost of goods sold. In 2017, 55 percent of our sales volumes were sold in the domestic market compared to 53 percent in 2016.
- Production asset depreciation and amortization expense was $46 per tonne in 2017 (compared to $44 per tonne in 2016) and is included in cost of product sold.

## Phosphate

**Phosphate performance**

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| Sales | **237** | 289 |
| Cost of product sold | **228** | 261 |
| Gross profit | **9** | 28 |

**Phosphate gross profit**

- The decrease in phosphate gross profit in 2017 is due mainly to lower sales volumes at the Redwater facility and lower realized selling prices compared to 2016.

**Phosphate sales volumes and operating rates**

- Sales volumes from our Redwater facility were 14 percent lower in 2017 due to an extended maintenance turnaround during the second half of 2017.

**Phosphate prices**

- Our realized phosphate price decreased by 5 percent in 2017 due to lower global benchmarks during the first half of 2017 and timing of forward sales activity.

**Phosphate product cost**

- Total cost of product sold decreased by 13 percent due to lower sales volumes, despite slightly higher input costs in 2017. Production asset depreciation and amortization expense of $29 per tonne in 2017 (compared to $25 per tonne in 2016) is included in the cost of product sold.

## Ammonium sulfate, ESN® and other Wholesale products

**Wholesale Other performance**

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| Sales | **594** | 576 |
| Cost of product sold | **513** | 487 |
| Gross profit | **81** | 89 |

- While ammonium sulfate selling prices were comparable to the prior year, lower sales volumes due to an extended maintenance outage increased the cost of product sold per tonne. As a result, gross profit per tonne was lower year-over-year.
- ESN and other Wholesale products gross profit decreased due to lower realized selling prices of these products. Lower ESN selling prices were partially offset by lower cost of product sold due to lower urea input costs. Despite significant interruption to ESN production, demand for this controlled-release nitrogen product remained strong in 2017.

## Other Non-Operating Segment 2017 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, share-based payments, and other expenses such as regulatory compliance and foreign exchange gains and losses.

Other EBIT decreased by $63-million in 2017 compared to 2016 primarily due to:

- $28-million lower gross profit recovery as a result of higher inter-segment inventory held by Retail at the end of 2017
- An increase of $63-million in our Merger and related costs
- An increase of $14-million in share-based payments primarily driven by the Agrium share price increase on December 29, 2017

This was partially offset by:

- Recovery of $12-million in our accrued insurance liabilities
- Impairment loss of $15-million in an international investment recorded in 2016

## Consolidated Performance

**Selected annual information**

| (millions of U.S. dollars, except per share amounts) | **2017** | 2016 | 2015 [(a)] |
|---|---|---|---|
| **Sales** | **13,766** | 13,457 | 14,795 |
| **Cost of product sold** | **10,340** | 10,078 | 10,907 |
| **Gross profit** | **3,426** | 3,379 | 3,888 |
| **Expenses** | **2,410** | 2,289 | 2,272 |
| **Earnings before finance costs and income taxes** | **1,016** | 1,090 | 1,616 |
| Finance costs related to long-term debt | **210** | 204 | 181 |
| Other finance costs | **101** | 74 | 71 |
| **Earnings before income taxes** | **705** | 812 | 1,364 |
| Income taxes | **203** | 228 | 376 |
| **Net earnings from continuing operations** | **502** | 584 | 988 |
| **Net (loss) earnings from discontinued operations** | **(187)** | 12 | - |
| **Net earnings** | **315** | 596 | 988 |
| Attributable to: | | | |
| Equity holders of Agrium | **310** | 592 | 988 |
| Non-controlling interest | **5** | 4 | - |
| Net earnings | **315** | 596 | 988 |
| **Earnings per share attributable to equity holders of Agrium** | | | |
| Basic and diluted earnings per share from continuing operations | **3.60** | 4.20 | 6.98 |
| Basic and diluted (loss) earnings per share from discontinued operations | **(1.36)** | 0.09 | - |
| Basic and diluted earnings per share | **2.24** | 4.29 | 6.98 |
| **Total assets** | **17,942** | 16,963 | 16,377 |
| **Non-current financial liabilities** | | | |
| Long-term debt | **4,397** | 4,398 | 4,513 |
| Other non-current financial liabilities | **60** | 29 | 50 |
| **Total non-current financial liabilities** | **4,457** | 4,427 | 4,563 |
| Dividends declared | **483** | 484 | 478 |
| Dividends declared per share | **3.50** | 3.50 | 3.41 |

(a) 2015 was not restated for discontinued operations.

## Sales

2017 vs. 2016

- Retail's sales increased in 2017 primarily as a result of recent acquisitions and higher sales of our proprietary products. Solid demand for herbicide and insecticide products in North America, higher cotton and soybean acreages in the U.S., and higher canola acreages in Canada also contributed to the increase. Competitive pricing pressures and volatile commodity markets affected our realized selling prices.
- Wholesale's sales decreased in 2017 primarily as a result of plant downtime in the second half of 2017 and lower realized selling prices for nitrogen and phosphate due to a greater proportion of sales in the first half of 2017 when benchmark prices were lower than in 2016. This was partially offset by higher realized selling prices and sales volumes for potash due to continued ramp-up of production at the Vanscoy potash facility.

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 resulting from the ramp-up of production at the Vanscoy potash facility as well as an increase in Agrium's Canpotex allocation in 2016.

## Gross profit

2017 vs. 2016

- Retail's gross profit increased in 2017 primarily as a result of recent acquisitions, higher sales of higher-margin proprietary products and continued focus on Operational Excellence initiatives.
- Wholesale's gross profit decreased in 2017 primarily due to lower sales volumes and lower realized selling prices for nitrogen and phosphate. Costs also increased due to higher natural gas input costs and extended planned maintenance turnarounds as well as unplanned downtime in the second half of 2017.

2016 vs. 2015

- Retail's gross profit increased in 2016 primarily as a result of higher crop protection product and application sales, increased sales of higher-margin proprietary products, 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.

## Expenses

**Expenses breakdown**

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| Selling | **2,014** | 1,913 |
| General and administrative | **247** | 240 |
| Share-based payments | **69** | 55 |
| Earnings from associates and joint ventures | **(39)** | (66) |
| Other expenses | **119** | 147 |
| | **2,410** | 2,289 |

- Substantially all of our selling expenses were incurred by our Retail business unit. Selling expenses increased due to recent acquisitions, which resulted in higher payroll expense and increased depreciation and amortization due to a greater depreciable asset base, and higher fuel costs. Retail selling expenses as a percentage of sales were similar to 2016.
- Share-based payments expense increased due to an increase in Agrium's share price at December 29, 2017.
- Earnings from associates and joint ventures decreased in 2017 primarily as a result of a lower foreign exchange gain from the devaluation of the Egyptian pound and the reversal of a gas tariff provision of $21-million at Profertil in 2016.

**Other expenses breakdown**

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| Loss on foreign exchange and related derivatives | **14** | 13 |
| Interest income | **(59)** | (66) |
| Asset impairment | **-** | 15 |
| Environmental remediation and asset retirement obligations | **18** | 10 |
| Bad debt expense | **29** | 35 |
| Potash profit and capital tax | **13** | 12 |
| Merger and related costs | **94** | 31 |
| Other | **10** | 97 |
| | **119** | 147 |

Other expenses reflects the following:

- An increase in Merger and related costs of $63-million in 2017
- Lower expenses related to legal settlements and related fees of $18-million and Information Technology outsourcing costs of $14-million in 2016 with no similar expenses in 2017
- Impairment loss of $15-million in an international investment recorded in 2016
- Losses of $14-million from the termination of a distribution agreement and cancellation of a Canpotex terminal recorded in 2016

## Finance costs

- Finance costs increased by $33-million in 2017 compared to 2016 as a result of higher customer prepayments, lower capitalized interest as the Borger expansion project was completed and increased commercial paper drawings.

## Income taxes

- On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Act") was signed into law. Included in our 2017 earnings is a one-time net tax expense of $9-million related to the Act.
- The effective tax rate of 29 percent from continuing operations for 2017 was higher than the tax rate of 28 percent for 2016 primarily due to the U.S tax reform and a decrease in certain U.S. manufacturing and mining tax deductions offset by lower earnings in higher tax rate jurisdictions.
- 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, 2017 and 2016, are provided in note 7 of the Notes to the Consolidated Financial Statements.

## Net earnings from continuing operations

### 2017 vs. 2016

- Despite strong Retail earnings in 2017 due to contributions from acquisitions, higher proprietary product sales and the continued focus on Operational Excellence in the U.S. as well as strong earnings in Australia, net earnings from continuing operations decreased. Our realized selling prices for nitrogen and phosphate decreased in 2017 and cost of product sold increased due to higher natural gas costs, planned and unplanned downtime at our nitrogen plants and the strengthening of the Canadian dollar.

### 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.

### Net earnings (loss) from discontinued operations

- In 2017, net earnings (loss) from discontinued operations decreased primarily due to a $188-million write-down of CPO's assets to fair value less cost to sell net of tax. The majority of the remaining value of assets held for sale is assigned to inventories.

## 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.

## 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 quarter-over-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.

**Selected quarterly information**

| (millions of U.S. dollars, except per share amounts) | **2017 Q4** | **2017 Q3** | **2017 Q2** | **2017 Q1** | 2016 Q4 | 2016 Q3 | 2016 Q2 | 2016 Q1 |
|---|---|---|---|---|---|---|---|---|
| **Sales** | **2,450** | **2,382** | **6,271** | **2,663** | 2,238 | 2,192 | 6,361 | 2,666 |
| **Cost of product sold** | **1,666** | **1,825** | **4,744** | **2,105** | 1,489 | 1,624 | 4,838 | 2,127 |
| **Gross profit** | **784** | **557** | **1,527** | **558** | 749 | 568 | 1,523 | 539 |
| **Expenses** | | | | | | | | |
| Selling | **519** | **470** | **574** | **451** | 480 | 446 | 574 | 413 |
| General and administrative | **71** | **56** | **61** | **59** | 64 | 60 | 62 | 54 |
| Share-based payments | **29** | **40** | **(3)** | **3** | 33 | 5 | 13 | 4 |
| Earnings from associates and joint ventures | **(7)** | **(4)** | **(5)** | **(23)** | (35) | (3) | (23) | (5) |
| Other expenses | **50** | **16** | **43** | **10** | 43 | 45 | 48 | 11 |
| **Earnings (loss) before finance costs and income taxes** | **122** | **(21)** | **857** | **58** | 164 | 15 | 849 | 62 |
| Total finance costs | **85** | **80** | **76** | **70** | 72 | 66 | 70 | 70 |
| Income taxes | **10** | **(32)** | **228** | **(3)** | 23 | (13) | 221 | (3) |
| **Net (loss) earnings from continuing operations** | **27** | **(69)** | **553** | **(9)** | 69 | (38) | 558 | (5) |
| **Net (loss) earnings from discontinued operations** | **(9)** | **(182)** | **5** | **(1)** | (2) | (1) | 7 | 8 |
| **Net earnings (loss)** | **18** | **(251)** | **558** | **(10)** | 67 | (39) | 565 | 3 |
| Attributable to: | | | | | | | | |
| Equity holders of Agrium | **17** | **(253)** | **557** | **(11)** | 67 | (41) | 564 | 2 |
| Non-controlling interest | **1** | **2** | **1** | **1** | - | 2 | 1 | 1 |
| **Earnings (loss) per share from continuing operations attributable to equity holders of Agrium:** | | | | | | | | |
| Basic and diluted | **0.19** | **(0.52)** | **4.00** | **(0.07)** | 0.50 | (0.28) | 4.03 | (0.04) |
| **Earnings (loss) per share attributable to equity holders of Agrium:** | | | | | | | | |
| Basic and diluted | **0.13** | **(1.84)** | **4.03** | **(0.08)** | 0.49 | (0.29) | 4.08 | 0.02 |
| **EBITDA** | **260** | **100** | **1,000** | **186** | 295 | 134 | 985 | 169 |
| **Dividends declared** | **120** | **122** | **121** | **120** | 121 | 120 | 122 | 121 |
| **Dividends declared per share** | **0.875** | **0.875** | **0.875** | **0.875** | 0.875 | 0.875 | 0.875 | 0.875 |

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

## 2017

- Earnings from associates and joint ventures increased in the first quarter due the continued devaluation of the Egyptian pound, which led to a foreign exchange gain in our investment in MOPCO (net of tax).
- Other expenses were higher in the second and fourth quarters as we recorded Merger and related costs of $15-million and $52-million, respectively.
- We recorded a $178-million loss on re-measurement of assets held for sale, net of taxes, in the third quarter of 2017.

## 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 of $21-million. 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, 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 Merger.
    - 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.

# Financial Condition

## 2017 vs. 2016

The following are changes to the financial condition of our consolidated balance sheet for the year ended December 31, 2017.

**Detailed balance sheet analysis**

| (millions of U.S. dollars, except as noted) | **December 31, 2017** | December 31, 2016 | $ Change | % Change | Explanation of the change in balance |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | **466** | 412 | 54 | 13% | See discussion in the section "Liquidity and Capital Resources". |
| Accounts receivable | **2,406** | 2,208 | 198 | 9% | Increases in Retail due to higher sales and extended payment terms to customers, partially offset by timing of rebate payments from suppliers. |
| Income taxes receivable | **18** | 33 | (15) | (45%) | - |
| Inventories | **3,321** | 3,230 | 91 | 3% | Retail supplier programs created favorable conditions to take crop protection supply early, partially offset by decreases in Wholesale driven by amounts reclassified as assets held for sale related to CPO and extended turnarounds and production challenges. |
| Prepaid expenses and deposits | **1,004** | 855 | 149 | 17% | Pre-purchased seed inventory in Retail increased, partially offset by lower pre-purchased crop nutrients inventory as market pricing made pre-payment less favorable. |
| Other current assets | **120** | 123 | (3) | (2%) | - |
| Property, plant and equipment | **7,091** | 6,818 | 273 | 4% | Increases from additions coupled with foreign exchange translation were partially offset by depreciation and amounts reclassified as assets held for sale related to CPO. |
| Intangibles | **518** | 566 | (48) | (8%) | - |
| Goodwill | **2,228** | 2,095 | 133 | 6% | Increase was due to growth in our Retail business unit from acquisitions. |
| Investments in associates and joint ventures | **522** | 541 | (19) | (4%) | - |
| Other assets | **58** | 48 | 10 | 21% | - |
| Deferred income tax assets | **85** | 34 | 51 | 150% | Increase was primarily due to increases in various deductible temporary differences in Canada. |
| **Total assets** | **17,942** | 16,963 | 979 | 6% | |

**Detailed balance sheet analysis**

| millions of U.S. dollars, except as noted) | **December 31, 2017** | December 31, 2016 | $ Change | % Change | Explanation of the change in balance |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Short-term debt | **867** | 604 | 263 | 44% | Increased commercial paper financing for working capital requirements. |
| Accounts payable | **5,206** | 4,662 | 544 | 12% | Increases in Retail related primarily to higher inventory purchases in anticipation of higher sales, and higher customer prepayments in Australia due to growth in the prepayment program coupled with customer ability to prepay due to improved market conditions. |
| Income taxes payable | **27** | 17 | 10 | 59% | - |
| Long-term debt | **4,408** | 4,508 | (100) | (2%) | Decrease related to $100-million 7.7 percent senior notes repaid in 2017. |
| Post-employment benefits | **142** | 141 | 1 | 1% | - |
| Other provisions | **585** | 381 | 204 | 54% | Increase in provision was primarily due to updated cash projections for asset retirement obligations at our phosphate processing site. |
| Other liabilities | **106** | 68 | 38 | 56% | - |
| Deferred income tax liabilities | **473** | 408 | 65 | 16% | Increase was due to property, plant and equipment taxable temporary differences. |
| **Total liabilities** | **11,814** | 10,789 | 1,025 | 10% | |
| **Shareholders' equity** | **6,128** | 6,174 | (46) | (1%) | |

## Shareholders' equity

Shareholders' equity was $6.1-billion at December 31, 2017 – a decrease of $46-million compared to December 31, 2016. The change is primarily the result of the following:

- Net earnings of $310-million attributable to equity holders of Agrium
- Offset by dividend declarations of $483-million during the year.

### Dividends

On May 5, 2015, a quarterly dividend increase from $0.78 per share to $0.875 per share was approved by Agrium's Board of Directors.

**Dividends declared**

| (millions of U.S. dollars, except per share amounts) | December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| **2017** | | | | 2016 | | | |
| **Declared** | | **Paid to shareholders** | **Total** | Declared | | Paid to shareholders | Total |
| **Effective** | **Per share** | | | Effective | Per share | | |
| **February 22, 2017** | **0.875** | **April 20, 2017** | **120** | February 24, 2016 | 0.875 | April 21, 2016 | 121 |
| **May 2, 2017** | **0.875** | **July 20, 2017** | **121** | May 3, 2016 | 0.875 | July 21, 2016 | 122 |
| **August 10, 2017** | **0.875** | **October 19, 2017** | **122** | August 3, 2016 | 0.875 | October 20, 2016 | 120 |
| **December 14, 2017** | **0.875** | **January 18, 2018** | **120** | December 16, 2016 | 0.875 | January 19, 2017 | 121 |
| | **3.50** | | **483** | | 3.50 | | 484 |

# Outstanding Share Data

The number and principal amount of our outstanding shares at December 31, 2017, the last day prior to completion of the Merger, were as follows:

**Outstanding shares at December 31, 2017**

| | Number of shares | Market value |
|---|---|---|
| Common shares | 138,165,765 | $16-billion |

At December 31, 2017, the number of stock options outstanding (issuable assuming full conversion, where each option granted can be exercised for one common share) was approximately 1,380,868.

As of the date hereof, as a result of completion of the Merger and subsequent amalgamation of Agrium and Agrium AcquisitionCo ULC, all of the common shares of Agrium are now held by Nutrien. Also, as a result of the Merger, Nutrien assumed Agrium’s obligations under stock options outstanding as at December 31, 2017. Refer to Merger with PotashCorp section for details.

# Liquidity and Capital Resources

Agrium generally expects to be able to meet its working capital requirements, capital resources needs 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 under credit facilities and a securitization program. 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) | **2017** | 2016 | Change |
|---|---|---|---|
| Cash provided by operating activities | **1,319** | 1,637 | (318) |
| Cash used in investing activities | **(922)** | (993) | 71 |
| Cash used in financing activities | **(335)** | (687) | 352 |
| Effect of exchange rate changes on cash and cash equivalents | **(12)** | (67) | 55 |
| Decrease (increase) in cash and cash equivalents | **50** | (110) | 160 |
| Cash and cash equivalents provided by discontinued operations | **4** | 7 | (3) |

| | |
|---|---|
| **Cash provided by operating activities** | Our cash provided by operating activities is lower in 2017 due to:<br>• Higher Retail inventory purchases due to higher anticipated sales and favorable conditions for an earlier crop protection supply purchase<br>• Dividends of $108-million received from Profertil in 2016 with no similar transaction this year<br><br>This decrease was largely offset by:<br>• Lower tax payments made in Canada and the U.S. |
| **Cash used in investing activities** | Our cash used in investing activities decreased by $71-million due to reduced business acquisition activity in our Retail business unit. |
| **Cash used in financing activities** | The change was due to higher commercial paper drawings partially offset by repayment of a long-term debt in 2017. |

## Cash position

Our year-end cash and cash equivalents balance was $466-million in 2017 and $412-million in 2016. We do not hold material cash balances in currencies other than the U.S. dollar, Canadian dollar and Australian dollar. We held approximately $35-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.

## Working capital

**Working capital breakdown**

| (millions of U.S. dollars) | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Current assets, excluding assets held for sale | **7,335** | 6,861 |
| Current liabilities | **6,174** | 5,452 |
| Working capital | **1,161** | 1,409 |

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 2017 is primarily due to higher Retail inventory purchases and higher customer prepayments in Australia due to growth in the prepayment program and improved market conditions.

As of December 31, 2017, 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 were higher in 2017 due to planned and unplanned outages at our Wholesale nitrogen and phosphate facilities in the second half of 2017.

Investing capital expenditures typically include significant expansion of existing operations or new acquisitions. Our investing capital expenditures decreased in 2017 primarily due to lower spending as we completed the Borger expansion project at the end of 2016. In 2017, pre-commissioning and commissioning costs were incurred for this project.

**Capital spending and expenditures by business unit** [(a)]

| (millions of U.S. dollars) | **2017** | 2016 |
|---|---|---|
| **Retail** | | |
| Sustaining | **140** | 111 |
| Investing | **112** | 50 |
| | **252** | 161 |
| Acquisitions [(b)] | **203** | 342 |
| | **455** | 503 |
| **Wholesale** | | |
| Sustaining | **280** | 221 |
| Investing | **115** | 312 |
| | **395** | 533 |
| **Other** | | |
| Sustaining | **3** | 4 |
| Investing | **27** | 3 |
| | **30** | 7 |
| **Total** | | |
| Sustaining | **423** | 336 |
| Investing | **254** | 365 |
| | **677** | 701 |
| Acquisitions [(b)] | **203** | 342 |
| | **880** | 1,043 |

(a) Excludes capitalized borrowing costs
(b) 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, 2017 are set out in the table below.

**Contractual and other obligations** [d]

| | 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 | 368 | 362 | 2,232 | 3,181 |
| Operating leases | 147 | 201 | 116 | 157 | 621 |
| Purchase obligations [a] | 1,140 | 515 | 468 | 376 | 2,499 |
| Derivative financial instruments | 62 | 28 | - | - | 90 |
| Other commitments | 61 | 56 | 26 | 12 | 155 |
| Total operating obligations | 1,629 | 1,168 | 972 | 2,777 | 6,546 |
| **Capital** | | | | | |
| Long-term debt – principal repayments | 11 | 500 | 500 | 3,425 | 4,436 |
| Asset retirement obligations [b] | 17 | 44 | 13 | 337 [c] | 411 |
| Environmental remediation liabilities [b] | 22 | 47 | 11 | 65 | 145 |
| Total capital obligations | 50 | 591 | 524 | 3,827 | 4,992 |
| **Total** | 1,679 | 1,759 | 1,496 | 6,604 | 11,538 |

(a) Commitments include our proportionate share of commitments of joint ventures
(b) Represents the undiscounted, estimated cash outflows
(c) This figure does not include estimated asset retirement obligations related to our nitrogen or potash operations. See the discussion in the section "Asset retirement obligations".
(d) 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, 2017.

Profertil has annual gas contracts denominated in U.S. dollars, expiring in 2019. These contracts account for 100 percent of Profertil's gas requirements. YPF S.A. ("YPF"), our joint venture partner in Profertil, supplies approximately 70 percent of the gas under these contracts.

Our Carseland facility has a power co-generation agreement, expiring on December 31, 2026, for which we are able to purchase 60 megawatt-hours of power per hour. 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 Redwater, Alberta facility produces sulfur and phosphate-based fertilizers and sources rock through a long-term supply agreement with OCP S.A. (“OCP”). This agreement, which extends to 2018, entails a minimum commitment to purchase phosphate rock. 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 $59-million at December 31, 2017.

As part of our agreement to sell CPO to Itafos, Agrium entered into long-term strategic supply and offtake agreements with Itafos which extends to 2023. Under the terms of the supply and offtake agreements, Agrium will supply 100 percent of the ammonia requirements of CPO and purchase 100 percent of the MAP product produced at CPO. The MAP production is estimated at 330,000 tonnes per year.

*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. In 2017, we increased our asset retirement obligations at our phosphate processing site due to changes in our estimated future cash outflows. We expect to incur expenditures for our phosphate obligations over the next 70 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 $407-million at December 31, 2017.

*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 $149-million at December 31, 2017.

## Future capital expenditures

### Sustaining capital expenditures

In 2018, our sustaining capital is expected to be approximately $400-million to $450-million for a number of large projects planned for the year, including the following:
- Reliability projects for manufacturing facilities
- Wholesale resource development projects
- Risk management and risk reduction projects
- Planned turnaround inspection and overhaul at certain facilities
- Spending at our Retail operations in North and South America and Australia

### Investing capital expenditures

Our investing capital program planned for 2018 is expected to be approximately $300-million to $350-million and includes the following:
- Greenfield investment in Retail facilities
- Other Retail investments in growth and efficiency opportunities

We anticipate that we will be able to finance the foregoing expenditures 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 securities offerings.

# 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 a $2.4-billion tranche is available for use in North America and a $100-million tranche is available for use in Australia. At December 31, 2017, we had not drawn on our North American tranche, and Australian tranche draws totaled $94-million. We had $565-million of CP outstanding at December 31, 2017, at a weighted average interest rate of 1.88 percent. Amounts borrowed under the CP program reduce our borrowing capacity under the multi-jurisdictional facility on a dollar-for-dollar basis. In addition, we have a $500-million accounts receivable securitization program. At December 31, 2017, we had not drawn on the program. For our international operations, we had credit facilities of approximately $501-million, of which $208-million was outstanding at December 31, 2017, including $47-million in Europe and $161-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 | December 31, 2017 |
|---|---|---|
| Interest coverage ratio [(a)] | ≥ 2.5 | **5.0** |
| Debt-to-capital ratio [(b)] | ≤ 0.65 | **0.45** |

(a) Calculated as the last 12 months' EBITDA divided by finance costs, which includes finance costs related to long-term debt plus other finance costs

(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.

We have met these covenants as at December 31, 2017 and December 31, 2016.

## 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 debt rating | USD commercial paper | Ratings outlook |
|---|---|---|---|---|
| Standard & Poor's Ratings Services | October 30, 2017 | BBB | A-2 | CreditWatch Positive |
| Moody's Investors Service | September 30, 2017 | Baa2 | P-2 | Under Review for Upgrade |

Refer to our 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

At December 31, 2017, we owned a one-third interest in Canpotex Limited ("Canpotex") an industry association historically owned equally by PotashCorp, The Mosaic Company ("Mosaic") and Agrium.

Agrium is contractually obligated to reimburse Canpotex for our economic interest of 8.87 percent pro-rata share of any operating losses or other liabilities incurred in 2017. There were no such losses in 2017.

Following the completion of the Merger, effective January 1, 2018, Nutrien owns a 50 percent voting interest and currently has a 63.82 percent economic interest in Canpotex. Mosaic owns the remaining voting and equity interest in Canpotex. Nutrien guarantees operating losses or other liabilities of Canpotex to the extent of its economic interest.

We believe the probability of conditions arising that would trigger any guarantee of Canpotex is remote. Reimbursements, if any, would be made through reductions of future 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. Agrium's Board of Directors approved a strategic plan that takes into account the opportunities and major risks of our business and mitigating factors to reduce these risks and set upper limits on the amounts and time periods over which management may manage risk using derivative financial instruments. Our Corporate Financial Risk Committee reviewed risk management policies and procedures and monitored compliance with these limits and associated exposure-management activity. We managed risk in accordance with our Global Exposure Management Policy, whose objective was 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** | **Liquidity** |
| Foreign currency forward, swap and option contracts | X | | X | X |
| Natural gas swaps | | X | X | X |

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

# Material Business Risks

Following is a discussion of risks that could affect Agrium's financial performance. Additional risks facing Agrium's business are provided in Agrium's AIF.

## 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 that is 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 or a longer term shift in global weather patterns due to climate change 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 including droughts, floods, excessive precipitation and other unusual events or longer term shifts attributable to climate change 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.

Mining has inherent risks. 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, the Canadian and Australian Retail businesses operate in their local currencies, and results are subsequently translated into the presentation currency. A significant shift in the value of the 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 business and economic interests or policy objectives under government management, 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)

| Likelihood of outcome of matter | Probability of occurrence (policy) | 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:<br>(a) a present obligation exists as a result of a past event<br>(b) it is probable that a future outflow of economic benefits will be required to settle the obligation, and<br>(c) the amount of the obligation can be reasonably estimated |
| Contingent liability | Either:<br>a) a possible obligation that arises from past events and whose existence will be confirmed only by future uncertain events not wholly within our control, or<br>b) a present obligation arising from past events that is not recognized because<br>i) a future outflow of resources to settle the obligation is not probable, or<br>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 2017 |
|---|---|
| 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 2017, Nu-West continued to complete substantial remedial construction and investigative fieldwork for certain of the Idaho sites. Remedial actions for the remaining sites are either under assessment or on hold until the remedial construction at other sites is complete as these efforts may positively affect the results of the investigations. |

| | |
|---|---|
| | In 2017, discussions between Nu-West and the trustees of U.S. federal and state agencies continued to assess potential damages at the Idaho phosphate mining and processing sites.<br><br>We disposed of CPO; however, Agrium retained certain environmental remediation liabilities previously recorded prior to the sale. |
| Manitoba mining properties | |
| In 1996, Agrium acquired Viridian Inc. ("Viridian"). Viridian was amalgamated with Agrium in 2017. Agrium has retained certain liabilities associated with the Fox Mine – a closed mineral processing site near Lynn Lake, Manitoba. Agrium is currently treating water draining from the site to meet provincial downstream water quality standards. Agrium 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; however, we do not anticipate such amounts to be material to us. There were no significant developments in 2017. | There were no material developments in 2017. |

For the Idaho phosphate mining and processing sites and Manitoba mining properties matters described above, at the date of issuance of our 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 AIF in the section "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 the U.S. by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") and in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) 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, 2017, 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) of the Exchange Act, as amended, and NI 52-109. 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 December 31, 2017 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, the CEO and CFO concluded that as of December 31, 2017, we did maintain effective internal control over financial reporting.

The effectiveness of internal control over financial reporting as of December 31, 2017, was audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in the Consolidated Financial Statements.

## Changes to internal control over financial reporting

There was no change in our internal control over financial reporting in 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# Critical Accounting Estimates

We prepare our Consolidated 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 25 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.<br><br>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, 2017, would decrease our consolidated net earnings by $30-million in 2017.<br><br>A 10 percent change in our provision for litigation at December 31, 2017, would have affected consolidated net earnings by $1-million in 2017. |
| **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.<br><br>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 2017 and 2016, we did not record any material inventory write-downs.<br><br>A 1 percent reduction in our inventories at December 31, 2017, would have reduced consolidated net earnings by $24-million in 2017. 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

### IFRS 15 Revenue from Contracts with Customers

*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 in an amount that reflects that total consideration to which an entity expects to be entitled during the term of the contract. The standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and related cash flows.

Agrium will adopt the standard on the effective date of January 1, 2018. Agrium will adopt the standard using the modified retrospective approach with the cumulative-effect of the adjustment recognized at the date of adoption, subject to allowable and elected practical expedients.

In adopting IFRS 15, we completed a review of all our contracts with customers. Since our contracts are primarily short-term in nature and generally do not include significant multiple deliverable components, there will be no material impact of adoption. In addition, our accounting for variable consideration before adoption was substantially similar to the requirements of IFRS 15.

We expect that our consolidated financial statements will include expanded disclosures about revenues from contracts with customers and are drafting the relevant disclosures to reflect the requirements of the new standard. In addition to ensuring that the accounting and disclosure requirements of IFRS 15 are met, we also continue to address any system and process changes necessary to compile the information to meet the recognition and disclosure requirements of the standard. We have also assessed the impact of the standard on internal control over financial reporting and plan to modify to our internal control on adoption.

**IFRS 16 Leases**

*Leases* applies a single model for all recognized leases, which requires recognition of lease-related assets and liabilities and the related interest and depreciation expense in the financial statements.

Agrium will adopt the standard on the effective date of January 1, 2019.

We have completed a lease inventory and review of existing lease agreements and have considered other agreements that could contain leases. We are currently evaluating transition and implementation impacts and will continue to do so in 2018. We are assessing the adoption application guidance and have not chosen a method for adoption however, we expect that adoption will result in a material increase in our assets and liabilities and will result in material reclassifications of interest and depreciation expense within our consolidated statement of operations. However, we are not able now to provide a precise estimate of the impact. Once we complete further phases of our review, we will estimate and quantify the impact on our consolidated financial statements.

# Non-IFRS Financial Measures

Certain financial measures in our MD&A 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 to similar measures used by other issuers 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.

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 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 units and overall as a company |
| Cash selling and general and administrative expenses | Selected financial measures excluding depreciation and amortization | |
| Normalized comparable store sales | Comparable store sales normalized using published nitrogen, potash and phosphate 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. |

| Non-IFRS financial measures | Definition | Why we use the measure and why it is useful to investors |
| --- | --- | --- |
| | Comparable store sales is the 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. | |
| 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. |
| 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 |
| Cash cost of product manufactured (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 manufactured 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 COPM 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 the production tonnes for the period, and the resulting dollar amount is transferred to inventory. Any remaining costs are recorded directly to cost of product sold as production volume or cost efficiency variances.<br><br>Direct freight is a transportation cost to move the product from an Agrium location to the point of sale.<br><br>There is no directly comparable IFRS measure for cash COPM. | |

## Reconciliations of Non-IFRS Financial Measures

**Retail cash operating coverage ratio**

| (millions of U.S. dollars, except as noted) | **2017** | 2016 |
|---|---|---|
| Gross profit | **2,946** | 2,786 |
| Depreciation and amortization in cost of product sold | **7** | 6 |
| Gross profit excluding depreciation and amortization | **2,953** | 2,792 |
| EBITDA | **1,179** | 1,091 |
| Operating expenses excluding depreciation and amortization | **1,774** | 1,701 |
| **Cash operating coverage ratio (%)** | **60** | 61 |

**Cash selling and general and administrative expenses**

| (millions of U.S. dollars) | **Retail** | | **Wholesale** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Selling | **2,007** | 1,899 | **24** | 31 | **2,014** | 1,913 |
| Depreciation and amortization in selling expense | **275** | 263 | **-** | - | **275** | 263 |
| **Cash selling** | **1,732** | 1,636 | **24** | 31 | **1,739** | 1,650 |
| General and administrative | **100** | 102 | **26** | 28 | **247** | 240 |
| Depreciation and amortization in general and administrative | **7** | 5 | **4** | 2 | **30** | 23 |
| **Cash general and administrative** | **93** | 97 | **22** | 26 | **217** | 217 |

**Retail comparable store sales and Retail normalized comparable store sales**

| (millions of U.S. dollars, except as noted) | **2017** | 2016 |
|---|---|---|
| Retail sales from the current period comparable store base | **11,782** | 11,577 |
| Prior year Retail sales | **11,766** | 12,199 |
| **Comparable store sales (%)** | **-** | (5) |
| Current year sales normalized for nitrogen, potash, phosphate benchmark prices | **11,509** | 11,353 |
| **Normalized comparable store sales (%)** | **2** | 2 |

**Consolidated and business unit EBITDA**

| (millions of U.S. dollars) | **Retail** | **Wholesale** | **Other** | **Consolidated** |
|---|---|---|---|---|
| **2017** | | | | |
| **Net earnings** | | | | **315** |
| **Finance costs related to long-term debt** | | | | **210** |
| **Other finance costs** | | | | **101** |
| **Income taxes** | | | | **203** |
| **Net loss from discontinued operations** | | | | **187** |
| **EBIT** | **890** | **417** | **(291)** | **1,016** |
| **Depreciation and amortization** | **289** | **222** | **19** | **530** |
| **EBITDA** | **1,179** | **639** | **(272)** | **1,546** |
| 2016 | | | | |
| Net earnings | | | | 596 |
| Finance costs related to long-term debt | | | | 204 |
| Other finance costs | | | | 74 |
| Income taxes | | | | 228 |
| Net earnings from discontinued operations | | | | (12) |
| EBIT | 817 | 501 | (228) | 1,090 |
| Depreciation and amortization | 274 | 203 | 16 | 493 |
| EBITDA | 1,091 | 704 | (212) | 1,583 |

# 2017 Fourth Quarter Management's Discussion and Analysis

## CONSOLIDATED NET EARNINGS

Agrium fourth-quarter earnings from continuing operations totaled $27 million, down from the $69 million earned in the fourth quarter of 2016. Full-year earnings from continuing operations were $502 million compared to $584 million earned in 2016. Results for the quarter and full year were supported by record Retail business unit performance and higher potash sales volumes and margins, but were more than offset by lower nitrogen sales volumes and margins related to plant outages in the second half of 2017.

### *Agrium Retail*

| (millions of U.S. dollars) | Three months ended December 31 2017 | 2016 | Change |
|---|---|---|---|
| Sales | **2,089** | 1,828 | 261 |
| Cost of product sold | **(1,394)** | (1,205) | (189) |
| Gross profit | **695** | 623 | 72 |
| EBIT | **174** | 134 | 40 |
| EBITDA | **248** | 202 | 46 |
| Selling expenses | **(517)** | (476) | (41) |

• **EBITDA -** Retail reported record EBITDA in the fourth quarter of 2017, a 23 percent increase over the previous record achieved in the same period last year. Higher sales for all our crop input products and services were driven by organic growth, recent acquisitions and a 22 percent increase in proprietary product sales.

• North American EBITDA increased by 17 percent this quarter compared to the same period last year, with higher nutrient and crop protection product demand in both the U.S. and Canada. International Retail operations achieved a record fourth quarter, with EBITDA up 40 percent year over year, supported by another record quarter for our Australian operations.

• **Selling expenses** – Total Retail selling expenses increased by 9 percent this quarter compared to the same period in 2016 as a result of acquisitions made in 2017. Selling expenses as a percentage of sales decreased to 25 percent this quarter compared to 26 percent in the same period of 2016.

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

| | Three months ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales | | | Gross profit | | | Gross profit (%) | |
| (millions of U.S. dollars, except where noted) | **2017** | 2016 | Change | **2017** | 2016 | Change | **2017** | 2016 |
| Crop nutrients | **890** | 779 | 111 | **168** | 147 | 21 | **19** | 19 |
| Crop protection products | **712** | 620 | 92 | **327** | 296 | 31 | **46** | 48 |
| Seed | **107** | 101 | 6 | **51** | 43 | 8 | **48** | 43 |
| Merchandise | **187** | 167 | 20 | **28** | 27 | 1 | **15** | 16 |
| Services and other | **193** | 161 | 32 | **121** | 110 | 11 | **63** | 68 |

• **Crop nutrients** - Sales were 14 percent higher this quarter compared to the same period last year, due primarily to higher volumes, particularly with record ammonia applications in Canada and higher sales volumes in all other regions. Gross profit was 14 percent higher this quarter due to increased sales volumes, while gross profit margin per tonne remained relatively flat.

• **Crop protection** – Fourth-quarter sales increased by 15 percent compared to the same period last year, due to increased sales in both North America and International operations. The U.S. experienced strong demand for herbicides and fall weed burn-down products this quarter. Proprietary product sales in the quarter increased by 25 percent compared to 2016's fourth quarter, with the largest increase in market penetration occurring in Australia. Gross profit for the quarter was up 10 percent over the same period last year, due to higher sales volumes across all regions and proprietary products. However, gross profit as a percentage of sales decreased 2 percentage points this quarter due to product mix considerations and a higher percentage of sales to wholesale customers.

• **Seed** – Gross profit in the fourth quarter increased 19 percent compared to the same period last year, due to purchases in the U.S. that were delayed from the third quarter of 2017. Gross profit as a percentage of sales increased to 48 percent from 43 percent in the fourth quarter of last year, due to a return to a higher sales mix to retail customers relative to wholesalers.

• **Merchandise** – Sales increased 12 percent and gross profit was up 4 percent in the fourth quarter of this year relative to the same period last year. The increase in sales was due to higher sales in Australia related to animal health management and higher fuel prices in our Canadian operations.

• **Services and other** – Sales increased by 20 percent and gross profit by 10 percent this quarter compared to the same period last year, due to higher livestock export shipments and wool commissions in Australia. It was also supported by higher sales in North America related to strong demand for fall nutrient and crop protection application services. Gross profit as a percentage of sales declined this quarter due to lower Australian cattle prices.

### *Agrium Wholesale*

| (millions of U.S. dollars) | Three months ended December 31 **2017** | 2016 | Change |
|---|---|---|---|
| Sales | **534** | 594 | (60) |
| Sales tonnes (000's) | **1,879** | 2,161 | (282) |
| Cost of product sold | **(447)** | (459) | 12 |
| Gross profit | **87** | 135 | (48) |
| EBIT | **76** | 151 | (75) |
| EBITDA | **134** | 208 | (74) |
| Expenses | **(11)** | 16 | (27) |

• **EBITDA** – Wholesale gross profit and EBITDA this quarter were lower than the same period last year, as stronger results from our potash segment were more than offset by lower results for our nitrogen and phosphate segments. Downtime in our nitrogen and phosphate facilities impacted sales volumes and resulted in higher cost of product sold per tonne. Higher phosphate rock and sulfur input costs and unfavorable changes in the Canadian dollar exchange rate also increased the cost of product sold.

### *Agrium Potash*

| (millions of U.S. dollars) | Three months ended December 31 **2017** | 2016 | Change |
|---|---|---|---|
| Sales | **137** | 105 | 32 |
| Cost of product sold | **(97)** | (84) | (13) |
| Gross profit | **40** | 21 | 19 |
| EBIT | **33** | 13 | 20 |
| EBITDA | **64** | 39 | 25 |

• **Gross Profit** – Potash gross profit was 90 percent higher than the fourth quarter of 2016, due to a combination of higher prices and sales volumes, which more than offset an increase in the cost of product sold per tonne.

| | Three months ended December 31 **2017** | 2016 | Change |
|---|---|---|---|
| Sales tonnes (000's) | | | |
| North America | **329** | 286 | 43 |
| International | **291** | 304 | (13) |
| Selling price ($/tonne) | | | |
| North America | **269** | 211 | 58 |
| International | **168** | 148 | 20 |
| Total | **221** | 179 | 42 |
| Cost of product sold ($/tonne) | **(157)** | (143) | (14) |
| Margin ($/tonne) | **64** | 36 | 28 |

• **Volumes** – Agrium sold 5 percent higher volumes of potash in the fourth quarter of 2017 compared to the same period in 2016. Increased volumes sold domestically more than offset lower international sales, which were impacted by a reduction in Agrium's Canpotex allocation relative to the same period last year.

• **Price** – Global benchmark potash prices were higher in the fourth quarter of 2017 compared to 2016, and this was reflected in Agrium's realized selling prices, which were 27 percent higher domestically and 14 percent higher on international sales.

• **Costs** – Cost of product sold per tonne was 10 percent higher in this year's quarter versus the prior year's fourth quarter, due to unfavorable changes in the Canadian dollar exchange rate impacting production costs; higher freight costs; and a higher proportion of domestic sales than the comparable period (that include freight and distribution in the cost of product sold). Agrium's cash cost of product manufactured this quarter was $72 per tonne, a $10 per tonne increase over the same period last year.

### *Agrium Nitrogen*

| (millions of U.S. dollars) | Three months ended December 31 2017 | 2016 | Change |
|---|---|---|---|
| Sales | **220** | 285 | (65) |
| Cost of product sold | **(186)** | (200) | 14 |
| Gross profit | **34** | 85 | (51) |
| EBIT | **26** | 76 | (50) |
| EBITDA | **46** | 99 | (53) |

• **Gross Profit** - Total nitrogen gross profit was significantly reduced this quarter compared to the same period last year, due to planned and unplanned maintenance outages in the second half of 2017 that reduced product availability in the fourth quarter and resulted in higher cost per tonne. Gross profit was also impacted by slightly lower realized pricing relative to the fourth quarter of 2016.

| | Three months ended December 31 2017 | 2016 | Change |
|---|---|---|---|
| Sales tonnes (000's) | | | |
| Ammonia | **261** | 334 | (73) |
| Urea | **300** | 439 | (139) |
| Other | **191** | 181 | 10 |
| Selling price ($/tonne) | | | |
| Ammonia | **342** | 371 | (29) |
| Urea | **287** | 274 | 13 |
| Other | **234** | 222 | 12 |
| Total | **293** | 298 | (5) |
| Cost of product sold ($/tonne) | **(248)** | (209) | (39) |
| Margin ($/tonne) | **45** | 89 | (44) |

• **Volumes** - Total nitrogen sales volumes for the fourth quarter were 21 percent lower than the same period in 2016 due to lower production volumes.

• **Price** - Agrium's fourth-quarter average realized price decreased compared to the prior year's fourth quarter, with price increases in urea and nitrogen solutions more than offset by lower ammonia pricing, a result of the timing of forward sales activity, and lower nitrate prices driven by lower Tampa ammonia-based contracts.

• **Costs** – Total cost of product sold was 7 percent lower than the same period last year, due to lower sales volumes this quarter. However, on a cost of product sold per tonne basis, costs increased by 19 percent, primarily due to fixed costs being spread over lower sales volumes.

| Natural Gas Prices (U.S. dollars per MMBtu) | Three months ended December 31 2017 | 2016 | Change |
|---|---|---|---|
| Overall gas cost excluding realized derivative impact | **1.77** | 2.52 | (0.75) |
| Realized derivative impact | **0.70** | 0.07 | 0.63 |
| Overall gas cost | **2.47** | 2.59 | (0.12) |
| Average NYMEX | **2.91** | 2.99 | (0.08) |
| Average AECO | **1.54** | 2.12 | (0.58) |

### *Agrium Phosphate*

| (millions of U.S. dollars) | Three months ended December 31 2017 | 2016 | Change |
|---|---|---|---|
| Sales | **47** | 81 | (34) |
| Cost of product sold | **(49)** | (72) | 23 |
| Gross profit | **(2)** | 9 | (11) |
| EBIT | **(1)** | 8 | (9) |
| EBITDA | **4** | 13 | (9) |

• **Gross Profit** - Total phosphate gross profit was a loss of $2 million compared to a profit of $9 million in the same period last year. The lower earnings were driven primarily by higher rock and sulfur costs as well as an extended maintenance shutdown at our Redwater facility, which increased cost of product sold per tonne.

| | Three months ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| Sales tonnes (000's) | **107** | 191 | (84) |
| Selling price ($/tonne) | **436** | 420 | 16 |
| Cost of product sold ($/tonne) | **(448)** | (379) | (69) |
| Margin ($/tonne) | **(12)** | 41 | (53) |

• **Volumes** – Total phosphate volumes for the quarter were 44 percent lower than the same period last year due to lower production volumes.

• **Price** – The average realized selling price for phosphate was 4 percent higher than the same period last year, due to market strength in our primary selling region in Western Canada.

• **Costs** – Total cost of product sold was 32 percent lower than the comparable prior period, due to the lower sales volumes this quarter as a result of the extended maintenance shutdown. On a per-tonne basis, cost of product sold was 18 percent higher, due to higher input costs, including rock and sulfur, and fixed costs being spread over lower sales volumes.

***Agrium Wholesale Other***

| | Three months ended December 31 | | |
|---|---|---|---|
| (millions of U.S. dollars) | **2017** | 2016 | Change |
| Sales | **130** | 123 | 7 |
| Cost of product sold | **(115)** | (103) | (12) |
| Gross profit | **15** | 20 | (5) |
| EBIT | **18** | 54 | (36) |
| EBITDA | **20** | 57 | (37) |

• **Gross Profit** - Total Wholesale Other gross profit was 25 percent lower in 2017's fourth quarter compared to the same period last year, due to lower ammonium sulfate availability from our Redwater facility.

| | Three months ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| Sales tonnes (000's) | | | |
| Ammonium sulfate | **61** | 99 | (38) |
| ESN® and other | **339** | 327 | 12 |
| Selling price ($/tonne) | | | |
| Ammonium sulfate | **261** | 240 | 21 |
| Cost of product sold ($/tonne) | **(173)** | (130) | (43) |
| Margin ($/tonne) | **88** | 110 | (22) |

• **Volumes** – Fourth-quarter ESN® volumes were 16 percent lower than the comparable period in 2016 due to lower product availability related to an outage at our Carseland nitrogen facility. Ammonium sulfate sales volumes were 38 percent lower due to reduced production volumes.

• **Price** – Stronger ESN® market conditions had a favorable impact on selling prices, while ammonium sulfate also saw higher prices due to higher nitrogen benchmark prices and strong demand in Western Canada.

• **Costs** – Cost of product sold per tonne for ammonium sulfate was 33 percent higher during the quarter than the same period last year due to fixed costs being spread over lower sales volumes as a result of the above-noted outages and higher raw material prices.

***Agrium Other***

• **EBITDA** - EBITDA for our Other non-operating business unit for the fourth quarter of 2017 was a net expense of $122 million, compared to a net expense of $115 million for the fourth quarter of 2016. The variance was primarily due to:

- An increase of $38 million in Merger and related costs.
- An increase of $13 million in our environmental remediation provision, primarily as a result of a change in our estimated future cash outflows for our Idaho phosphate mining and processing sites.

This was partially offset by:

- A $15 million impairment loss recorded on an international investment in 2016.
- An increase of $11 million in our gross profit recovery as a result of lower intersegment inventories held by Retail at the end of the fourth quarter.

• **Tax** - On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. Included in Agrium's fourth-quarter earnings is a one-time net tax expense of $9 million related to the Act. The effective tax rate for the fourth quarter of 2017 remained the same with prior year (2017 and 2016: 25 percent).

## Reconciliation of Fourth Quarter Non-IFRS Financial Measures

| **Consolidated and business unit EBITDA** | **Three months ended December 31,** | | | |
|---|---|---|---|---|
| (millions of U.S. dollars) | **Retail** | **Wholesale** | **Other** | **Consolidated** |
| **2017** | | | | |
| **Net earnings** | | | | **18** |
| **Finance costs related to long-term debt** | | | | **55** |
| **Other finance costs** | | | | **30** |
| **Income taxes** | | | | **10** |
| **Net loss from discontinued operations** | | | | **9** |
| **EBIT** | **174** | **76** | **(128)** | **122** |
| **Depreciation and amortization** | **74** | **58** | **6** | **138** |
| **EBITDA** | **248** | **134** | **(122)** | **260** |
| 2016 | | | | |
| Net earnings | | | | 67 |
| Finance costs related to long-term debt | | | | 51 |
| Other finance costs | | | | 21 |
| Income taxes | | | | 23 |
| Net loss from discontinued operations | | | | 2 |
| EBIT | 134 | 151 | (121) | 164 |
| Depreciation and amortization | 68 | 57 | 6 | 131 |
| EBITDA | 202 | 208 | (115) | 295 |

# 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** |
|---|---|---|
| Integration of Agrium and PotashCorp businesses | • Anticipated cost reductions from rail costs, logistic savings and distribution and warehouse optimization are achieved<br>• Integration of PotashCorp products through Agrium's Retail network is successful<br>• Planned operational efficiencies and savings are achieved | • Uncertainty surrounding the Merger could adversely affect customers, suppliers and personnel, which could negatively impact future business and operations |

| Forward-looking statements | Material assumptions | Material risk factors |
|---|---|---|
| Factors that will drive improvement in Retail's key metrics and financial measures, including growth in our proprietary products and financial services | • Retail business conditions are within normal parameters with respect to prices, margins, product availability and supplier agreements for our major products<br>• Agrium is able to identify suitable candidates for acquisitions and to negotiate acceptable terms<br>• Agrium is able to implement its standards, controls, procedures and policies at the acquired businesses to realize the expected synergies<br>• Continue to expand financial service offerings and increase market penetration across the U.S. to retain existing customers and attract new business | • Retail's ability to effectively implement planned business strategy<br>• Changes in general economic, market, business and weather conditions, industry competition and various events that could disrupt operations<br>• General operating risks associated with investment in foreign jurisdictions |
| Agrium's ability to meet its capital requirements, including the ability to expand existing sources of financing or to access other sources of financing and to meet debt repayments and future obligations in the foreseeable future | • North American and global economic growth<br>• Ability to maintain<br>o Adequate credit ratios<br>o Investment grade credit ratings<br>o Adequate cash generated from operations | • Inflation, currency and interest rate fluctuations and changes in tax rates that could affect Agrium's ability to meet obligations<br>• 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 | • Adequate cash is generated from operations and other sources of financing | • Integration risks that might cause anticipated synergies from our recent and future Retail acquisitions to be less than expected<br>• Changes in development plans for our expansion, efficiency, debottleneck and other major projects, including the potential for capital construction costs to be higher than expected or construction progress to be delayed due to various factors<br>• The level of sustaining and investing capital may vary significantly depending on corporate priorities as the year progresses and based on changes in project scope and design, the rate of inflation or engineering and construction costs<br>• Potential inability to access or utilize our credit facilities or access capital markets |
| Statements relating to the supply of our phosphate rock | • Commitments agreed with our suppliers | • Interruption in the supply of phosphate rock<br>• Changes in the terms of agreements with our suppliers |
| Statements relating to the long-term strategic offtake agreement for MAP with Itafos | • Commitments agreed with Itafos | • Interruption in the supply of MAP<br>• Changes in the terms of agreements with our supplier |

| Forward-looking statements | Material assumptions | Material risk factors |
|---|---|---|
| Expected compliance with environmental requirements and associated costs, as well as the installation and timing of emissions reduction technology and impact to Agrium | • Tentative start-up of carbon capture technology in the second half of 2019 | • Carbon capture and storage funding not received from Alberta government<br>• Upgrader projects (specifically the Northwest Upgrader) cancelled or delayed<br>• Issues with engineering/procurement or construction of the facility or pipeline |
| Anticipated environmental remediation liabilities and asset retirement obligations | • Timing and amount of expenditures<br>• Estimated discount and inflation rates | • Changes in government policies, legislation and regulations that could change timing and estimate of costs<br>• Inflation, currency and interest rate fluctuations |