

AGRIUM

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Agrium



phase 2 summary



Photo Courtesy of Eagle Eye Helicopter, Inc.

The Cook Inlet region of Alaska has a variety of established industries that were built around an abundance of low cost natural gas. The natural gas supply is vanishing, forcing industry to cease operations and raising the cost of fuel to utilities and consumers. Kenai Blue Sky employs commercially proven technology and capitalizes on unique market conditions, strategic partnerships and alliances to provide a long-term commercial alternative to natural gas reliance.

The diversity and synergies offered by Kenai Blue Sky are immense. Kenai Blue Sky will retain the annual production of over 2 million tonnes of ammonia and urea. It provides an opportunity for Railbelt utilities to make available reliable, competitively priced power in a region with aging and expensive generation. It reduces environmental emissions through proven technology and provides excess CO₂ to recover up to 300 million barrels of oil through enhanced oil recovery in Cook Inlet. This project anchors the development of the Beluga coalfield and would result in the retention and creation of over 500 long-term Alaskan jobs.

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The Project

Kenai Blue Sky employs developed technology and capitalizes on unique market conditions, strategic partnerships and alliances to provide a long-term commercial alternative to natural gas reliance within Alaska. The objective is to site a world class gasifier and traditional pulverized coal power plant adjacent to Agrium's Kenai facility to begin production in 2011. Two gasifier trains would produce the H₂, N₂, steam and CO₂ required by the nitrogen facility and strategically positioned companies in Cook Inlet. Environmental emission concerns are addressed through proven technology.

The diversity and synergies offered by Kenai Blue Sky are immense. Kenai Blue Sky could retain the annual production of 0.8 million tonnes of ammonia and 1.3 million tonnes of urea, along with associated jobs, community support and business opportunities for Alaska companies. The project could also provide low cost power for sale into the Railbelt, excess CO₂ to recover up to 300 million barrels of oil through enhanced oil recovery, the anchor demand required to develop another Alaskan coal mine, and assist in the economics of other Alaskan communities and companies by supplying an economic alternative for by products and demand for services.

With almost 40 years of Alaska experience, the Kenai nitrogen facility has been able to successfully compete in the export fertilizer market. However, declining

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natural gas supplies and lack of further development will force the facility to cease operations in the near future. Based on an abundant Alaska resource, coal, this project will effectively mitigate the volatility associated with the traditional natural gas based fertilizer producers. Nearby coal reserves are projected to provide well in excess of 100 years of economic development. This enables Alaska to retain a value-added facility, continues to diversify the state portfolio and capitalizes on the operations experience of one of the world's leading fertilizer companies.



Kenai Blue Sky could also significantly improve the Railbelt energy mix by decreasing natural gas power production from 73% to 39%. Cook Inlet natural gas now uses national benchmark pricing resulting in significantly higher prices and volatility. The stability offered through long-term coal contracts offers a stable low cost solution. By leveraging an existing multi-billion dollar fertilizer plant, development and operations of Kenai Blue Sky significantly enhance the value proposition of the power generation. These synergies extend into the enhanced oil recovery opportunities and other benefits currently being explored. Further, the existing highly skilled employment base and support industries of the Kenai enhance the project's credibility and sustainability.

The Market and Industry

The ten-year average growth in global nitrogen demand was 1.9% per annum and is expected to continue to grow at this rate.

By 2011, the global nitrogen demand is expected to be 100 million nutrient tonnes. There has been a pronounced shift to urea within this market as urea growth has averaged 3.5% over the past ten years and is expected to grow at 2-3% per annum.

The production portfolio is shifting toward the low cost trapped gas of the Middle East and other regions. This shift is coming at the expense of the older production in the higher gas cost markets such as North America and Europe.

Kenai Blue Sky will target the Pacific Rim market. This market is currently served by product sourced out of

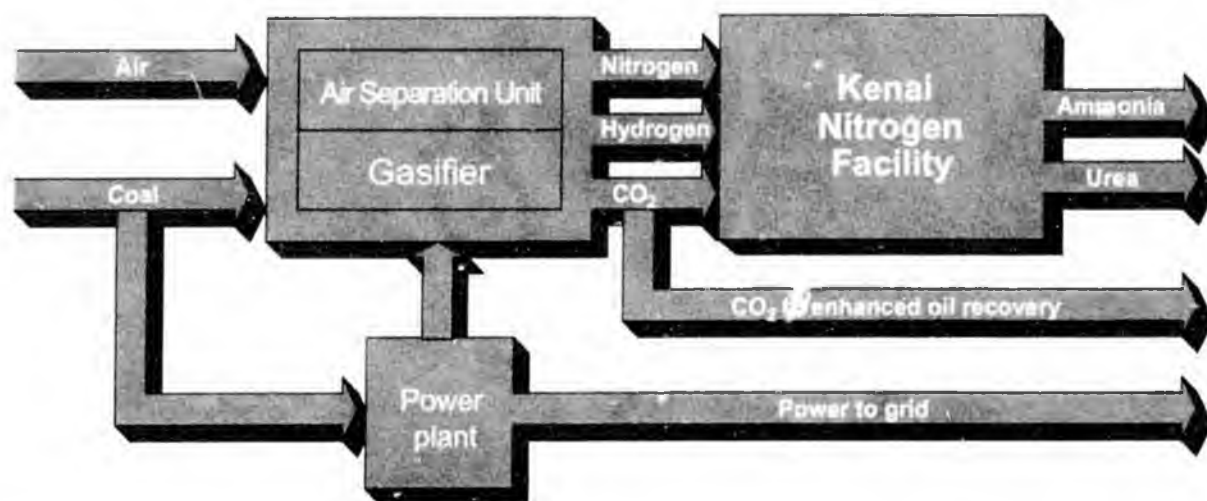
the Middle East, the former Soviet Union, Malaysia and Kenai. Within this market, Kenai continues to enjoy a strategic advantage with its location and proximity to market. With a significant savings in shipping costs Kenai has been able to compete in the Asian markets, with strong relationships with Korea, Mexico and as far south as eastern Australia. The current outlook continues to support these market fundamentals. With high cost power production in Alaska, the Railbelt is well positioned to accept a new source of low cost, environmentally friendly, coal fired power production. The high decline rates on the natural gas supply are forcing prices higher and are limiting the availability of new natural gas power production. Coal based production addresses this concern and offers an economic alternative to the higher cost alternative.

Kenai Blue Sky Business Model/Strategy

The basis of the Kenai Blue Sky business model is predicated on the long-term viability of the strategic partnerships and alliances required to make this project successful. The project derives significant synergies from the integration of the nitrogen facility, power plant, air separation unit, coal mine, other feedstock alternatives and gasifier.

Given the cost and magnitude of Kenai Blue Sky, the current view is that the ultimate structure will include several strategic partners with an interest in the overall structure or perhaps individual components with strong

contractual ties. Agrium could bring nitrogen production experience and use its existing marketing capacity and network to market the product. Usibelli Coal Mine Inc. (UCM) brings to the project over 60 years of experience as the only operating Alaskan coal mining company. The proven experience of Agrium and UCM combined with the excellent operating performance of the Kenai Nitrogen Operations team is a strong foundation on which to build Kenai Blue Sky. The partners will be strategically integrated to enhance this foundation into a long-term viable partnership.



Kenai Blue Sky Project Components

All components of this project utilize existing, proven technology in a unique configuration to produce multiple benefits to the State of Alaska.

Coal Supply

Kenai Blue Sky could utilize up to four million tons of coal per year. The long-term nature, volume and location support the development of new coal opportunities in Alaska. UCM is evaluating options associated with utilization of coal from Beluga, Healy, and other coalfields. UCM is also evaluating the transportation of coal to the Kenai Blue Sky facility. A draft report is expected by early summer 2006. Phase 2 of the project will continue to develop on this and will narrow the scope to identify the most viable strategic option.

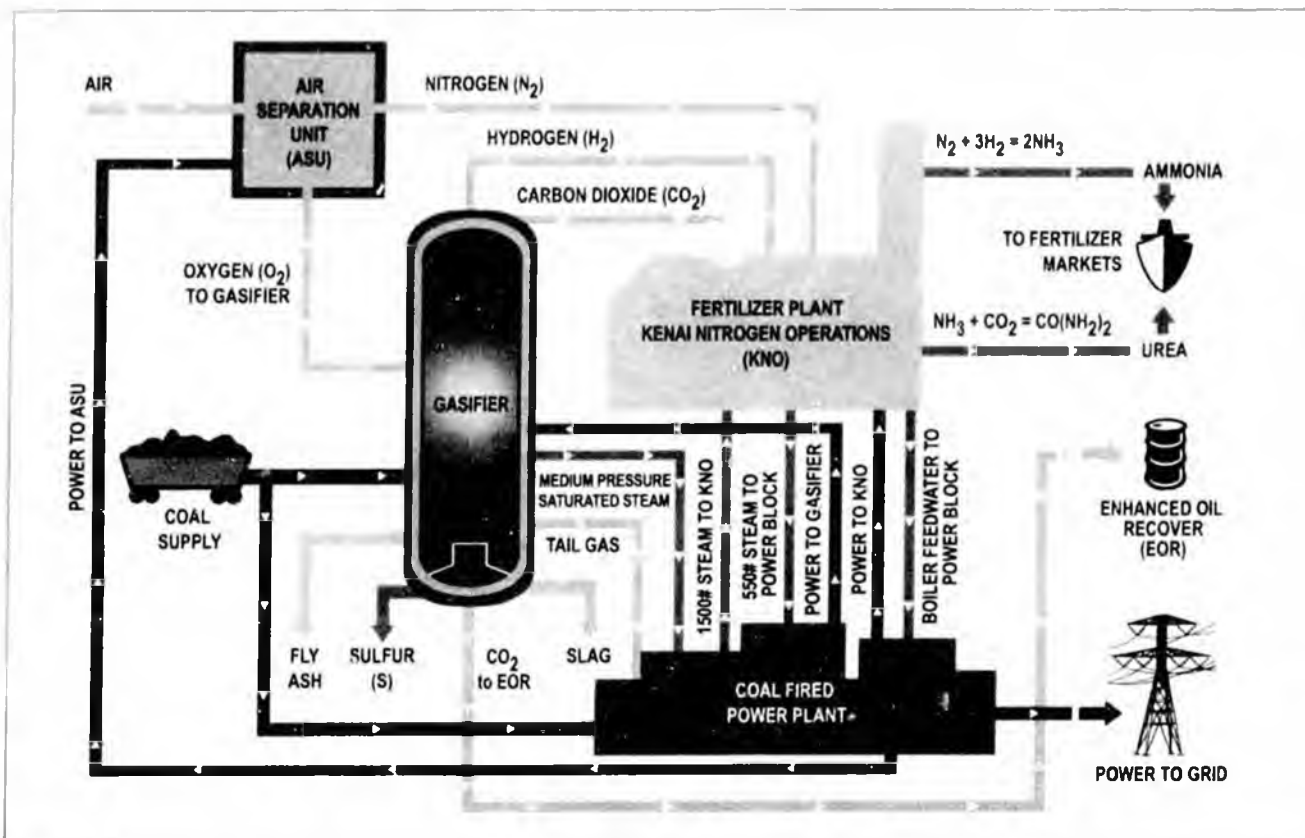
Gasifier Block

Two coal gasification trains could utilize Alaskan coal to produce the hydrogen, nitrogen, steam and carbon dioxide required by KNO. The process dries and pulverizes delivered coal conveying it to the gasifier

where the coal reacts with sub-stoichiometric amounts of pure oxygen to form a gas stream rich in carbon monoxide and hydrogen (syngas). This gas is reacted with water in shift converters where the carbon monoxide (CO) is shifted into carbon dioxide (CO₂) and hydrogen (H₂). The CO₂ is then removed from the syngas along with sulfur and other impurities. Finally a pure hydrogen stream is supplied to the KNO nitrogen plant where it will be combined with pure nitrogen from the air separation unit and then be converted into ammonia (NH₃).

Air Separation Unit

The air separation unit (ASU) processes air directly from the atmosphere to generate the nearly pure oxygen required by the gasification block. The air separation unit is the largest power consumer in the envisioned complex due to the large compressors required to liquefy and separate pure oxygen and nitrogen from the air. The gasifier block requires pure oxygen to process the coal, all of which is supplied by the air separation unit.



Kenai Blue Sky Project Components continued

Power Block

Southcentral Alaska and the entire Railbelt grid are in need of low cost reliable power. The current natural gas generators continue to age and the prices continue to escalate. Kenai Blue Sky envisions building two traditional coal fired boilers supplying power to the Kenai Blue Sky project and potentially the Railbelt grid. Kenai Blue Sky could require approximately 100 MW of power. This leaves the potential to generate additional power for sale into the grid. The project will use BACT for emissions control and consider the application of proven technology that could demonstrate emissions control beyond current BACT levels.

KNO Nitrogen Plant

Agrium's Kenai Nitrogen Operations (KNO) is the second largest nitrogen fertilizer production facility in North America. Agrium supplies fertilizer (urea) to Alaskan customers that include farmers, greenhouse operators, and State airports. This world-class facility is scheduled to permanently shut down on October 31, 2006 due to a lack of natural gas feedstock. KNO takes pure hydrogen from the gasifier and pure

nitrogen from the air separation unit and combines them in a high-pressure converter to form ammonia (NH_3). Ammonia produced in the ammonia converter is refrigerated and sold and is also combined with carbon dioxide (CO_2) in a high-pressure reactor to form urea (NH_2CONH_2). The urea is sold as the highest grade of solid nitrogen fertilizer.

Enhanced Oil Recovery

Excess CO_2 could be injected into the aging Cook Inlet oil fields to produce an estimated 300 million barrels of additional crude oil from these fields. The potential daily oil production increase is estimated to be as much as 25,000 barrels per day. The use of CO_2 to enhance the recovery of oil from existing fields has been proven in many fields across North America. The unique properties of CO_2 allow this gas to dissolve into the remaining heavy oil in the reservoir and change the oil's flow characteristics. The result is that more oil is able to flow from the reservoir and be recovered. The Department of Energy has sponsored two studies that have identified the high potential for recovery in the Cook Inlet fields.

Kenai Blue Sky Project Phase 2

Following the final determination of project feasibility, Kenai Blue Sky will move into a more detailed engineering analysis that will better define the project. The goal of Phase 2 will be to develop a Front End Engineering Design (FEED) package. The FEED package will establish engineering definition sufficient to support a Lump Sum Turn Key (LSTK) offering for the final design and construction of the project. Phase 2 will also begin the environmental permitting and establish the corporate structure and commercial agreements to advance the project.



Phase 2 Deliverables

Develop Front End Engineering Design (FEED) Package

The engineering deliverable for Phase 2 will be developed in conjunction with Black & Veatch/Uhde who have been integral to the design from the beginning. In Phase 2, the design will be honed to the final design case and the level of detail in the estimate will be greatly increased over the feasibility investigations. This level of work is often referred to as a

Front End Engineering Design (FEED) package. The detail of this design is highly specific and allows for a greater definition of the project, but not sufficient for the final design and construction of a facility. The FEED reduces the uncertainty around final project cost and allows for a better overall design by providing greater definition.

The Major Parts of the FEED are:

- A scope of work and supply document that will form the basis for the final lump sum turnkey (LSTK) offer during Phase 3.
- A Class 3 capital cost estimate as defined by the Association for the Advancement of Cost Engineering International. The capital cost estimate shall also include a confidence level analysis. The intention of this analysis is to quantify the uncertainty around the cost estimate.
- Detailed engineered process and utility equipment lists.
- The following drawings, developed during Phase 1, will be refined and enhanced:
 - Basic process units block flow diagrams.
 - Process flow diagrams for all process systems.
 - Plot plan for all project facilities.
 - Electrical Single Line Diagram for generation facilities and electrical connection to the Gasification Plant and KNO.
 - Preliminary Piping and Instrument Diagrams (P&IDs) for all process facilities.
- Detailed estimates for the following categories:
 - Operating costs (other than coal).
 - Operations and Maintenance Manpower requirements.
 - Anticipated Maintenance costs.
 - Estimate of the availability for the major pieces of equipment.
- Evaluation of Feedstock and suitability for intended application.
- Detailed Project Implementation Plan.
- Estimated plant emissions, discharges and waste products.
- Detailed Schedule for Phase 3.
 - Based on a start of Phase 2 in summer 2006, estimated completion date of January 2008.

Perform Environmental Permitting

The environmental work required in Phase 2 is dependent on the results from the feasibility investigations in Phase 1. If it is determined that there are any requirements for baseline data collection, this work will commence in Phase 2.

The goal of this work will be to develop any data collection and modeling required to support the project

and begin the permitting process. It is envisioned that the permitting and National Environmental Policy Act (NEPA) process work, if it is required, will begin in Phase 2. Some engineering will need to be completed in order to begin the permitting process.

Phase 2 Deliverables continued

Produce Bankable Documents to Secure Financing for Phase 3 and Phase 4

The Kenai Blue Sky Project offers a number of potential commercial opportunities. A major focus of Phase 2 will be to define the commercial opportunity and establish a corporate structure to execute Kenai Blue Sky. This could also require the development and execution of raw material supply and product offtake agreements. The

development and execution of these agreements could lead to secured financing for Phase 3 and Phase 4. The current estimated cost for Phase 2 is \$28 million. This estimate will continue to be refined as Phase 1 is completed. The funding will be a mix of private and public funding.

Phase 2 Costs

Phase 2 will further define the value proposition for Kenai Blue Sky and set the stage for participation in the subsequent stages. To facilitate this process the participants are being chosen for their strategic alignment with project. This maintains focus and will optimize the outcome of this process.

The anticipated breakdown of spending is as follows:

Front End Engineering Design	\$ 13.4 million
Environmental Permitting	\$ 4.3 million
Commercial Development	\$ 5.4 million
G&A	\$ 4.6 million
Total	\$ 27.7 million

Phase 2 Participants

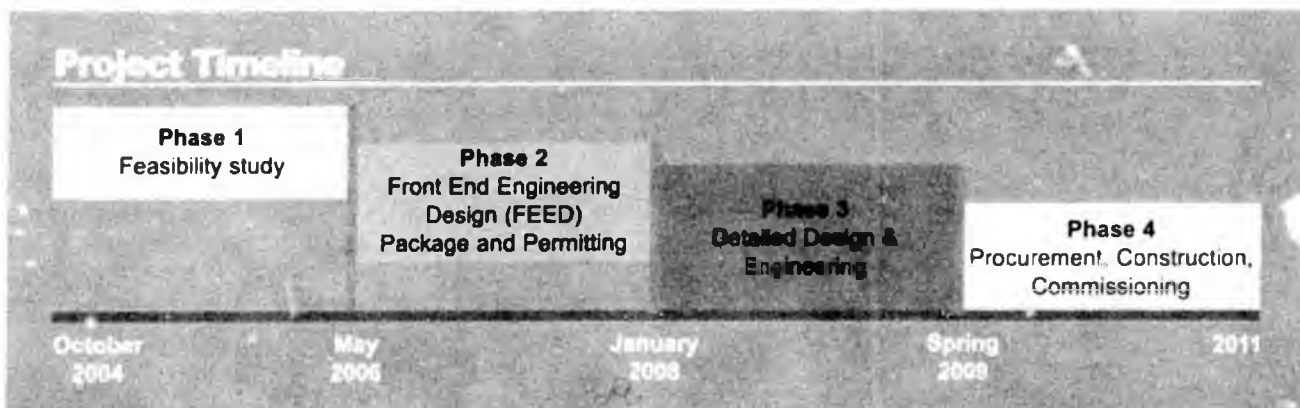
Current indications are that the Kenai Blue Sky has solid financial fundamentals. Sensitivity analysis shows that Kenai Blue Sky maintains a positive economic

feasibility over a broad range of scenarios. Strategic partners will be engaged in the development of this opportunity.

Phase 2 Summary of Economics

The Kenai Blue Sky concept has been underway since October of 2004. Phase 1, the feasibility assessment, is nearing completion and continues to show strong promise and presents an economic opportunity. To date the dollars invested in commercial, environmental, and engineering studies have documented the viability of

the project. The final product of Phase 1 will set the basis for the Front End Engineering Design (FEED) package to be developed in Phase 2. A "Go" decision from Phase 2 will lead into the detailed design and engineering in Phase 3 followed by procurement, construction and commission in Phase 4.





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