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Agrium eyes more expansion at Vanscoy mine

Company still fine-tuning recent 310,000-tonne addition to mine's production capacity

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Canada's third-largest potash producer is still studying how much more it can expand its only production facility at Vanscoy, west of Saskatoon.

Calgary-based Agrium Inc., a producer, wholesaler and retailer of fertilizer products, posted its annual report online this week.

While the company has been focused on completing its December acquisition of a group of retail fertilizer operations owned by UAP in the United States, Agrium continues to look at one and possibly two major potash investments. Potash accounted for 15 per cent of the company's earnings before interest, taxation, depreciation and amortization (EBITDA) in 2007.

The company is currently fine-tuning a 310,000-tonne capacity expansion at the Vanscoy mine. In his letter to shareholders, company president and CEO Michael Wilson said the expansion took longer to complete than originally intended. It wasn't until the fourth quarter of 2007 that Agrium had Vanscoy running consistently at the expanded capacity rate, the company reports.

In order to re-establish Agrium's share of international potash sales made under the Canpotex marketing consortium, the company has to run the Vanscoy mine full out in a test to prove that it has consistently reached its new capacity figure.

Wilson says the Canpotex test run will be delayed until late 2008, but that shouldn't impact the company's profitability in potash sales it makes this year, "given that the returns from the domestic (U.S.) market are likely to remain well above international markets for much of 2008."

One uncertainty in the international market, the report notes, is the price Canpotex will achieve in India and China, where the contract price has yet to be established. The spot international price for potash is well above the previous contract price paid by China and India, the Agrium report notes.

Despite the production issues at Vanscoy, the company did sell 1.68 million tonnes of potash last year compared to 1.2 million the year before. With the higher production, Agrium reports its costs per tonne dropped \$8 compared to 2006 despite an 18 per cent rise in the Canadian dollar which caused its production costs to rise, as all potash sales are priced in U.S. dollars.

As Agrium looks to possibly add anywhere from 300,000 to 800,000 tonnes of annual capacity in a second expansion at Vanscoy, the effect of other major capital projects in Western Canada will be a factor in the scale or timing of that project.

"Major capital projects in Western Canada continue to face significant delays and cost

overruns due to limited availability of labour, engineering and specific equipment," Wilson told shareholders. "These considerations have also impacted the timeline for evaluating the next potash expansion, of which a decision will be made in 2008."

Any additional expansion at Vanscoy would not likely be completed until 2011 to 2012.

Longer term, Agrium is still evaluating the feasibility of a new "greenfield" potash mine that would involve a different potash deposit in either Saskatchewan or across the border in Manitoba.

The company says it is doing extensive seismic work, plus drilling, in potash prospective areas of both provinces. The company has 67,700 acres under lease, 265,000 acres of exploration permits and another 99,700 acres with a pending exploration permit.

With price increases in 2007, Agrium's gross profit from potash increased to \$167 million compared to \$98 million in 2006 and \$157 million in 2005.

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