

**IN THE MATTER OF THE *SECURITIES ACT*,  
R.S.O. 1990, c. S.5, as amended**

- and -

**IN THE MATTER OF  
ROYSTER-CLARK LTD. AND ROYSTER-CLARK ULC**

- and -

**IN THE MATTER OF  
AGRIUM INC. AND AGRIUM ACQUISITIONS INC.**

**AFFIDAVIT OF COLIN WATSON  
(sworn December 15, 2005)**

I, Colin Watson, of the City of Toronto, in the Municipality of Metropolitan Toronto, business executive, MAKE OATH AND SAY:

1. I am a director of Royster-Clark Ltd. (“**RC Ltd.**”) and Royster-Clark ULC (“**RC ULC**”) (collectively, “**Royster-Clark**”) and Chairman of the Special Committee of independent members of the RC Ltd. Board of Directors that was formed in response to the unsolicited bid (the “**Agrium Offer**”) by Agrium Inc. through Agrium Acquisitions Inc. (“**Agrium**”) for income deposit securities (the “**IDSs**”) issued by Royster-Clark dated November 8, 2005, as extended and varied on December 13, 2005. I therefore have knowledge of the matters to which I depose.

2. I am submitting this affidavit (i) in response to the application by Agrium to cease trade the limited duration shareholder rights plan (the “**Plan**”) instituted by RC Ltd. effective December 7, 2005; and (ii) in support of an application by Royster-Clark for relief in respect of the Agrium Offer.

3. The RC Ltd. Board of Directors instituted the Plan and brought the application seeking relief in respect of the Agrium Offer because it believed that:

(a) the Agrium Offer is opportunistic and inadequate;

- (b) the Agrium Offer is coercive, unfairly pressuring Royster-Clark IDS holders to accept the offer despite its inadequacy;
- (c) Agrium has provided materially deficient disclosure with respect to the Agrium Offer; and
- (d) there is a real and substantial possibility that, given a reasonable period of further time, the RC Ltd. Board can find an alternative bid or transaction that would be better for securityholders than the current Agrium Offer.

4. The RC Ltd. Board understands its fiduciary obligations and, in instituting the Plan, was acting in a *bona fide* attempt to increase the choices available to the holders of its securities and to maximize holder value. In these circumstances, I believe the Commission should allow the Plan to function for a further period so as to allow Royster-Clark management and directors to continue to fulfill their fiduciary duties.

5. What follows is organized under the following headings:

- A. *Royster-Clark*: I describe by way of background Royster-Clark's business and corporate structure.
- B. *The IDSs and the Constituent Securities*: I describe (i) the income deposit securities that have been issued by Royster-Clark (the "**IDSs**") and that are the subject of the Agrium Offer; and (ii) the common shares of RC Ltd. (the "**Common Shares**") and the subordinated notes of RC ULC (the "**Notes**") that IDSs represent.
- C. *The Agrium Offer*: I describe the Agrium Offer for the IDSs.
- D. *Evaluation of the Agrium Offer*: I summarize the steps taken by the RC Ltd. Board to evaluate the Agrium Offer, the Board's conclusions and its recommendation to IDS holders.
- E. *Efforts to Maximize Value*: I summarize the RC Ltd. Board's efforts to identify alternatives to the Agrium Offer to maximize value to holders of IDSs.

F. *The Rights Plan:* I explain the RC Ltd. Board's decision to implement the Rights Plan.

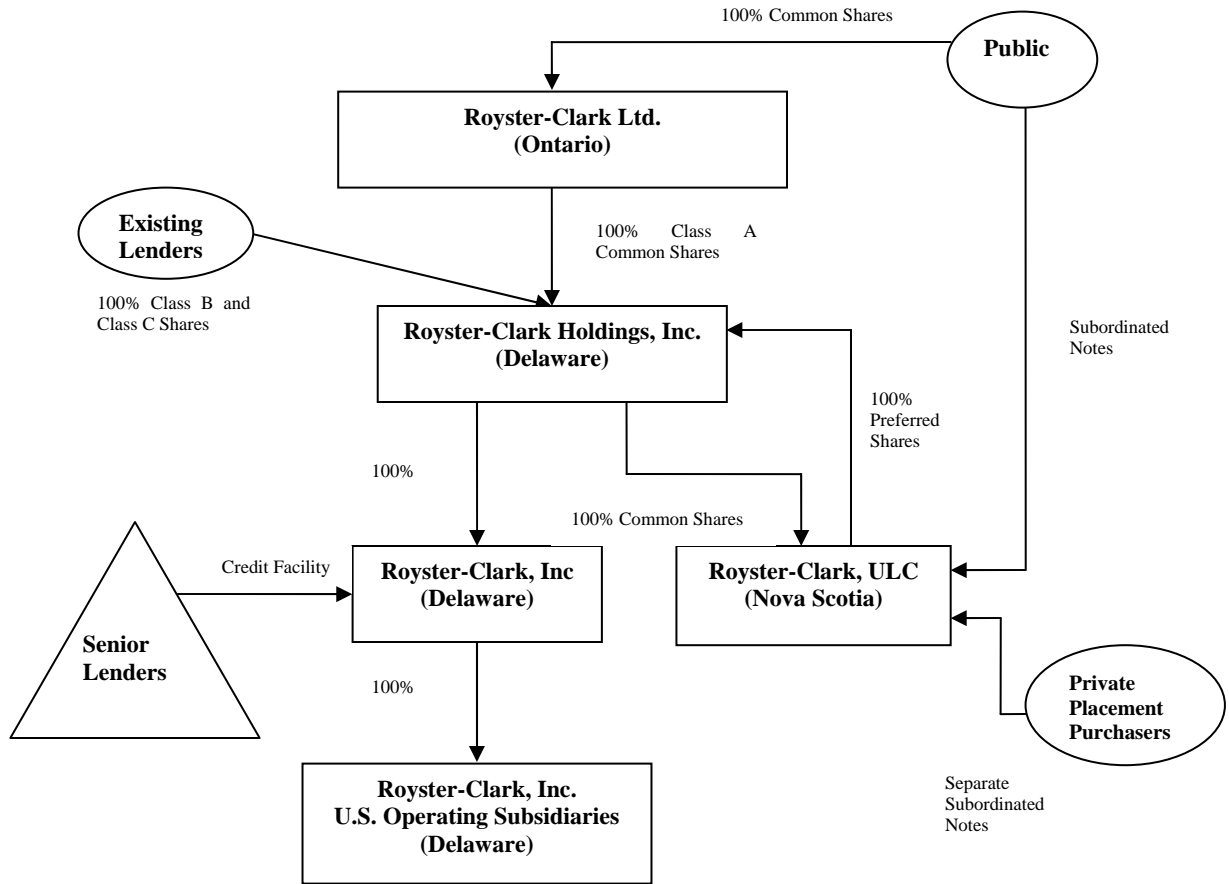
**A. Royster-Clark**

6. ***RC Ltd.*** RC Ltd. is an OBCA corporation with its head office in Toronto, Ontario.

7. ***RC ULC.*** RC ULC is an unlimited liability company under the laws of Nova Scotia with its head office in Toronto, Ontario.

8. ***The business.*** Royster-Clark, through various direct and indirect subsidiaries, is a retail distributor of agricultural fertilizer, seed and crop protection products; it provides agronomic services such as product application and technical consulting services to farmers in the United States; and it distributes crop production inputs, principally fertilizer, on a wholesale level.

9. ***Ownership structure.*** The ownership structure of Royster-Clark and related corporations is highly complex. The corporate chart that was included in the prospectus for the Royster-Clark initial public offering is set out below.



## B. The IDSs and the Underlying Securities

10. In their July 2005 IPO, RC Ltd. and RC ULC jointly issued 32,500,000 IDSs at a price of \$10.00 per IDS. Each IDS represents ownership of one Common Share of RC Ltd. and \$6.08 principal amount of the Notes of RC ULC<sup>1</sup>.

11. An IDS itself is neither a voting security nor an equity security in the share capital of either RC Ltd. or RC ULC. Rather, it is comprised of one Common Share and \$6.08 principal amount of Notes. Holders of IDSs have the right to separate IDSs into Common Shares and Notes at any time after 45 days following the closing date of the IPO by turning in their IDSs and receiving in return the underlying securities. Similarly, any holder of Common Shares

<sup>1</sup> The prospectus under which the IDSs were issued is attached to the Anderson Affidavit at Tab A.

and Notes may, at any time, combine the applicable number of Common Shares and principal amount of Notes to form IDSs.

12. The IDSs are currently listed and traded on the TSX. The Common Shares are separately listed on the TSX and will be posted for trading on the TSX when RC Ltd. provides the TSX with evidence that there exists a sufficient public distribution of Common Shares that are held separately from Notes. The Notes are not separately listed but may be traded on an “over-the-counter” basis.

13. Investors purchase IDSs primarily for the anticipated cash distributions to be generated by the dividend payments on the Common Shares and interest payments on the Notes. The Board of Directors of RC Ltd. has adopted a policy to distribute available cash to the maximum extent possible, subject to applicable law, by way of equal monthly dividends on the Common Shares, after satisfying debt service obligations and other expense obligations. Interest is paid on the RC ULC Notes on a monthly basis.

14. In connection with the initial public offering of IDSs, RC ULC also issued, on a private placement basis, \$24.2 million principal amount of Subordinated Notes (the “**Separate Subordinated Notes**”) on a stand-alone basis; that is, they were not issued together with Common Shares as IDSs. These Separate Subordinated Notes are however the same as the Notes that comprise part of the IDSs. The Separate Subordinated Notes were issued to and continue to be held by sophisticated institutional investors.

### **C. The Agrium Offer**

15. Under the Agrium Offer dated November 8, 2005, Agrium offered to purchase all of the outstanding IDSs for \$10.00 per IDS. The Agrium Offer was amended on December 13, 2005 by a Notice of Extension and Variation (the “**Amendment**”). The Agrium Offer, as amended, expires on December 23, 2005. The purpose of the Agrium Offer, according to Agrium in its take-over bid circular<sup>2</sup>, is to enable Agrium “to acquire all of the IDSs or the

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<sup>2</sup> The Agrium take-over bid circular is attached to the Anderson Affidavit at Tab D.

Common Shares and [Subordinated] Notes that comprise the IDSs". The key features of the Agrium Offer include the following.

16. ***The Agrium Offer is for IDS only.*** The Agrium Offer is expressed to be for IDSs only, not for the component securities. Accordingly, an IDS holder cannot tender Common Shares or Notes held otherwise than in the form of an IDS to the Agrium Offer.

17. ***The allocation of the Offer price between the Common Shares and the Notes differs materially from the allocation in the July 2005 IPO of the IDSs.*** For the purpose of the Agrium Offer, the purchase price of \$10.00 per IDS is allocated as to \$2.00 for each Common Share and as to \$8.00 for each \$6.08 principal amount of Notes forming part of each IDS. This is to be compared to the allocation of \$3.92 and \$6.08 to the Common Share and the Notes, respectively, per IDS at the time of Royster-Clark's IPO in July 2005.

18. ***Agrium intends to squeeze out all remaining Common Shares, including those forming part of IDSs not tendered to the Agrium Offer and any that are separate from the IDSs (and that were therefore not the subject of the Agrium Offer).*** Agrium intends to accomplish this squeeze-out through the compulsory acquisition provision of the OBCA or through a subsequent acquisition transaction in which remaining Common Shareholders would be offered \$2.00 per Common Share, and Common Shares acquired pursuant to the Agrium Offer would be treated as part of the minority for the purpose of any majority of the minority voting.

19. ***Agrium intends to make an offer to all remaining holders of Subordinated Notes forming part of IDSs not tendered to the Agrium Offer.*** Pursuant to the Amendment, Agrium has indicated an intention, should it squeeze out the remaining holders of Common Shares, to make a standing offer following the squeeze-out, for the remaining Notes at the \$8.00 amount allocated under the Agrium Offer to each Note per IDS.

20. ***The Agrium Offer is highly conditional.*** The Agrium Offer contains 16 conditions, several of which include numerous sub-conditions, which must be satisfied or waived before Agrium is obligated to take up and pay under the offer. Those conditions include at least 90% of the IDSs being tendered.

**D. Evaluation of the Agrium Offer**

21. On learning of the Agrium Offer on November 8, 2005, the RC Ltd. Board took the following steps with a view to evaluating the Offer;

- *November 8 and 9, 2005:* the Board met to consider the circumstances surrounding the Agrium Offer and to receive advice concerning the Board's responsibilities;
- *November 10, 2005:* the Board formed a special committee of 3 independent directors to review the Agrium Offer and, with the assistance of financial and legal advisors, to make recommendations to the full Board and develop alternatives;
- *November 10 - 14, 2005:* the Special Committee retained Stikeman Elliot LLP as its independent counsel and hired financial advisors for the Board of Directors of Royster-Clark, CIBC World Markets Inc. and Credit Suisse First Boston LLC (the "**Financial Advisors**");
- *November 14 - 21, 2005:* the Special Committee had numerous meetings and discussions with management and advisors concerning their assessment of the Agrium Offer. In this connection, the Special Committee received on November 21, 2005 opinions from the Financial Advisors that the Agrium Offer was inadequate from a financial point of view to the holders of the IDSs;
- *November 22, 2005:* the Special Committee reported to the full Board that, based on a number of reasons summarized below, they had concluded that the Agrium Offer was financially inadequate and neither in the best interests of Royster-Clark nor fair to the holders of IDSs. The Special Committee unanimously recommended to the Board that it recommend to holders of IDSs that they reject the Agrium Offer and not tender their IDSs to it.

22. The full Board accepted and adopted the conclusion and recommendation of the Special Committee and unanimously recommended in its Directors' Circular dated November

22, 2005<sup>3</sup> that IDS holders reject the Agrium Offer. The principal reasons for the rejection were as follows.

23. ***The Agrium Offer is opportunistic and inadequate.*** The consideration offered by Agrium does not reflect the underlying value of Royster-Clark's assets and business, as confirmed by the financial inadequacy opinions of our financial advisors. The timing of the offer was opportunistic, taking advantage of temporarily adverse market conditions. The Board was further advised by the Financial Advisors that since the date of the Agrium Offer, almost 60% of outstanding IDSs have traded at or above \$10.00 per IDS, reflecting the judgment of investors that the offer price is inadequate.

24. ***The Agrium Offer is coercive.*** Agrium's take-over bid structure has the effect of coercing investors to tender their IDSs, despite the inadequacy of the \$10.00 offer price, in order to avoid being left with Notes which are less liquid and potentially stripped of important Note indenture protections. In particular, an investor who purchased IDSs in the IPO in July 2005 and who does not tender to the Agrium Offer because he believes it to be inadequate is faced with: (i) the Common Share component of the investor's IDSs being squeezed out for \$2.00 consideration; and (ii) being left with 'orphan' \$6.08 principal amount of Notes per IDS, which are not traded on a public exchange and in respect of which Agrium could unilaterally amend or remove certain protective covenants contained in the Note indenture that may be changed with majority Noteholder approval. Those matters include: (i) restrictions on incurring indebtedness and issuing preferred stock; (ii) restrictions on dividends and other payments affecting subsidiaries; (iii) restrictions on asset sales; (iv) restrictions on transactions with affiliates; (v) restrictions on incurring liens; and (vi) requirements in the event of change of control.

25. By the Amendment, Agrium amended the Agrium Offer to indicate an intention to make a second stage offer for remaining Notes, following a squeeze-out of the remaining Common Shares, at the amount allocated under the Agrium Offer to each Note per IDS. However, the Amendment does not address the fundamental problem faced by an IDS holder

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<sup>3</sup> The Royster-Clark Directors' Circular is attached to the Anderson Affidavit at Tab H.



who believes the Agrium Offer is inadequate: the alternative to accepting what Agrium is offering is to be expropriated as a Common Shareholder at a price that has not been market validated; and to be left with Notes that are less liquid and potentially less protected by restrictive covenants.

26. ***Superior proposals may emerge.*** The Board believed, in recommending rejection of the Agrium Offer, that there was a substantial possibility of superior offers emerging as a result of the efforts being made by the Board and the Financial Advisors.

#### **E. Efforts to Maximize Value**

27. The efforts that have been made by the Board and the Financial Advisors to identify alternatives to the Agrium Offer and to maximize value to holders of IDSs are reviewed in greater detail in the affidavit of Scott Keyworth of CIBC World Markets Inc. However, the efforts have included:

- identifying potential financial and strategic buyers;
- setting up a virtual data room;
- contacting the potential competing bidders;
- entering into confidentiality agreements with potential competing bidders who expressed an interest; and
- assisting in due diligence and conducting discussions with the potential competing bidders who remain in the process.

28. Our progress in our efforts to identify alternatives has been hampered by the U.S. Thanksgiving holiday which effectively cost us a week due to the unavailability of potential buyers over that period. We face further such potential delays due to the Christmas season.

29. Royster-Clark, assisted by its Financial Advisors, is currently in active discussions with at least five potential buyers. I am advised by the Financial Advisors that they expect that it could take until the end of January to reach a definitive agreement.

30. Based on what I have been told by the Financial Advisors, I believe that there is a real and substantial possibility that, given a reasonable period of further time, the RC Ltd. Board will be able to find an alternative bid or transaction that would be better for securityholders than the current Agrium Offer.

**F. The Rights Plan**

31. On December 7, 2005, on the recommendation of the Special Committee and the Financial Advisors, the RC Ltd. Board implemented the Plan<sup>4</sup>. The Plan is a limited duration shareholder rights plan which will remain in effect for a period of 60 days from December 7, 2005 after which it will expire if the rights have not otherwise terminated in accordance with the Plan.

32. What prompted the implementation of the Plan on December 7 was the progress that was being made towards finding a better bid or transaction for Royster-Clark securityholders than the current Agrium Offer; the need for more time in light of the state of that process coupled with the looming December 15 expiry date under the Agrium Offer; and the coercive character of the Agrium Offer which might impel investors to tender despite the financial inadequacy of the Agrium Offer and the potential for a superior proposal if the Board had more time.

33. In implementing the Plan, the Board was well aware of its fiduciary obligations and was acting in good faith with a view to increasing the choices available to IDS holders and to maximize holder value.

SWORN BEFORE ME at the City  
of Toronto, in the Province of Ontario  
on December 15, 2005.

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Commissioner for Taking Affidavits

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Colin Watson

<sup>4</sup> The Plan is attached to the Anderson Affidavit at Tab L.

- IN THE MATTER OF THE SECURITIES ACT, R.S.O. 1990, c. S.5, as amended  
- and -  
IN THE MATTER OF ROYSTER-CLARK LTD. AND ROYSTER-CLARK ULC  
- and -  
IN THE MATTER OF AGRIMUM INC. AND AGRIMUM ACQUISITION INC.

- Court File No:

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- Proceeding commenced at Toronto

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- AFFIDAVIT OF COLIN WATSON  
(sworn December 15, 2005)

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