

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-3/A

Registration statement for specified transactions by certain issuers [amend]

Filing Date: **1994-09-22**  
SEC Accession No. **0000950131-94-001469**

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### FILER

#### **TERRA INDUSTRIES INC**

CIK: **722079** | IRS No.: **521145429** | State of Incorpor.: **MD** | Fiscal Year End: **1231**  
Type: **S-3/A** | Act: **33** | File No.: **033-52493** | Film No.: **94550027**  
SIC: **5190** Miscellaneous nondurable goods

#### Mailing Address

*TERRA CENTER  
600 4TH ST P O BOX 6000  
SIOUX CITY IA 51102-6000*

#### Business Address

*TERRA CENTRE 600 4TH ST  
P.O. BOX 6000  
SIOUX CITY IA 51102-6000  
7122771340*

REGISTRATION NO. 33-52493

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549AMENDMENT NO. 2 TO  
FORM S-3  
REGISTRATION STATEMENTUNDER  
THE SECURITIES ACT OF 1933TERRA INDUSTRIES INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)MARYLAND 52-1145429  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NO.)  
INCORPORATION OR ORGANIZATION)TERRA CENTRE  
600 FOURTH STREET, P.O. BOX 6000  
SIOUX CITY, IOWA 51102-6000  
(712) 277-1340  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)GEORGE H. VALENTINE, ESQ.  
VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARYTERRA CENTRE  
600 FOURTH STREET, P.O. BOX 6000  
SIOUX CITY, IOWA 51102-6000  
(712) 277-7302  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,  
OF AGENT FOR SERVICE)

## COPY TO:

CARTER W. EMERSON, ESQ. MARK ZVONKOVIC, ESQ.  
KIRKLAND & ELLIS ANDREWS & KURTH L.L.P.  
200 EAST RANDOLPH DRIVE 425 LEXINGTON AVENUE  
CHICAGO, ILLINOIS 60601 NEW YORK, NEW YORK 10017  
(312) 861-2052 (212) 850-2828APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as  
practicable after the effective date of this Registration Statement.If the only securities being registered on this Form are being offered  
pursuant to dividend or interest reinvestment plans, please check the  
following box. If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, other than securities offered only in connection with dividend or  
interest reinvestment plans, please check the following box. 

## CALCULATION OF REGISTRATION FEE

<TABLE>  
<CAPTION>

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE (3) (4)
Common Shares, no par value per share	10,350,000 shares	\$12.75	\$131,962,500	\$45,504

&lt;/TABLE&gt;

- (1) Includes 1,350,000 Common Shares which the Underwriters have the option to purchase to cover over-allotments, if any.
- (2) Estimated in accordance with Rule 457(c), solely for purposes of calculating the registration fee.
- (3) Calculated on the basis of 1/29th of 1% of the proposed maximum aggregate offering price.
- (4) \$43,786 was previously paid and \$1,718 is being paid herewith.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR

DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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+++++  
 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +  
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +  
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +  
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +  
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +  
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +  
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +  
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +  
 +ANY SUCH STATE. +  
 +++++  
 SUBJECT TO COMPLETION, DATED SEPTEMBER 22, 1994

PROSPECTUS October , 1994

9,000,000

TERRA INDUSTRIES INC.

LOGO

COMMON SHARES

LOGO

All common shares, no par value (the "Common Shares"), offered hereby are being sold by Terra Industries Inc. ("Terra" or the "Company"). Minorco (U.S.A.) Inc. has advised the Company that, in order to maintain its current proportionate beneficial ownership interest in the Company, it or an affiliate intends to purchase from the Underwriters approximately 53% of the Common Shares offered hereby at a price equal to the Price to Public less the Underwriting Discount. The Common Shares are listed on the New York Stock Exchange and the Toronto Stock Exchange under the symbol "TRA". On September 16, 1994, the last reported sale price of the Common Shares as reported on the New York Stock Exchange Composite Tape was \$12.75 per share.

SEE "INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS IN THE COMMON SHARES OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>  
 <CAPTION>

	PRICE TO PUBLIC (/1/)	UNDERWRITING DISCOUNT (/1/)(/2/)	PROCEEDS TO COMPANY (/3/)
<S>	<C>	<C>	<C>
Per Share.....	\$	\$	\$
Total(4).....	\$	\$	\$

- </TABLE>
- (1) Minorco (U.S.A.) Inc. or an affiliate will pay the Underwriters the Price to Public less the Underwriting Discount for any Common Shares purchased.
  - (2) The Company has agreed to indemnify the Underwriters against certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."
  - (3) Before deducting expenses payable by the Company estimated at \$1,084,000.
  - (4) The Company has granted the Underwriters an option, exercisable within 30 days after the date of this Prospectus, to purchase up to an additional 1,350,000 Common Shares on the same terms as set forth above to cover over-allotments, if any. Minorco (U.S.A.) Inc. has advised the Company that it or an affiliate intends to purchase from the Underwriters approximately 53% of any Common Shares so purchased at the price specified in Note 1. If the option is exercised in full, the Price to Public, Underwriting Discount and Proceeds to Company will be \$ , \$ and \$ , respectively. See

"Underwriting."

The Common Shares are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by the Underwriters, subject to approval of certain legal matters by counsel for the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and reject orders in whole or in part. It is expected that delivery of the certificates for the Common Shares will be made in New York, New York on or about October , 1994.

S.G.WARBURG & CO. INC.

[MAP APPEARS HERE]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMPANY'S COMMON SHARES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OPEN MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY

The following summary is qualified in its entirety by and should be read in conjunction with the more detailed information and consolidated financial statements (and notes thereto) included elsewhere or incorporated by reference in this Prospectus. Except as otherwise noted, all information in this Prospectus assumes no exercise of the Underwriters' over-allotment option. See "Underwriting." Except as otherwise indicated, all financial information is presented on the basis of generally accepted accounting principles. Unless otherwise referred to herein or the context otherwise requires, references to the "Company" or "Terra" shall mean Terra Industries Inc., including, where the context so requires, its direct and indirect subsidiaries. Terms defined in this Summary shall have the same meanings when used elsewhere in this Prospectus. Prospective investors are urged to read this Prospectus in its entirety. See "Investment Considerations" for a discussion of certain factors that should be considered carefully in evaluating an investment in the Common Shares.

THE COMPANY

The Company is a leading producer of nitrogen fertilizer and marketer of fertilizer, crop protection products and seed. The Company recently announced that it has entered into an agreement to acquire Agricultural Minerals and Chemicals Inc., a Delaware corporation ("AMCI"), a leading producer of nitrogen fertilizer and methanol. The Company will close this offering simultaneously with the consummation of the acquisition of AMCI and the proceeds of this offering will be used to finance, in part, such acquisition. See "The Acquisition."

After giving effect to the acquisition of AMCI, the Company will be the third largest producer of anhydrous ammonia and one of the two largest producers of nitrogen solutions in the United States and Canada. Nitrogen fertilizer is a basic crop nutrient which is applied seasonally by farmers to improve crop yield and quality. Nitrogen fertilizer is produced by combining gaseous nitrogen with hydrogen to form anhydrous ammonia, the simplest form of nitrogen fertilizer, which can be further processed into other fertilizer products such as urea and nitrogen solutions. The Company presently operates three nitrogen fertilizer facilities and believes that, with the addition of AMCI's two nitrogen fertilizer facilities, it will be among the most efficient nitrogen fertilizer manufacturers in the markets it serves. The Company also believes that it will benefit from favorable transportation logistics and other operating synergies and current prices in the nitrogen fertilizer industry, which is operating near capacity.

Through the AMCI acquisition, the Company will also substantially increase its participation in the methanol production industry. It will have approximately 320 million gallons per year of methanol production capacity, representing approximately 16% of the total United States rated capacity. AMCI's methanol facility in Beaumont, Texas is the largest such facility in the

U.S. Methanol is used primarily as a feedstock in the production of other chemicals such as formaldehyde, acetic acid and chemicals used in the building products industry, and is also a feedstock in MTBE, an additive in oxygenated gasoline. Demand in the United States for oxygenated gasoline has been growing as a result of current federally-mandated standards for gasoline. Reflecting increased general economic activity in the U.S. and abroad and the phase-in of such standards as well as industry production problems, demand for methanol has been strong in 1994. A published index of contract prices for methanol increased from \$0.495 per gallon in January 1994 to \$0.98 per gallon in August 1994.

The Company owns and operates the largest independent farm service center network in the United States and Canada and is the second largest supplier of crop production inputs in the United States. The Company's distribution network for fertilizer, crop protection products and seed has grown over the last several years to include approximately 350 farm service centers, 58 fertilizer storage facilities and 770 affiliated dealer locations serving the United States and the eastern region of Canada. This growth generally

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has been the result of a healthy farm economy, acquisitions, additional facilities and aggressive marketing. The Company's distribution network is served by independent suppliers and the Company's own production facilities, which presently include one crop protection chemical dry flowable formulation plant and seven liquid chemical formulation facilities in addition to three nitrogen fertilizer plants. The production from AMCI's nitrogen fertilizer plants will also be available for the Company's distribution network.

The Company's long-term strategy for growth is to (i) acquire and upgrade production and distribution facilities, (ii) increase distribution volumes by expanding sales from Company-operated locations and its affiliated dealer network, (iii) change its product mix to include more profitable products and (iv) continue to build customer loyalty by providing value-added services. Towards this strategy, the Company made two significant acquisitions in 1993. In April, the Company added a manufactured fertilizer facility and 32 farm service centers in Canada and in December the Company added 12 farm service centers in Florida. The acquisition of AMCI is a major element in the continuation of this strategy.

As of the date hereof, approximately 53% of the outstanding Common Shares are owned by Minorco (U.S.A.) Inc., a Colorado corporation ("Minorco USA"). Since the Company became publicly-owned in 1983, Minorco USA and its affiliates have owned a majority of the Company's outstanding equity securities. Minorco USA is involved in mining and natural resource-related activities in North America. Minorco USA is indirectly wholly-owned by Minorco, a company incorporated under the laws of Luxembourg as a societe anonyme ("Minorco"). Minorco is an international natural resources company with operations in gold, base metals, industrial materials, paper and packaging and agribusiness. Six of the Company's ten directors are also officers and/or directors of Minorco USA or its affiliates. Minorco USA has advised the Company that, in order to maintain its current proportionate interest in the Company, it or an affiliate intends to purchase from the Underwriters approximately 53% of the Common Shares offered hereby (and 53% of any Common Shares purchased under the Underwriters' over-allotment option) at a price equal to the price to the public less the underwriting discount. See "Underwriting."

The Company's principal executive offices are located at Terra Centre, 600 Fourth Street, P. O. Box 6000, Sioux City, Iowa 51102-6000 and its telephone number is (712) 277-1340.

#### THE ACQUISITION

The Company has agreed to acquire AMCI (the "Acquisition") pursuant to a Merger Agreement dated as of August 8, 1994 (as amended, the "Merger Agreement") between the Company, AMCI and AMCI Acquisition Corporation, a wholly-owned subsidiary of the Company ("Merger Sub"). The Acquisition is to be accomplished by merging Merger Sub with and into AMCI, whereupon the present stockholders and option holders of AMCI will receive cash in an aggregate amount of approximately \$400 million (subject to adjustment as described herein) and AMCI will become a wholly-owned subsidiary of the Company. Immediately following the consummation of the Acquisition, AMCI will be merged with and into the Company. At the closing of the Acquisition, a subsidiary of AMCI will enter into a methanol hedging agreement pursuant to which it will receive \$4 million in exchange for agreeing to make payments based on the market prices of methanol and natural gas through 1997. See "The Acquisition."

AMCI owns and operates its nitrogen fertilizer facilities through Agricultural Minerals Company, L.P., a Delaware limited partnership ("AMCLP"). Senior Preference Units representing a 39.8% partnership interest in AMCLP are

publicly traded on the New York Stock Exchange. See "Description of Certain Indebtedness and Other Obligations" and "Investment Considerations--Holding Company Structure and AMCLP."

#### THE PUT OPTION

The Company is offering the Common Shares as described herein in lieu of exercising its rights under a put option agreement dated as of August 8, 1994 (the "Put Option Agreement") between the Company

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and Minorco USA, pursuant to which Minorco USA granted to the Company the right to sell to Minorco USA and cause Minorco USA to purchase 13,333,333 Common Shares, at a purchase price of \$7.50 per Common Share, payable in cash, for aggregate proceeds to the Company of \$100 million. Under applicable rules of the New York Stock Exchange, the Company's issuance of Common Shares upon exercise of its rights under the Put Option Agreement must be approved by an affirmative majority vote of stockholders. A special meeting of the Company's stockholders for such purpose will be called for October 1994. If this offering is consummated, the Company will cancel such meeting and will not exercise its rights under the Put Option Agreement.

#### THE REFINANCING

The Company will apply the net proceeds of this offering, available cash of the Company and AMCI and their subsidiaries and funds borrowed by the Company and such subsidiaries under the Credit Agreement (the "Credit Agreement") to be entered into in connection with the Acquisition to (a) the payment of the Acquisition consideration to the holders of AMCI common stock and stock options, (b) the retirement of bank loans to Terra International Inc., a wholly-owned subsidiary of the Company ("Terra International"), under a 1992 revolving credit agreement, of which there were approximately \$56 million outstanding on June 30, 1994, (c) the retirement of an additional \$40 million in bank loans of the Company and its subsidiaries, (d) the retirement of a \$35 million term loan of one of AMCI's subsidiaries and (e) the payment of fees and expenses related to the Acquisition and the related financing transactions. In addition, as a result of the merger of AMCI into the Company, the Company will assume AMCI's obligations under \$175 million in aggregate principal amount of 10.75% Senior Notes due 2003 (the "Senior Notes"). The borrowings under the Credit Agreement (includes borrowings to repurchase any Senior Notes required to be repurchased as described herein and working capital facilities), the assumption of the Senior Notes and the retirement of the loans as described above are referred to collectively herein as the "Refinancing." See "The Refinancing."

After consummation of the Acquisition and the Refinancing, the primary obligor with respect to the Credit Agreement will be Terra Capital, Inc. ("Terra Capital"), a new subsidiary of the Company to which the capital stock of Terra International and AMCI's two directly-owned subsidiaries will be contributed. Terra Capital will be wholly-owned by Terra Capital Holdings, Inc. ("Terra Holdings"), another new subsidiary of the Company, and Terra Holdings will be wholly-owned by the Company. See "Post-Acquisition Company Structure" below. Also, Terra International, which is currently the Company's principal operating subsidiary, and one of its subsidiaries, Terra International (Canada) Inc. ("Terra Canada"), will continue to have other obligations outstanding. Capitalized lease obligations of a subsidiary of AMCI will also continue after the closing of the Acquisition and the Refinancing. See "Capitalization," "Liquidity and Capital Resources After the Acquisition and the Refinancing" and "Description of Certain Indebtedness and Other Obligations."

#### THE OFFERING

<TABLE>	
<S>	<C>
Common Shares being offered.....	9,000,000 shares(1)
Common Shares to be outstanding after the Offering.....	79,864,645 shares(1)(2)
Use of Proceeds.....	To finance, in part, the Company's acquisition of AMCI. See "Use of Proceeds."
New York Stock Exchange and Toronto Stock Exchange symbol.....	TRA
</TABLE>	

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- (1) Does not include up to 1,350,000 Common Shares that may be sold pursuant to the Underwriters' over-allotment option. See "Underwriting."
  - (2) Based on Common Shares outstanding at August 31, 1994. Does not include outstanding stock options with respect to 1,310,500 Common Shares as of such date.

## CERTAIN HISTORICAL AND PRO FORMA FINANCIAL DATA

## THE COMPANY

The following table sets forth certain historical financial data of the Company as of and for each of the fiscal years in the five-year period ended December 31, 1993 and as of and for each of the six-month periods ended June 30, 1993 and 1994. See "Index to Financial Statements" and "Incorporation of Certain Documents by Reference." The following table also sets forth summary unaudited pro forma combined financial data of the Company after giving effect to the Acquisition, the sale of Common Shares in this offering, the Refinancing and the Company's 1993 Canada and Florida acquisitions. See footnote (a) below. The unaudited pro forma combined financial data have been derived from, and should be read in conjunction with, the historical consolidated financial statements of the Company and AMCI, including the respective notes thereto, which are included elsewhere in this Prospectus and incorporated herein by reference. See "Index to Financial Statements" and "Pro Forma Combined Financial Statements of the Company." THE FOLLOWING UNAUDITED PRO FORMA FINANCIAL DATA ARE PRESENTED FOR INFORMATIONAL PURPOSES ONLY AND ARE NOT NECESSARILY INDICATIVE OF THE RESULTS THAT ACTUALLY WOULD HAVE OCCURRED HAD THE ACQUISITION, THE REFINANCING AND THIS OFFERING BEEN CONSUMMATED ON THE DATES INDICATED OR THE RESULTS THAT MAY OCCUR OR BE OBTAINED IN THE FUTURE.

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TERRA INDUSTRIES INC.  
SUMMARY CONSOLIDATED HISTORICAL AND PRO FORMA FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30 (UNAUDITED),			
	1989	1990	1991	1992	1993	PRO FORMA 1993 (A)	1993	1994	PRO FORMA 1994 (A)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	(UNAUDITED) <C>	<C>	<C>	<C>
INCOME STATEMENT DATA:									
Total revenues.....	\$949,458	\$ 962,202	\$1,022,597	\$1,082,191	\$1,238,001	\$1,716,332	\$820,341	\$1,077,756	\$1,309,632
Cost of sales.....	798,407	806,772	849,684	904,246	1,021,187	1,372,161	681,611	897,685	1,034,690
Depreciation and amortization.....	14,242	14,997	14,399	14,994	15,470	59,824	7,757	9,060	30,931
Selling, general and administrative expenses.....	124,628	138,315	132,845	137,232	161,791	191,199	84,137	100,172	111,418
Equity in earnings of unconsolidated affiliates.....	--	--	--	--	(2,275)	(2,051)	(940)	(36)	(438)
Income before interest, minority interest and income taxes.....	12,181	2,118	25,669	25,719	41,828	95,199	47,776	70,875	133,031
Net interest expense.	17,134	17,056	12,563	7,533	9,683	44,655	4,784	3,858	26,002
Minority interest....	--	--	--	--	--	19,789	--	--	15,526
Income (loss) from continuing operations before income taxes.....	(4,953)	(14,938)	13,106	18,186	32,145	30,755	42,992	67,017	91,503
Income tax (provision) benefit.	316	816	(1,073)	(7,757)	(9,300)	(17,280)	(12,155)	(25,400)	(36,851)
Income (loss) from continuing operations.....	(4,637)	(14,122)	12,033	10,429	22,845	\$ 13,475	30,837	41,617	\$ 54,652
Income (loss) from discontinued operations.....	29,808	(94,379)	(168,808)	(1,665)	--	--	--	--	--

Income (loss) before extraordinary items and cumulative effect of accounting changes.....	25,171	(108,501)	(156,775)	8,764	22,845		30,837	41,617	
Extraordinary gain (loss).....	--	--	5,115	--	--		--	(2,614)	
Cumulative effect of accounting changes..	--	--	--	22,265	--		--	--	
Net income (loss)....	\$ 25,171	\$ (108,501)	\$ (151,660)	\$ 31,029	\$ 22,845		\$ 30,837	\$ 39,003	
Per Common Share:									
Income (loss) from continuing operations.....	\$ (0.07)	\$ (0.21)	\$ 0.18	\$ 0.15	\$ 0.33	\$ 0.17	\$ 0.45	\$ 0.59	\$ 0.69
Income (loss) from discontinued operations.....	0.45	(1.43)	(2.51)	(0.02)	--		--	--	
Income (loss) before extraordinary items.	0.38	(1.64)	(2.33)	0.13	0.33		0.45	0.59	
Extraordinary gain (loss).....	--	--	0.07	--	--		--	(0.04)	
Cumulative effect of accounting changes..	--	--	--	0.32	--		--	--	
Net income (loss)....	\$ 0.38	\$ (1.64)	\$ (2.26)	\$ 0.45	\$ 0.33		\$ 0.45	\$ 0.55	
Dividends.....	\$ 0.09	\$ 0.12	\$ --	\$ --	\$ 0.02	\$ 0.02	\$ --	\$ 0.04	\$ 0.04

<TABLE>  
<CAPTION>

AT JUNE 30, 1994	
ACTUAL	PRO FORMA (A)
(UNAUDITED)	
<C>	<C>

<S>  
BALANCE SHEET DATA:

Working capital.....	\$205,836	\$ 239,546
Net property, plant and equipment.....	124,786	550,619
Excess of purchase price over net assets acquired.....	--	318,910
Total assets.....	876,895	1,754,955
Minority interest.....	--	155,645
Long-term debt (excluding current maturities).....	45,782	530,012
Total stockholders' equity.....	287,956	396,456

</TABLE>

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(a) The summary unaudited pro forma balance sheet data combines the financial position of the Company as of June 30, 1994 with that of AMCI as if the Acquisition, the Refinancing, and this offering had been consummated as of June 30, 1994. The summarized unaudited pro forma income statement data combines the statements of income of the Company for the year ended December 31, 1993 and for the six months ended June 30, 1994 with those of AMCI and its predecessors as if the Acquisition, the Refinancing and this offering had been consummated as of January 1, 1993. Pro forma adjustments include the write-up of property, plant and equipment to fair value, recording of the Refinancing and related interest costs, decrease in cash and related interest income used to consummate the Acquisition, recording of purchase price in excess of net assets acquired and related amortization, and the issuance of 9,000,000 Common Shares at an assumed price of \$12.75 per share (for aggregate net proceeds of approximately \$108.5 million) in the offering described herein. The summary unaudited 1993 pro forma income statement data also gives effect to the Company's (i) March 31, 1993 acquisition of assets from ICI Canada Inc. and (ii) December 31, 1993 acquisition of assets from Asgrow Florida Company. See "Pro Forma Combined Financial Statements of the Company."

AMCI

AMCI and its wholly-owned subsidiary, Agricultural Minerals Corporation ("AMC"), were formed in connection with the February 1990 acquisition of the nitrogen fertilizer business of Freeport-McMoRan Resource Partners, Limited



Partnership ("FMRP") by The Morgan Stanley Leveraged Equity Fund II, L.P., a Delaware limited partnership that is now the principal stockholder of AMCI ("MSLEF II"), and certain other investors. AMC serves as the general partner of both AMCLP and Agricultural Minerals, Limited Partnership, a Delaware limited partnership ("AMLP" or the "Operating Partnership"). AMC is also a limited partner in AMCLP, holding all of the limited partnership interests in AMCLP, except the Senior Preference Units. AMCLP, in turn, holds a 99% limited partnership interest in the Operating Partnership. All of AMCI's operating assets relating to its nitrogen fertilizer business are owned by the Operating Partnership. AMCI also owns 100% of the capital stock of BMC Holdings Inc., a Delaware corporation ("BMCH"), which in turn owns 100% of the capital stock of Beaumont Methanol Corporation, a Delaware corporation ("BMC"). BMCH and BMC were formed in connection with the December 1991 acquisition of the methanol business of E. I. du Pont de Nemours and Company ("DuPont") by MSLEF II and certain other investors. All of AMCI's operating assets relating to its methanol business are owned by BMC. The businesses of BMC and AMC were consolidated under AMCI and combined under common ownership in October 1993 after operating under common management since December 1991.

The following table sets forth certain historical and pro forma financial data for AMCI and BMCH and their predecessor operations on a combined basis for the periods indicated. This information is qualified in its entirety by, and should be read in conjunction with, the consolidated financial statements of AMCI, including the notes thereto, included elsewhere herein. Information presented for the predecessor operations for the periods prior to the years ended December 31, 1990, 1991 and 1992 is not comparable to subsequent periods as explained in footnotes (b), (c) and (e).

AGRICULTURAL MINERALS AND CHEMICALS INC.  
SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	COMBINED PREDECESSOR OPERATIONS			COMBINED OPERATIONS		1993	1994
	PRO FORMA						
1989 (E)	1990 (C) (D)	1991 (B)	1992 (A)	1993 (A)	1993	1994	
	(UNAUDITED)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:							
Revenues.....	\$352,768	\$324,940	\$367,729	\$324,953	\$365,786	\$193,579	\$231,782
Gross profit.....	61,746	61,524	110,929	90,416	81,878	45,783	80,742
Income before extraordinary expense..	28,230	11,549	44,559	20,612	8,544	7,228	26,825
Income before extraordinary expense per share.....			\$ 2.56	\$ 1.18	\$ 0.49	\$ 0.41	\$ 1.54
BALANCE SHEET DATA:							
Net property, plant and equipment.....	\$140,919	\$235,237	\$364,366	\$347,012	\$326,899	\$337,782	\$319,383
Total assets.....	195,254	348,459	506,590	505,913	506,395	492,178	530,805
Long-term debt and capitalized lease obligations, including current maturities....			142,270	135,119	219,418	127,820	217,029
Stockholders' equity....			135,437	112,244	45,053	107,744	65,065
Cash dividends declared per share.....			\$ 5.72	\$ 3.18	\$ 7.58	\$ 1.17	\$ 0.39

</TABLE>  
- - - - -

- (a) The financial data for the years ended December 31, 1992 and 1993, have been derived from the audited financial statements of AMCI included elsewhere herein.
- (b) The financial data for the year ended December 31, 1991, have been derived from (i) the audited financial statements of DuPont's methanol business for the period January 1, 1991, to December 12, 1991, which are not included herein and (ii) the audited financial statements of AMCI for the year ended December 31, 1991. BMCH information prior to December 12, 1991, is at DuPont's historical cost and is not comparable to subsequent periods. Common costs incurred by DuPont on behalf of the methanol operations have been allocated to the operations using assumptions and methods which AMCI

management believes are reasonable.

- (c) The pro forma financial data for the year ended December 31, 1990, have been derived from (i) the audited financial statements of DuPont's methanol business for the year ended December 31, 1990, which are not included herein, (ii) the audited financial statements of FMRP's nitrogen fertilizer business for the two months ended February 28, 1990, which are not included herein, and (iii) the audited financial statements of AMCI for the 10 months ended December 31, 1990, which are not included herein. This information includes pro forma adjustments to reflect the 1990 acquisition of the AMC business from FMRP as if it had occurred on January 1, 1990. As a result of purchase accounting adjustments as well as other factors, including FMRP's accounting policies relating to transfer pricing on intercompany sales and freight costs, divisional accounting for operating expenses prior to acquisition, capital costs related to the acquisition and differences in taxable status, the 1990 financial data is not comparable to earlier periods. Common costs incurred by DuPont on behalf of the methanol operations have been allocated to the operations using assumptions and methods which AMCI management believes are reasonable.
- (d) Results for 1990 include the impact of a fire in the lubricating oil unit which caused minor structural damage to BMC's methanol production facility in Beaumont, Texas. The 1990 results include a \$5.6 million charge for repair costs.
- (e) The financial data for the year ended December 31, 1989 have been derived from the audited financial statements of FMRP's nitrogen fertilizer business and the audited financial statements of DuPont's methanol business for such period, which are not included herein, and are presented at FMRP's and DuPont's historical cost (without giving retroactive effect to purchase accounting adjustments in subsequent years). Combined results include a pro forma tax provision of \$15.7 million for the year ended December 31, 1989 for FMRP, a partnership, based on statutory corporate rates in effect during the periods. Common costs incurred by FMRP and DuPont on behalf of the fertilizer and methanol operations, respectively, have been allocated to the operations using assumptions and methods which AMCI management believes are reasonable.

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#### POST-ACQUISITION COMPANY STRUCTURE

The following chart represents the anticipated organization of the Company and certain of its subsidiaries after the consummation of the Acquisition, the merger of AMCI into the Company and the Refinancing. Shaded areas represent entities to be acquired pursuant to the Acquisition.

(LOGO TK)

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#### INVESTMENT CONSIDERATIONS

Prospective investors should consider carefully, in addition to the other information in this Prospectus, the following factors before purchasing the Common Shares offered hereby.

#### HOLDING COMPANY STRUCTURE AND AMCLP

Since the operations of the Company are currently conducted through subsidiaries and the Company's assets consist primarily of investments in its subsidiaries (which, after the consummation of the Acquisition, will include AMCI's subsidiaries), the Company's ability to pay dividends on Common Shares is dependent upon the earnings of its subsidiaries and the distribution of those earnings to the Company (through loans, dividends or other payments). Moreover, the limited partnership agreement governing AMCLP requires the quarterly distribution to the partners of AMCLP of all "Available Cash," which is generally defined to mean all cash receipts from all sources, less the sum of all cash disbursements, adjusted for changes in certain reserves established as AMC determines to be necessary or appropriate in its reasonable discretion to provide for the proper conduct of the business of AMCLP or the Operating Partnership (including reserves for future capital expenditures) or to provide funds for distributions with respect to any of the next four calendar quarters. The publicly-held Senior Preference Units (which represent a 39.8% interest in AMCLP) are entitled to receive a minimum quarterly distribution of \$0.605 per unit, plus arrearages, before any amounts are paid to AMC as distributions on its junior preference and common units. The nature of the businesses of the Company and AMCLP may give rise to conflicts of interest between the two. Conflicts could arise, for example, with respect to transactions involving purchases, sales and transportation of fertilizer and natural gas and potential acquisitions of businesses or properties. See "Description of Certain

Indebtedness and Other Obligations--AMCLP Senior Preference Units and Other Obligations."

#### LEVERAGE

As a result of the Acquisition, the Refinancing and this offering, the Company will become more leveraged. The Company's long-term debt to total capitalization ratio will increase substantially and fixed charges will require a greater percentage of available cash flow. See "Liquidity and Capital Resources After the Acquisition and the Refinancing," "Unaudited Pro Forma Combined Financial Statements of the Company" and "Capitalization."

The degree to which the Company is leveraged could have important consequences to holders of the Common Shares, including the following: (i) a substantial portion of the Company's cash flow from operations must be dedicated to the payment of the principal of and interest on indebtedness; (ii) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes will be limited; (iii) the Company's ability to pay dividends is and will be limited by financing agreements of it and its subsidiaries (see "Price Range of Common Shares and Dividend Data" and "Description of Certain Indebtedness and Other Obligations"); (iv) the agreements governing the Company's long-term indebtedness contain certain restrictive financial and operating covenants, including limitations on the amount of acquisitions (which have been an important part of the Company's growth strategy over the last several years); (v) the Company will be more leveraged than certain of its competitors, which might place the Company at a competitive disadvantage; (vi) upon consummation of the Refinancing, a substantial portion of the Company's borrowings will be at floating rates of interest, causing the Company to be sensitive to increases in interest rates; and (vii) the Company could be more sensitive to a downturn in general economic conditions or in the agricultural or methanol industries.

#### VOTING CONTROL BY PRINCIPAL STOCKHOLDER AND RELATED MATTERS

As of the date hereof, Minorco USA owns approximately 53% of the outstanding Common Shares. Since the Company became publicly-owned in 1983, Minorco and its affiliates have owned a majority of the Company's outstanding equity securities. As a result of its beneficial ownership of Common Shares, Minorco and Minorco USA are able to control the election of the Company's directors and the

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management and policies of the Company. As of the date hereof, six of the Company's ten directors are also officers and/or directors of Minorco USA or its affiliates. Any future sale of all or a portion of the Common Shares owned by Minorco USA could adversely affect the market price of the Common Shares. Minorco USA has advised the Company that, in order to maintain its current proportionate interest in the Company, Minorco USA or an affiliate intends to purchase from the Underwriters approximately 53% of the Common Shares offered hereby (and 53% of any Common Shares purchased under the Underwriters' over-allotment option) at a price equal to the price to the public less the underwriting discount. See "Underwriting."

#### DEPENDENCE ON NATURAL GAS; INDUSTRY CONSIDERATIONS

The principal raw material used to produce nitrogen fertilizer is natural gas. The Company estimates that natural gas costs comprised nearly 50% of the total costs and expenses associated with the Company's manufactured fertilizer operations in 1993. Natural gas is also the primary raw material used in the production of methanol. The Company estimates that natural gas represents over 50% of the costs and expenses associated with methanol operations. A significant increase in the price of natural gas that could not be recovered through an increase in nitrogen fertilizer or methanol prices could have a material adverse effect on the Company's profitability and cash flow. The Company's policy is to fix the unit cost for 40% to 80% of its natural gas requirements for the upcoming 12-month period using supply contracts and various hedging techniques. See "Factors Affecting Demand For Methanol and MTBE" and "Business--Raw Materials."

The Company's future operating results are also subject to other external factors which are beyond the Company's control, including the number of planted acres; the types of crops planted; the effects of general weather patterns on the timing and duration of field work for crop planting and harvesting; the supply of crop inputs; the relative balance of supply and demand for nitrogen fertilizers; the U.S. government's agricultural policy; and market prices of methanol.

#### SEASONALITY AND VOLATILITY

The agricultural products business is seasonal, based upon the planting, growing and harvesting cycles. Inventories must be accumulated in the first few months of the calendar year to be available for seasonal sales, requiring significant storage capacity. Inventory accumulations are financed by suppliers or short-term borrowings, which are retired with the proceeds of the sales of such inventory. In times of lower demand, the Company can reduce purchases, thereby decreasing inventory carrying costs. In the past, over half of the Company's sales generally occurred during the second quarter of each year. This seasonality also generally results in higher fertilizer prices during peak periods, with prices typically reaching their highest point in the spring, dropping in the summer, increasing in the fall (as depleted inventories are restored) and through the spring.

The agricultural products business can also be volatile as a result of a number of other factors, the most important of which, for U. S. markets, are weather patterns and field conditions (particularly during periods of high fertilizer consumption), current and projected grain stocks and prices and the U.S. government's agricultural policy. Among the governmental policies that influence the markets for fertilizer are those directly or indirectly influencing the number of acres planted, the level of grain stocks, the mix of crops planted and crop prices.

As with any commodity chemical, the price of methanol is volatile. The industry has experienced cycles of oversupply resulting in depressed prices and idled capacity, followed by periods of shortage and rapidly rising prices. In part, future demand for methanol will depend on the regulatory environment with respect to oxygenated gasoline. During 1994, to date, increased world demand for methanol combined with industry production problems to create a tight market and dramatically increased prices over 1993 levels. There can be no assurances that such conditions will continue. See "Factors Affecting Demand For Methanol and MTBE."

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#### FACTORS AFFECTING DEMAND FOR METHANOL AND MTBE

Methanol is used as a feedstock in the production of MTBE, an oxygenate and octane enhancer used in reformulated gasoline. Reformulated gasoline has lower volatility and is less aromatic than gasoline. Future MTBE demand is dependent on a number of market and regulatory forces that are beyond the control of the Company and difficult to predict.

Federally-mandated standards (the "Clean Air Act Amendments") mandate numerous comprehensive specifications for motor vehicle fuel, including increased oxygenate content and lower volatility. Beginning in 1992, the first phase of the Clean Air Act Amendments required that over thirty metropolitan areas having the highest concentration of carbon monoxide pollution implement an oxygenated gasoline program during the portion of the year, generally the winter months, when maximum allowable carbon monoxide pollution levels are most likely to be exceeded. In 1995, the second phase of the Clean Air Act Amendments will require the year-round use of reformulated gasoline (with a minimum of 2% oxygen) in the nine metropolitan areas having the highest concentration of ozone pollution throughout the year and in any non-attainment area in a state whose Governor elects to enter the reformulated gasoline program. To date, the areas in which reformulated gasoline will be required to be sold beginning in 1995 represent approximately 35% of total U.S. gasoline demand.

Future demand for MTBE (and therefore methanol) will depend on, among other things, the degree to which the Clean Air Act Amendments are implemented and enforced, the possible adoption of additional legislation, the willingness of the regulatory authorities to grant waivers for specific cities or regions, the difficulties in isolating non-attainment areas from attainment areas and the demand for oxygenated or reformulated gasolines in areas where its use is not required. Certain of the areas subject to the Clean Air Act Amendments have already requested waivers from the United States Environmental Protection Agency (the "EPA") alleging either conflicts with other pollution control requirements or that they are no longer non-attainment areas. Representatives of such areas are in discussions with the EPA with respect to these matters.

Currently, MTBE is the oxygenate most used by the U.S. refining industry. However, there are alternative oxygenates, principally ethanol, ethyl tertiary butyl ether, an ethanol derivative, and tertiary amyl methyl ether, a methanol derivative. Recently, the EPA mandated that, in 1995, at least 15% of reformulated gasoline use an oxygenating additive made from a renewable source, which for all practical purposes is ethanol, and that such percentage increase to 30% in 1996. This mandate, however, has been temporarily stayed by a U.S. Circuit Court of Appeals pending the outcome of legal challenges. Although the Company expects there will be a continued market preference for MTBE, there can be no assurance that MTBE will not be replaced by alternative oxygenates as a

result of price or regulatory changes.

#### COMPETITION

Nitrogen fertilizer is a global commodity, and customers, including end-users, dealers and other fertilizer producers and distributors, base their purchasing decisions principally on the delivered price of the product. The Company competes with a number of U.S. producers, and producers in other countries, including state-owned and government-subsidized entities. Some of the Company's principal competitors may have greater total resources and may be less dependent on earnings from nitrogen fertilizer sales than the Company. Some foreign competitors may have access to lower cost or government-subsidized natural gas supplies. The Company believes that it competes with other manufacturers of nitrogen fertilizer on the basis of delivery terms and availability of products as well as on price.

The market for the fertilizer, crop protection products and seed distributed by the Company is highly competitive. In 1993, sales attributable to the Company's farm service centers accounted for less than 10% of total crop production products sold in the U. S. Within the specific market areas served by its farm service centers, however, the Company's share of the market was substantially higher in most instances. The Company's competitors include cooperatives, divisions of diversified agribusiness companies, regional distributors and independent dealers, some of which have substantially greater financial and other resources than the Company. The Company competes primarily by providing a comprehensive line of products and by providing what the Company believes to be superior services to growers and dealers.

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The methanol industry, like the fertilizer industry, is highly competitive and such competition is based largely on price, reliability and deliverability. The relative cost and availability of natural gas and the efficiency of production facilities are important competitive factors. Significant determinants of a plant's competitive position are the natural gas acquisition and transportation contracts that a plant negotiates with its major suppliers. Domestic competitors for methanol include a number of large integrated petrochemical producers, many of which are better capitalized than the Company. In addition, the production and trade of methanol has become increasingly global, and a number of foreign competitors produce methanol primarily for the export market. See "Factors Affecting Demand for Methanol and MTBE" and "Business--Competition."

#### DAMAGE TO FACILITIES; NATURAL HAZARDS

The operations of the Company may be subject to significant interruption if one or more of its facilities were to experience a major accident or were damaged by severe weather or other natural disaster. However, the Company currently maintains, and expects that it will, to the extent economically feasible, continue to maintain, insurance (including business interruption insurance) in an amount which the Company believes is sufficient to allow the Company to withstand major damage to any of its facilities.

#### ENVIRONMENTAL REGULATION

The Company's and AMCI's business activities are subject to stringent environmental regulation by federal, provincial, state and local governmental authorities. The Company and AMCI are also involved in the manufacture, handling, transportation and storage of materials that are or may be classified as hazardous or toxic by Federal, state, provincial or other regulatory agencies. If such materials have been or are disposed at sites that are targeted for cleanup by federal or state regulatory authorities, the Company or AMCI (or subsidiaries thereof), as applicable, may be among those responsible under such laws for all or part of the costs of such cleanup. Each of the Company and AMCI has been designated as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act of 1976, as amended ("CERCLA"), and analogous state laws with respect to one or more sites. There can be no assurance that existing environmental regulations will not be revised or that new regulations will not be adopted or become applicable so as to have a material and adverse affect on the Company's business or financial condition. See "Business--Environmental and Other Regulatory Matters."

The Company endeavors to comply (and has incurred substantial costs in connection with such compliance) in all material respects with applicable environmental, safety and health regulations. The Company does not expect its continued operation in compliance with such regulations (including operation of the businesses acquired from AMCI) to have a material adverse effect on its earnings or competitive position.

## OVERVIEW

On August 8, 1994, the Company agreed to acquire AMCI pursuant to the Merger Agreement between the Company, AMCI and Merger Sub. The Company will finance the Acquisition, in part, through the net proceeds of this offering.

## THE MERGER AGREEMENT

The Merger. Pursuant to the Merger Agreement, subject to the terms and conditions described therein, Merger Sub will merge with and into AMCI (the "Merger"). At the effective time of the Merger (the "Effective Time"), (i) AMCI will become a wholly-owned subsidiary of the Company and the separate corporate existence of Merger Sub will cease, (ii) each share of AMCI common stock outstanding immediately prior to the Effective Time (other than those held in the treasury of AMCI or owned by a subsidiary of AMCI and those with respect to which dissenters rights have been perfected, if any) will be converted into the right to receive \$21.2066 in cash and (iii) each share of AMCI common stock subject to a stock option outstanding immediately prior to the Effective Time will be cancelled and converted into

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the right to receive \$10.4765 in cash (calculated as \$21.2066 less the exercise price of \$10.73 per share under each such option). Assuming no dissenting shares, the aggregate consideration payable in the Merger with respect to all such shares and options will be approximately \$400 million. The aggregate purchase price payable in the Merger is subject to adjustment based on the working capital of AMCI at the Effective Time as described below. Immediately following the Effective Time, AMCI will be merged into the Company and the separate corporate existence of AMCI will cease.

Adjustment to the Merger Consideration. Pursuant to the Merger Agreement, AMCI will be required to deliver to the Company a good faith estimate (the "Estimate") of AMCI's Consolidated Working Capital (as defined) as of the Effective Time prior to the closing of the Merger. In the event that such estimate exceeds \$86 million, AMCI shall pay to MSLEF II, on behalf of the stockholders of AMCI (in such capacity, the "Sellers' Representative") an amount equal to such excess. Such payment shall generally be made at the Effective Time. In the event that the Estimate is less than \$86 million, the Sellers' Representative shall pay to AMCI such deficit at the Effective Time. The Merger Agreement does not include a restriction on the ability of AMCI to pay dividends. Thus, subject to such Consolidated Working Capital requirement and the closing condition requiring a minimum level of cash as described below, cash generated from the operation of AMCI through the closing of the Merger will be for the benefit of the stockholders of AMCI.

Within 60 days following the Effective Time, the Sellers' Representative shall be required to deliver to the Company a statement of the Consolidated Working Capital of AMCI as of the Effective Time. After review by the Company and resolution of any disputes pursuant to the procedures set forth in the Merger Agreement, if the Consolidated Working Capital as finally determined is less than the Estimate, the Sellers' Representative shall be required to pay to the Company an amount equal to such deficit and if such Consolidated Working Capital exceeds the Estimate, the Company shall be required to pay to the Sellers' Representative an amount equal to such excess. Any amounts payable after the Effective Time will be paid together with interest from the Effective Time.

"Consolidated Working Capital" is defined to mean the excess of the consolidated current assets of AMCI over the consolidated current liabilities of AMCI, calculated in accordance with AMCI's accounting policies. For purposes of calculating Consolidated Working Capital, (i) all fees and expenses of financial, accounting, legal and other advisors to AMCI relating to services in respect of the Merger billed or to be billed to AMCI and remaining unpaid at the Effective Time will be deemed to be consolidated current liabilities and (ii) all amounts expended by AMCI to purchase directors' and officers' liability insurance to cover its directors and officers for two years after the consummation of the Merger will be deemed to be a current receivable from the Company.

Conditions to the Merger. The obligations of the Company and AMCI to consummate the Merger are subject to the satisfaction or waiver at or prior to the Effective Time of a number of conditions, including that (i) the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), shall have expired or been terminated (which condition has been satisfied); (ii) no antitrust action or proceeding shall be pending against the Company or AMCI to restrain, prohibit or invalidate the Merger or that could reasonably be expected, if adversely determined, to

materially adversely affect the ability of the Company or AMCI to own or operate any of the three principal facilities of either the Company or AMCI after the Effective Time; (iii) no statute, rule, injunction or other order (whether temporary, preliminary or permanent) shall be in effect which makes the Merger illegal or otherwise prohibits consummation of the Merger; (iv) no lawsuits or other litigation or proceedings shall be pending against AMCI or any of its subsidiaries that, individually or in the aggregate, could reasonably be expected, if adversely determined, to have a material adverse effect on AMCI and its subsidiaries, considered as a whole; (v) the Methanol Hedging Agreement (as defined below) shall have been executed by the parties thereto; and (vi) the representations and warranties made by the other party in the Merger Agreement shall be true and the other party shall have complied with its covenants in the Merger Agreement.

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The obligation of the Company to effect the Merger is further conditioned on, among other things, (i) dissenters' rights under Delaware law shall not have been perfected with respect to more than 5% of AMCI's common stock; (ii) there shall not have occurred any physical damage, destruction or catastrophic loss to any of the physical assets (including software) of AMCI and its subsidiaries that could, individually or in the aggregate, reasonably be expected to have a material adverse effect on AMCI and its subsidiaries, considered as a whole; (iii) there shall not have been any emissions, discharges, spills or releases, or any use, treatment, storage, disposal, handling, manufacture, transportation or shipment, of any substance by AMCI or any of its subsidiaries which could reasonably be expected to give rise to liabilities, claims or costs pursuant to environmental and safety requirements, and AMCI shall not have received any written notice from any regulatory agency asserting any claim or requiring any investigatory or remedial action under applicable environmental and safety requirements, that, in either case, individually or in the aggregate, could reasonably be expected to have a material adverse effect on AMCI and its subsidiaries, considered as a whole; (iv) Robert B. Gwyn and Harvey E. O'Neill, AMCI's President and CEO and Senior Vice President--Marketing, respectively, shall have executed and delivered agreements with respect to confidentiality and non-solicitation of AMCI employees in the form attached to the Merger Agreement; (v) the aggregate amount of cash and cash equivalents of AMCI and its subsidiaries (other than AMCLP and AMLP) shall be at least \$36 million.

If the offering described herein is consummated, no further approvals of the Merger or the Merger Agreement are required from the stockholders of the Company or the stockholders of AMCI. See "The Put Option."

#### THE PUT OPTION

The Company is offering the Common Shares as described herein in lieu of exercising its rights under the Put Option Agreement between the Company and Minorco USA, pursuant to which Minorco USA granted to the Company the right to sell to Minorco USA and cause Minorco USA to purchase 13,333,333 Common Shares, at a purchase price of \$7.50 per Common Share, payable in cash, for aggregate proceeds to the Company of \$100 million. Under applicable rules of the New York Stock Exchange (the "NYSE"), the Company's issuance of Common Shares upon exercise of its rights under the Put Option Agreement must be approved by an affirmative majority vote of stockholders. A special meeting of the Company's stockholders for such purpose will be called for October 1994. If this offering is consummated, the Company will cancel such meeting and not exercise its rights under the Put Option Agreement.

#### THE METHANOL HEDGING AGREEMENT

As described above, the obligations of the parties to the Merger Agreement to consummate the Merger are conditioned upon the execution at the closing of the Merger of a methanol hedging agreement (the "Methanol Hedging Agreement") between BMC and MSLEF II, as agent (in such capacity, the "Counterparty"). Pursuant to the Methanol Hedging Agreement, the Counterparty will pay to BMC \$4.0 million in cash concurrently with the execution and delivery of the Methanol Hedging Agreement. In consideration of this payment, BMC will be obligated, subject to the occurrence of certain events of force majeure, to make payments to the Counterparty for the period from the closing of the Merger to December 31, 1995, calendar year 1996 and calendar year 1997 in an amount equal to the product of: (1) the excess, if any, over \$0.65 per gallon of the remainder of (a) the yearly average of the midpoint of the high and low transaction prices for domestic barge methanol contracts in cents per gallon for each month during such period over (b) 0.113 times the average spot price index (large packages only), in cents per MMBtu, for natural gas, multiplied by (2) a number of gallons equal to (i) for the period through December 31, 1995, 10.833 million multiplied by the number of whole months and fraction thereof during such period; (ii) for calendar 1996, 140 million; and (iii) for calendar 1997, 130 million. BMC's methanol production facility in Beaumont, Texas has a production capability of approximately 280 million gallons of methanol per



The Company expects that BMC will be required to make payments to the Counterparty under the Methanol Hedging Agreement only if methanol prices increase relative to natural gas prices as compared to historical price levels. The Company expects that, through BMC's Beaumont facility and the Company's other methanol production capabilities, it will be benefiting from such market price movements at any time at which it is required to make payments under the Methanol Hedging Agreement.

The following table sets forth a calculation of the payment, if any, that would be due under the Methanol Hedging Agreement for any year based on the applicable price for methanol being equal to (i) \$0.51 per gallon, the price calculated over the 12 months ended June 30, 1994, and (ii) \$0.98 per gallon, the price calculated for the month of August 1994. In both examples, the assumed quantity of methanol is 140 million gallons and the applicable price for natural gas is equal to the price calculated over the 12 months ended June 30, 1994.

<S>	<C>	<C>
Assumed methanol price.....	\$0.51	\$0.98
Natural gas price times .113.....	0.24	0.24
	-----	-----
Remainder.....	0.27	0.74
Threshold price.....	0.65	0.65
	-----	-----
Excess.....	None	\$0.09
Assumed hedge quantity (gallons).....		140 million
		-----
Payment by BMC.....		\$12.6 million
		=====

</TABLE>

Methanol prices are volatile. There can be no assurances as to the actual prices of methanol and natural gas during the term of the Methanol Hedging Agreement.

#### THE REFINANCING

The Company will apply the net proceeds of this offering, available cash of the Company and AMCI and their subsidiaries and funds borrowed by the Company and such subsidiaries under the Credit Agreement to be entered into in connection with the Acquisition to (a) the payment of the Acquisition consideration to the holders of AMCI common stock and stock options, (b) the retirement of bank loans to Terra International under a 1992 revolving credit agreement, of which there were approximately \$56 million outstanding on June 30, 1994, (c) the retirement of an additional \$40 million in bank loans of the Company and its subsidiaries, (d) the retirement of a \$35 million term loan of one of AMCI's subsidiaries and (e) the payment of fees and expenses related to the Acquisition and the Refinancing. In addition, as a result of the merger of AMCI into the Company, the Company will assume AMCI's obligations under \$175 million in aggregate principal amount of the Senior Notes. The indenture governing the Senior Notes provides that holders may require repurchase of the Senior Notes at a price equal to 101% of their principal amount plus accrued interest under certain circumstances, including the Merger. The Company will have available under the Credit Agreement funds to make any repurchase payments so required. The Credit Agreement will also include working capital facilities for the Company and its subsidiaries.

After consummation of the Acquisition and the Refinancing, the primary obligor with respect to the Credit Agreement will be Terra Capital, a new subsidiary of the Company to which the capital stock of Terra International, AMC and BMCH will be contributed. Terra Capital will be wholly-owned by Terra Holdings, another new subsidiary of the Company, and Terra Holdings will be wholly-owned by the Company. See "Summary--Post-Acquisition Company Structure." Also, Terra International, which is currently the Company's principal operating subsidiary, and one of its subsidiaries, Terra Canada, will continue to have other obligations outstanding. Capitalized leases of the Operating Partnership will also

continue after the closing of the Acquisition and the Refinancing. See also "Capitalization," "Liquidity and Capital Resources After the Acquisition and the Refinancing" and "Description of Certain Indebtedness and Other Obligations."



USE OF PROCEEDS

The Company estimates the net proceeds of this offering to be approximately \$108.5 million (approximately \$125 million if the Underwriters' over-allotment option is exercised in full), assuming an Offering price to the public of \$12.75 per Common Share. The Company intends to use such net proceeds to finance, in part, the Acquisition. See "The Acquisition" and "The Refinancing."

PRICE RANGE OF COMMON SHARES AND DIVIDEND INFORMATION

The Common Shares are listed on the NYSE and the Toronto Stock Exchange under the symbol "TRA". On September 16, 1994, the last reported sale price of the Common Shares as reported on the New York Stock Exchange Composite Tape was \$12.75 per share. Potential investors are encouraged to obtain current trading price information. On August 31, 1994, the Common Shares were held by 5,812 stockholders of record.

The following table sets forth the range of high and low sales prices for the Common Shares on the NYSE Composite Tape and the amount of dividends declared for the periods indicated.

<TABLE>  
<CAPTION>

	HIGH	LOW	DIVIDENDS DECLARED PER COMMON SHARE
<S>	<C>	<C>	<C>
1992			
First quarter.....	\$ 6	\$4 3/8	\$ --
Second quarter.....	5 7/8	5	--
Third quarter.....	6 3/4	4 1/2	--
Fourth quarter.....	5 1/4	4 1/4	--
1993			
First quarter.....	\$4 7/8	\$3 7/8	\$ --
Second quarter.....	4 1/4	3 1/2	--
Third quarter.....	5	3 5/8	--
Fourth quarter.....	7 7/8	4 1/2	0.02
1994			
First quarter.....	\$8 3/4	\$6 1/4	\$0.02
Second quarter.....	8 1/4	6 5/8	0.02
Third quarter (through September 16, 1994)...	13 1/8	5 7/8	0.02

</TABLE>

While the Company intends to continue to pay regular cash dividends on its Common Shares in the future, the decision to do so will be made quarterly by its Board of Directors based upon the Company's earnings, financial position, capital requirements and prospects and such other factors as the Board of Directors deems relevant. The Company's ability to pay cash dividends will be affected by the covenants and other terms of the financing agreements of the Company and its subsidiaries, including the Credit Agreement and the indenture under which the Senior Notes were issued. As a holding company, the Company's ability to pay dividends will depend on its receipt of funds from its subsidiaries which, in turn, will be affected by the Credit Agreement and other obligations of such subsidiaries. See "Description of Certain Indebtedness and Other Obligations," "Liquidity and Capital Resources After the Acquisition and the Refinancing" and "Investment Considerations--Holding Company Structure and AMCLP" and "--Leverage."

CAPITALIZATION

Set forth below is the capitalization and short-term debt of the Company at June 30, 1994, and as adjusted to reflect the Acquisition, this offering, the merger of AMCI into the Company and the Refinancing. This table should be read in conjunction with the consolidated financial statements of the Company and the related notes and other financial information included or incorporated by reference herein.

<TABLE>  
<CAPTION>

	AT JUNE 30, 1994	
<S>	<C>	<C>
-----		
(UNAUDITED)		
	ACTUAL	AS ADJUSTED
-----		
(IN THOUSANDS)		
	<C>	<C>

Short-term debt:		
Borrowings under revolving credit agreements (a).....	\$ 67,320	\$ 67,320
Bank loans.....	40,000	--
Current maturities of long-term debt.....	2,351	45,150
	-----	-----
Total short-term debt.....	\$ 109,671	\$ 112,470
	=====	=====
Long-term debt (excluding current maturities):		
10 3/4% Senior Notes Due 2003 (b).....	\$ --	\$ 175,000
Operating Partnership term loan (a).....	--	35,000
Operating Partnership capitalized lease obligations due 2000.....	--	5,659
New senior secured term loans (a)(c).....	--	268,571
Other long-term debt.....	45,782	45,782
	-----	-----
Total long-term debt (excluding current maturities)...	45,782	530,012
	-----	-----
Minority interest.....	--	155,645
	-----	-----
Common stockholders' equity:		
Common Shares, 114,375,000 authorized, 70,553,045 (79,553,045 as adjusted) outstanding (d) (e).....	123,550	132,550
Paid-in capital.....	523,915	623,415
Cumulative translation adjustment.....	(795)	(795)
Accumulated deficit.....	(358,714)	(358,714)
	-----	-----
Total stockholders' equity.....	287,956	396,456
	-----	-----
Total capitalization.....	\$ 333,738	\$1,082,113
	=====	=====

</TABLE>

- 
- (a) Adjusted amount reflects borrowings under the Credit Agreement. See "Description of Certain Indebtedness and Other Obligations."
- (b) As a result of the merger of AMCI into the Company, the Company will assume AMCI's obligations under the Senior Notes. The indenture governing the Senior Notes provides that holders may require repurchase of the Senior Notes at a price equal to 101% of their principal amount plus accrued interest under certain circumstances, including upon consummation of the Merger. The Company will have available as part of the Refinancing funds to make any repurchase payments so required.
- (c) Included in this amount is the refinancing of \$40 million of short-term debt.
- (d) Does not include 1,663,600 Common Shares subject to outstanding stock options as of June 30, 1994, of which options with respect to 1,310,500 Common Shares were outstanding as of August 31, 1994.
- (e) Adjusted amount reflects the sale of 9,000,000 Common Shares in this offering at an assumed price of \$12.75 per share (for aggregate net proceeds of \$108.5 million).

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PRO FORMA COMBINED  
FINANCIAL STATEMENTS OF THE COMPANY

The pro forma combined financial statements of the Company have been prepared to give effect to (1) the Acquisition, (2) the Refinancing, (3) the sale of 9,000,000 Common Shares in this offering at an assumed price to the public of \$12.75 per share (for aggregate net proceeds of \$108.5 million), (4) the purchase of assets from Asgrow Florida Company ("Asgrow") on December 31, 1993 by the Company's Florida operations ("Terra Asgrow Florida"), and (5) the acquisition, effective March 31, 1993, of certain assets of ICI Canada Inc. ("ICI Canada") by Terra Canada. These pro forma combined financial statements have been derived from, and should be read in conjunction with, the historical financial statements and related notes of the Company and AMCI incorporated by reference and/or included herein. The Pro Forma Combined Statement of Financial Position assumes that the Acquisition, the Refinancing and this offering occurred as of June 30, 1994. The Pro Forma Combined Statements of Income assume that all such transactions occurred on January 1, 1993.

The pro forma adjustments are based on available financial information and certain estimates and assumptions. Therefore, it is likely that actual results will differ from the pro forma adjustments. Management of the Company believes that any differences between the actual results and the pro forma adjustments will not have a material effect on the pro forma combined financial statements as presented herein.

THE FOLLOWING UNAUDITED PRO FORMA FINANCIAL DATA ARE PRESENTED FOR INFORMATIONAL PURPOSES ONLY AND ARE NOT NECESSARILY INDICATIVE OF THE RESULTS THAT ACTUALLY WOULD HAVE OCCURRED HAD THE ACQUISITION, THE REFINANCING AND THIS

TERRA INDUSTRIES INC.

PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 1994  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	THE COMPANY	AMCI	PRO FORMA ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>	<C>
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 40,520	\$ 88,718	\$(64,813) (a)	\$ 64,425
Accounts receivable, net.....	352,464	41,866	--	394,330
Inventories.....	268,357	25,382	--	293,739
Deferred tax asset--current....	27,338	--	--	27,338
Other current assets.....	25,459	15,673	(10,086) (b)	31,046
<b>Total current assets.....</b>	<b>714,138</b>	<b>171,639</b>	<b>(74,899)</b>	<b>810,878</b>
Property, plant and equipment, net.....	124,786	319,383	106,450 (b)	550,619
Deferred tax asset--non-current.....	5,772	--	--	5,772
Net assets of discontinued operations.....	3,522	--	--	3,522
Excess of purchase price over net assets acquired.....	--	--	318,910 (b)	318,910
Distribution reserve fund.....	--	18,480	--	18,480
Other assets.....	28,677	21,303	(3,206) (d)	46,774
<b>Total assets.....</b>	<b>\$876,895</b>	<b>\$530,805</b>	<b>\$347,255</b>	<b>\$1,754,955</b>
<b>LIABILITIES</b>				
Debt due within one year.....	\$109,671	\$ 1,370	\$ 1,429 (a)	\$ 112,470
Accounts payable.....	293,361	28,531	--	321,892
Accrued and other liabilities..	105,270	24,625	7,075 (b)	136,970
<b>Total current liabilities..</b>	<b>508,302</b>	<b>54,526</b>	<b>8,504</b>	<b>571,332</b>
Long-term debt.....	45,782	215,659	268,571 (a)	530,012
Deferred income taxes.....	2,383	25,231	31,860 (b)	59,474
Other liabilities.....	32,472	4,179	5,385 (a) (b)	42,036
Minority interest.....	--	161,798	(6,153) (b)	155,645
Common stock and options with liquidity rights.....	--	4,347	(4,347) (b)	--
<b>Total liabilities.....</b>	<b>588,939</b>	<b>465,740</b>	<b>303,820</b>	<b>1,358,499</b>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock.....	123,550	172	8,828 (c)	132,550
Paid-in capital.....	523,915	40,472	59,028 (c)	623,415
Cumulative translation adjustment.....	(795)	--	--	(795)
Accumulated deficit.....	(358,714)	24,421	(24,421) (c)	(358,714)
<b>Total stockholders' equity.</b>	<b>287,956</b>	<b>65,065</b>	<b>43,435</b>	<b>396,456</b>
<b>Total liabilities and stockholders' equity.....</b>	<b>\$876,895</b>	<b>\$530,805</b>	<b>\$347,255</b>	<b>\$1,754,955</b>

</TABLE>

See accompanying Notes to the Pro Forma Combined Financial Statements.

TERRA INDUSTRIES INC.

PRO FORMA COMBINED STATEMENT OF INCOME

SIX MONTHS ENDED JUNE 30, 1994  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	THE COMPANY	AMCI	PRO FORMA ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>	<C>
<b>REVENUES</b>				
Net sales.....	\$1,059,475	\$231,552	\$ --	\$1,291,027
Other income, net.....	18,281	324	--	18,605
Total.....	1,077,756	231,876	--	1,309,632
<b>COST AND EXPENSES</b>				
Cost of sales.....	897,685	137,005	--	1,034,690
Selling, general and administrative expense.....	100,172	13,104	(1,858) (e)	111,418
Depreciation and amortization..	9,060	14,269	7,602 (f)	30,931
Equity in earnings of affiliates.....	(36)	(402)	--	(438)
Interest income.....	(1,983)	(1,971)	1,223 (g)	(2,731)
Interest expense.....	5,841	12,622	10,270 (h)	28,733
Total.....	1,010,739	174,627	17,237	1,202,603
Income before minority interest, income taxes and extraordinary item.....	67,017	57,249	(17,237)	107,029
Minority interest.....	--	(15,526)	--	(15,526)
Income before income taxes and extraordinary item.....	67,017	41,723	(17,237)	91,503
Income tax provision.....	25,400	14,898	(3,447) (o)	36,851
<b>INCOME BEFORE EXTRAORDINARY ITEM.....</b>	<b>\$ 41,617</b>	<b>\$ 26,825</b>	<b>\$ (13,790)</b>	<b>\$ 54,652</b>
Weighted average shares outstanding.....	70,336		9,000	79,336
Income per share before extraordinary item.....	\$ 0.59			\$ 0.69

</TABLE>

See accompanying Notes to the Pro Forma Combined Financial Statements.

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TERRA INDUSTRIES INC.

PRO FORMA COMBINED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1993

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	THE COMPANY	TERRA ASGROW FLORIDA	PRO FORMA ADJUSTMENTS	PRO FORMA TERRA CANADA	AMCI	PRO FORMA ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<b>REVENUES</b>							
Net sales.....	\$1,212,510	\$90,607	\$ (3,644)	\$24,565	\$365,436	\$ --	\$1,689,474
Other income, net.....	25,491	1,470	(637)	140	394	--	26,858
Total.....	1,238,001	92,077	(4,281) (i)	24,705	365,830	--	1,716,332
<b>COST AND EXPENSES</b>							
Cost of sales.....	1,021,187	74,108	(357) (i) (j)	19,775 (n)	257,448	--	1,372,161
Selling, general and administrative.....	161,791	9,815	(2,347) (i) (k)	1,965	30,531	(10,556) (e)	191,199
Depreciation and amortization.....	15,470	573	782 (i) (l)	77 (n)	26,876	16,046 (f)	59,824
Equity in earnings of affiliates.....	(2,275)	--	--	1,242 (n)	(1,018)	--	(2,051)
Interest income.....	(3,261)	--	1,418 (m)	--	(1,820)	2,468 (g)	(1,195)

Interest expense.....	12,944	15	--	300	17,759	14,832 (h)	45,850
Total.....	1,205,856	84,511	(504)	23,359	329,776	22,790	1,665,788
Income before minority interest and income taxes.....	32,145	7,566	(3,777)	1,346	36,054	(22,790)	50,544
Minority interest.....	--	--	--	--	(19,789)	--	(19,789)
Income before income taxes and extraordinary item.....	32,145	7,566	(3,777)	1,346	16,265	(22,790)	30,755
Income tax provision....	9,300	2,924	(1,450) (o)	1,006	7,721	(2,221) (o)	17,280
INCOME BEFORE EXTRAORDINARY ITEMS....	\$ 22,845	\$ 4,642	\$ (2,327)	\$ 340	\$ 8,544	\$ (20,569)	\$ 13,475
Weighted average shares outstanding.....	69,064					9,000	78,064
Income per share before extraordinary item.....	\$ 0.33						\$ 0.17

</TABLE>

See accompanying Notes to the Pro Forma Combined Financial Statements.

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The pro forma adjustments necessary to present the combined financial position are as follows:

- (a) The adjustment to cash and short-term investments is determined as follows (in thousands):

<S>	<C>
Issuance of long-term debt.....	\$ 310,000
Refinance short- to long-term debt.....	(40,000)
Proceeds from sale of stock (Note (c)).....	108,500
Proceeds from sale of call under Methanol Hedging Agreement....	4,000
Payment of finance fees--other assets.....	(11,200)
Payment of purchase price and working capital adjustment.....	(431,113)
Payment of Acquisition related costs.....	(5,000)
Net cash adjustment.....	\$ (64,813)

</TABLE>

Bank loans totaling \$40 million used by the Company to repurchase its convertible subordinated debentures in March 1994 will be repaid with borrowings under the Credit Agreement.

The proceeds from the sale of the call under the Methanol Hedge Agreement were recorded as a long-term deferred credit. In the event that BMC is required to make payments under this agreement, the first \$4 million in payments will be charged against the long-term deferred credit. The liability, if any, of BMC under this agreement over \$4 million will be expensed in the period to which such payment relates, which will also be the period in which the Company realizes increased gross profit on methanol sales.

- (b) Adjustments to the net assets of AMCI to reflect fair values under purchase accounting are as follows (in thousands):

<S>	<C>	<C>
Equity purchase price of \$400,000.....		\$400,000
Working capital adjustment as of June 30, 1994 based on actual working capital of \$117,113.....	\$ (31,113)	
AMCI net assets at June 30, 1994.....	65,065	
Adjustments to conform AMCI's accounting for plant turnaround costs to that used by the Company:		
Other current assets.....	(10,086)	
Other assets.....	(3,994)	
Accrued liabilities .....	(7,075)	

Write-up of property, plant & equipment to fair value.....	106,450	
Other assets write-off of deferred finance charges...	(10,412)	
Record liability for underfunded pension plan.....	(1,385)	
Minority interest in purchase accounting adjustments.	6,153	
Adjust accrual for common stock and options with liquidity rights.....	4,347	
Record payment of merger related costs.....	(5,000)	
Provide deferred income taxes on basis differences...	(31,860)	
	-----	
Total.....	81,090	(81,090)
	-----	-----
Excess of purchase price over net assets acquired....		\$318,910
		=====

</TABLE>

The adjustment for plant turnaround costs is to conform AMCI's accounting policy of capitalizing costs related to the periodic scheduled maintenance of production facilities and amortization of such costs over generally two years to the Company's policy of accruing for such costs over the two-year period preceding the next scheduled maintenance of the production facilities. The adjustment for the accrual for common stock and options with liquidity rights is to reflect the fact that the Company will settle all such outstanding stock and options for cash as part of the Acquisition, and AMCI will no longer be obligated to redeem such stock or options.

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(c) The pro forma adjustment reflects the elimination of the AMCI equity accounts and the issuance of 9,000,000 Common Shares in this offering for aggregate net proceeds of \$108.5 million.

(d) The pro forma adjustment reflects the following (in thousands):

<TABLE>	
<CAPTION>	
<S>	<C>
Write-off of deferred finance charges of AMCI.....	\$(10,412)
<CAPTION>	
Payment of finance fees for new financing.....	11,200
Adjustment of other assets to conform accounting methods.....	(3,994)
<S>	<C>
	-----
	\$ (3,206)
	=====

</TABLE>

The pro forma adjustments necessary to present the results of operations for the six months ended June 30, 1994 and the year ended December 31, 1993 are as follows:

- (e) Reduce AMCI executive incentive plan expense that will not exist after the Merger totaling approximately \$1.2 million in 1994 and \$10.6 million in 1993 and defer \$0.7 million of AMCI acquisition related costs expensed in the second quarter of 1994.
- (f) Amortization of excess purchase price over net assets acquired net of reduced depreciation expense on assets acquired of \$7.6 million in 1994 and \$16 million in 1993 based on an extended 18.5 year useful life for assets acquired.
- (g) Reduce interest income by \$1.2 million in 1994 and \$2.5 million in 1993 for cash utilized in purchase.
- (h) Increase interest expense \$10.3 million in 1994 and \$14.8 million in 1993, net of adjusted amortization of loan finance fees. The pro forma combined interest expense for new long-term debt is based upon an assumed blend of 50% variable and 50% fixed interest rates on \$270 million of debt. The blended interest rate assumed for 1993 was 7.3% and for 1994 was 7.8%. These are added to the historical interest expense of the Company and AMCI.
- (i) Certain operations of Asgrow, principally a retail location in southern Georgia and the seed distribution business to vegetable markets in North Carolina, were not acquired. Revenues, costs of sales, selling expenses and depreciation are reduced \$4.3 million, \$2.3 million, \$0.5 million and \$0.1 million respectively, to reflect operations not acquired.

- (j) Asgrow had purchased proprietary seed from Asgrow Seed Company ("Asgrow Seed") at Asgrow Seed's cost. Terra Asgrow Florida will purchase seed from Asgrow Seed at prices that represent wholesale market value. The increase in seed purchase costs is estimated to increase pro forma cost of sales by \$1.9 million.
- (k) Asgrow was charged a total of \$1.8 million by its parent for allocations of research and development costs and general administrative services. These expenses will not continue.
- (l) The acquisition price included approximately \$13 million of unassigned cost which will be charged against operations \$0.9 million per year for 15 years.
- (m) Interest income is reduced to reflect use of available cash to fund the purchase from Asgrow.
- (n) Terra Canada depreciation expense of \$0.9 million for the three months ended March 31, 1993 is eliminated and replaced with lease expense computed from \$3.3 million annual lease payments and amortization of lease finance costs. In addition, as a condition of the acquisition, certain employees were terminated subject to varying transition periods averaging six months. Pro forma costs of sales is reduced for the full effect of workforce reductions resulting in cost savings of \$0.3 million for the three months ended March 31, 1993.
- (o) Income taxes are provided at an assumed rate of 40% for pro forma adjustments. No reduction in tax expense will result from charges related to amortization of excess purchase price over net assets acquired.

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LIQUIDITY AND CAPITAL RESOURCES AFTER  
THE ACQUISITION AND THE REFINANCING

The Company's primary uses for cash after the Acquisition and the Refinancing will be to fund its working capital needs, make payments on its indebtedness and other obligations, make quarterly distributions on AMCLP's Senior Preference Units and make capital expenditures. Its principal sources of funds will be cash flow from operations and borrowings under the Credit Agreement. See "Pro Forma Combined Financial Statements of the Company."

The Company's working capital requirements will be greater with the addition of AMCI's businesses and will continue to be seasonal. Net cash used by operating activities of the Company was \$1 million and \$17.8 million, respectively, for the year ended December 31, 1993 and the six months ended June 30, 1994, and net cash provided by operations for AMCI was \$65.9 million and \$66.3 million, respectively for the same periods. The fertilizer business is highly seasonal and volatile due to a number of factors. The Company's greatest need for working capital generally occurs in the spring and fall months, as the inventory built by the Company during the summer and winter months is converted into receivables from customers, but not yet collected. The Company's lowest working capital need occurs in the summer, as receivables are collected. See "Business--Seasonality and Volatility."

Because of the increase in the Company's indebtedness and other obligations resulting from the Acquisition, the Company's need for cash to service such obligations, as well as quarterly distributions on AMCLP's Senior Preference Units, will substantially increase. On a pro forma basis, for the year ended December 31, 1993, the Company's interest expense was \$45.9 million, compared with actual interest expense of \$12.9 million for the Company and \$17.8 million for AMCI (and AMCLP paid \$18.5 million on the Senior Preference Units in quarterly distributions in such year.) See "Description of Certain Indebtedness and Other Obligations--AMCLP Senior Preference Units and Other Obligations."

The Company intends to continue to make capital expenditures after the Acquisition to maintain the operating efficiency of its manufacturing facilities. Capital expenditures for the combined businesses are currently estimated to be approximately \$30 million in 1994 and 1995. Combined capital expenditures of the Company and AMCI were \$27.5 million in 1992 and \$28.6 million in 1993.

In addition to operating cash flows, the Company will fund its working capital needs through the Credit Agreement, which permits revolving borrowings of up to \$175 million and an additional \$50 million in revolving borrowings by AMLP, and Terra Canada's revolving credit agreement, which permits borrowings of up to \$35 million (Cdn.), in each case subject to compliance with various

financial ratios and other covenants. The Company will also utilize borrowings under the Credit Agreement to pay for any Senior Notes which the Company is required to repurchase. See "Description of Certain Indebtedness and Other Obligations." Depending on market and other conditions, the Company may issue debt or equity securities, including preferred stock and securities convertible into Common Shares, in public or private offerings in the future in order to repay portions of its indebtedness under the Credit Agreement.

The Company's leverage after the Acquisition and Refinancing may restrict the Company's ability to take various actions and respond to circumstances in the future. See "Investment Considerations-- Leverage." The Company believes, however, that cash from operations and available financing sources will be sufficient to meet its cash requirements for the next several years.

## BUSINESS

### GENERAL

The Company is a leading producer of nitrogen fertilizer and marketer of fertilizer, crop protection products and seed. After giving effect to the Acquisition, the Company will be the third largest producer of anhydrous ammonia and one of the two largest producers of nitrogen solutions in the United States and

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Canada. Through the acquisition of AMCI, the Company will also substantially increase its participation in the methanol production industry. The Company owns and operates the largest independent farm service center network in the United States and Canada and is the second largest supplier of crop production inputs in the United States.

The Company's production facilities are currently comprised of:

- . 3 nitrogen fertilizer plants, which are located in Oklahoma (the "Woodward Facility"), Iowa (the "Port Neal Facility") and Ontario (the "Courtright Facility");
- . 1 crop protection chemical formulation plant located in Arkansas (the "Blytheville Formulation Facility"); and
- . 7 additional liquid chemical formulation facilities.

The Company's distribution network serves the United States and the eastern region of Canada and has grown over the last several years to include approximately:

- . 350 farm service centers;
- . 58 fertilizer storage facilities; and
- . 770 affiliated dealer locations.

AMCI's principal facilities are comprised of:

- . a facility, located in Rogers County, Oklahoma, which produces primarily ammonia and urea ammonium nitrate solution ("UAN") solutions and which consists of two ammonia plants, two nitric acid plants and two UAN solution plants (the "Verdigris Facility");
- . a facility, located in Mississippi County, Arkansas, which produces ammonia and urea and which consists of an ammonia plant and a granular urea plant (the "Blytheville Facility");
- . approximately 60 fertilizer storage facilities; and
- . a facility located in Beaumont, Texas, for the production of methanol (the "Beaumont Facility").

### MANUFACTURED FERTILIZER

Nitrogen is one of three primary nutrients essential for plant growth. Nitrogen fertilizer needs to be reapplied each year in areas of extensive agricultural usage because of absorption by crops and its tendency to escape from the soil. There are no substitutes for nitrogen fertilizer in the cultivation of high-yield crops. Ammonia is the simplest form of nitrogen fertilizer and is the primary raw material for the production of upgraded nitrogen fertilizers. Ammonia is a gas under normal conditions and requires special handling and application equipment and procedures. Ammonia is reacted with other compounds to produce solid and liquid fertilizers, primarily urea



and UAN, which are easier to transport, store and apply than ammonia.

The Company is a major producer and distributor of nitrogen fertilizers and will gain significant additional capacity with the acquisition of AMCI. The Company's and AMCI's principal products are ammonia, urea and UAN. After giving effect to the acquisition of AMCI, the Company will be the third largest producer of anhydrous ammonia and one of the two largest producers of UAN in the United States. A significant portion of the Company's and AMCI's ammonia production is used to produce other nitrogen fertilizer products such as urea and UAN, which are higher value-added products.

Products. Although, to some extent, the various nitrogen fertilizers are interchangeable, each has its own distinct characteristics which produce agronomic preferences among end users. Farmers decide which

type of nitrogen fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices.

Ammonia. Anhydrous ammonia is the simplest form of nitrogen fertilizer and is the feedstock for the production of most other nitrogen fertilizers, including urea and UAN. It is produced by reacting natural gas with steam and air at high temperatures and pressures in the presence of catalysts. It has a nitrogen content of 82% by weight and is generally the least expensive form of fertilizer per unit of nitrogen.

Urea. Solid urea is produced for both the feed and fertilizer market by converting ammonia into liquid urea, which can then be turned into a solid which is either prilled or granulated. Urea has a nitrogen content of 46% by weight, the highest level for any solid nitrogen product. Granular urea is generally sold as fertilizer and prilled urea is generally sold as a feed supplement. The Company produces both granular and prilled urea. AMCI produces granular urea.

UAN Solution. The Company produces UAN at all three of its manufacturing facilities. AMCI's Verdigris Facility in Oklahoma is the largest UAN production facility in the United States. UAN is produced by combining liquid urea and ammonium nitrate in water. The nitrogen content of UAN is typically 28% to 32% by weight. UAN is a liquid fertilizer and, unlike ammonia, is generally odorless and does not need to be refrigerated or pressurized for transportation or storage.

UAN may be applied uniformly and may be mixed with various herbicides, permitting the application of several materials simultaneously, and thus reducing energy and labor costs. In addition, UAN may be applied from ordinary tanks and trucks and can be sprayed or injected into the soil, or applied through irrigation systems, throughout the growing season. UAN is relatively expensive to transport and store because of its high water content. Due to its stable nature, UAN may be used for no-till row crops where fertilizer is spread upon the surface and is subject to volatilization losses. The use of conservation tilling, which reduces erosion, is increasing in the United States, and the Company believes this trend, if continued, should have a positive impact on UAN demand.

The Company's and AMCI's nitrogen fertilizer sales mixes for the years ended December 31, 1991, 1992 and 1993 were as follows (based on tons sold):

<TABLE>  
<CAPTION>

	THE COMPANY		
	1991	1992	1993
<S>	<C>	<C>	<C>
Ammonia.....	28%	30%	31%
Urea.....	11%	11%	11%
UAN.....	61%	59%	58%

<TABLE>  
<CAPTION>

	AMCI		
	1991	1992	1993
<S>	<C>	<C>	<C>
Ammonia.....	18%	16%	16%
Urea.....	16%	16%	16%

Plants. The Company's Woodward Facility, Port Neal Facility and Courtright Facility are integrated facilities for the production of ammonia, liquid urea and UAN and other nitrogen fertilizer solutions. In addition, the Port Neal Facility and the Courtright Facility produce solid urea. The Courtright Facility's liquid urea and granulation capacity are expected to increase as a result of a plant upgrade project, announced in February 1994. The project is expected to be completed in 1995 and will enable the replacement of 65,000 tons of annual ammonia sales with urea and nitrogen solution sales. The project cost is estimated to be approximately \$20 million and is expected to be funded through lease financing.

Each of the Company's three manufacturing facilities is designed to operate continuously, except for planned biennial shutdowns for maintenance and installation of efficiency improvements. Utilization of the

Company's manufacturing facilities for the years ended December 31, 1993, 1992 and 1991, in the aggregate, was approximately 92%, 95% and 91%, respectively.

AMCI's Verdigris Facility and Blytheville Facility are also integrated facilities. The Verdigris Facility produces primarily ammonia and UAN and the Blytheville Facility produces primarily ammonia and urea. Utilization of AMCI's manufacturing facilities for the years ended December 31, 1993, 1992, and 1991, in the aggregate, was approximately 101%, 107%, and 104%, respectively.

Marketing and Distribution. The Company's principal customers for its manufactured nitrogen fertilizer products are large independent dealers, national retail chains, cooperatives and industrial customers. Approximately 10% of the Company's fertilizer production is sold through its farm service center locations to retail customers, while the rest is sold to outside customers. In 1993, no customer accounted for greater than 10% of total manufactured nitrogen fertilizer sales.

After giving effect to the acquisition of AMCI, the Company will have production facilities and significant storage capacity nearby major fertilizer consuming regions which should allow it to continue to be a major supplier of nitrogen solutions to its customers.

#### DISTRIBUTION

The Company's distribution business manages a distribution and marketing system for a comprehensive line of fertilizer, crop protection products and seed. It also provides crop protection and other services to its customers. The Company's customers are primarily farmers and dealers located in the Midwestern, southern, southwestern and southeastern regions of the United States, and the eastern region of Canada.

Products. The Company markets a comprehensive line of crop protection products (herbicides, insecticides, fungicides, adjuvants, plant growth regulators, defoliant, desiccants and other agricultural chemicals), fertilizer (nitrogen, phosphates, potash and micronutrients) and seed. The Company markets several major seed brands and, in its United States marketing area, is the largest independent seed distributor. The Company focuses particular marketing efforts on its proprietary brand of corn hybrids, soybean and cotton seed varieties, which provide higher margins. These products represented approximately 20% of total seed sales in 1993. The Company also has an exclusive retail storefront marketing and distribution agreement for dekalb brand seed in the Midwest, which accounted for approximately 7.5% of total 1993 seed sales.

Although most crop protection products marketed by the Company are manufactured by unaffiliated suppliers, the Company also markets its own Riverside(R) brand products. Riverside products represented approximately 16% of total crop protection product sales in 1993. The Riverside line includes over 100 products, nine of which were added in 1993, and consists of herbicides, insecticides, fungicides, adjuvants, seed treatments, plant growth regulators, defoliant and desiccants. The majority of Riverside products are formulated and packaged in facilities owned by the Company. The Riverside line includes several formulations produced exclusively by the Company, but does not include proprietary agricultural chemicals. Riverside products generally provide higher gross margins for the Company than products manufactured by unaffiliated suppliers. The sale of such products, however, involves additional indirect costs, including the cost of maintaining and disposing of excess inventory and potentially greater liability for product defects. For Riverside pesticide products, the Company possesses and processes the registrations required by the EPA.

Services. In addition to selling products required to grow crops, the Company's farm service centers offer a wide variety of services to grower customers. These services include soil and plant tissue analysis and crop production program recommendations, custom blending of fertilizers, field application services and field inspections for pest control and crop program performance follow-up. The farm service centers

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utilize the Company's Ag Analytical Services laboratory in Elida, Ohio to analyze nutrient levels in soil and plant tissue samples. The results of these tests are analyzed by the Company's proprietary CropMaster(R) program, which provides specific, localized soil fertility recommendations for specific crops on a field-by-field basis. Crop input recommendations are provided through computer terminals at most farm service center locations, which are linked to a mainframe computer located at the Company's headquarters in Sioux City, Iowa. Recommendations can be made for substantially all crops grown in the Company's markets. The program also provides "least cost" nutrient blending formula recommendations, makes seed variety recommendations based on hybrid characteristics and other factors important to the individual grower, and maintains crop input records for grower customers.

In connection with product sales to dealers, the Company provides warehousing and delivery services. For selected dealer customers, the Company offers a service package called MarketMaster(TM). The package includes environmental and safety audits, special training courses, access to the Company's Ag Analytical Services laboratory, use of the CropMaster program and other services. There were approximately 475 MarketMaster dealer sites at December 31, 1993.

Marketing and Distribution. The Company markets its products primarily to agricultural customers, including both dealers and growers. For 1993, approximately 60% of the Company's distribution revenues were attributable to retail sales through farm service center locations and approximately 40% were attributable to wholesale sales to dealers.

The Company also markets its products through its Professional Products group to non-farm customers, including turf growers, nurseries, golf courses, parks and athletic facilities. The Company offers these customers herbicides, insecticides, fungicides, fertilizer, adjuvants, plant growth regulators, seed and agronomic services. The Professional Products personnel generally work through the Company's farm service centers, using established delivery systems and product lines.

The Company's distribution operations are organized into the Northern and Southern Divisions, which include 13 separate regions. Field personnel receive regular training through Terra University, a series of courses designed to develop skills in agronomy, management, sales, environmental and personal safety, and field application. The field salespeople are supported by the Ag Analytical Services laboratory, a staff of agronomists and a research station where the efficacy of various crop protection products and the performance of numerous seed varieties are tested.

#### METHANOL

Through the acquisition of AMCI, the Company will substantially increase its participation in the methanol production industry. After giving effect to such acquisition, the Company will have approximately 320 million gallons of methanol production capacity, representing approximately 16% of the total United States rated capacity.

Product. Methanol is a liquid petrochemical made primarily from natural gas. It is used primarily as a feedstock in the production of other chemical products such as formaldehyde, acetic acid and chemicals used in the building products industry. Methanol is also used as a feedstock in the production of MTBE, an oxygenate and octane enhancer used as an additive in reformulated gasoline. Reformulated gasoline has lower volatility and is less aromatic than gasoline. The methanol manufacturing process involves heating the natural gas feedstock, mixing it with steam and passing it over a nickel-based catalyst, which breaks it down into carbon monoxide, carbon dioxide and hydrogen. This reformed gas is then cooled, compressed and passed over a copper-zinc based catalyst to produce crude methanol. Crude methanol consists of approximately 80% methanol and 20% water. In order to convert it to high-purity chemical grade methanol suitable for sale, the crude methanol is distilled in a series of distillation towers to remove the water and other impurities.

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Plants. During the first half of 1994, the Company completed the capital improvements necessary to produce methanol instead of ammonia for a portion of the Woodward Facility's capacity. The project cost approximately \$15 million and gives the Company 40 million gallons of annual methanol capacity at the Woodward Facility.

After the Acquisition, the Company will own, through BMC, the Beaumont Facility, which is the largest methanol production facility in the United States, with approximately 280 million gallons of annual methanol capacity. The plant and processing equipment are owned by BMC and the land is leased from DuPont for a nominal annual rental under a lease agreement which expires in 2090. Because the Beaumont Facility is entirely contained in a complex owned and operated by DuPont (the "Beaumont Complex"), BMC depends on DuPont for access to the Beaumont Facility. BMC also relies on DuPont for access and certain essential services relating to the wharf located at the Beaumont Complex through which most of the finished product methanol is shipped to customers and the pipelines used to transport finished product methanol and to obtain natural gas, as well as for certain utilities and waste water treatment facilities and other essential services.

Marketing and Distribution. The marketing of BMC's methanol is conducted on an exclusive basis by Trammochem, a division of Transammonia, Inc., pursuant to a Marketing Services Agreement between BMC and Trammochem. Trammochem is one of the largest international traders and marketers of bulk petrochemicals, including methanol. Affiliates of Transammonia, Inc. are currently stockholders of AMCI and will receive a portion of any payments made to the Counterparty under the Methanol Hedging Agreement. Pursuant to the Marketing Services Agreement, Trammochem provides BMC with marketing services in connection with the sale of BMC's methanol on a worldwide basis. These services include analysis of market conditions for methanol, marketing and sales on a contract basis and sales on a spot basis, arrangement of transportation of methanol to customers and customer relations activities. BMC retains responsibility for the invoicing and collection of payments from customers and is responsible for loading transportation equipment in accordance with customer requirements. BMC pays Trammochem an annual fee and a monthly fee based on BMC's earnings and deliveries, respectively. The Marketing Services Agreement continues until December 31, 1996 and from year to year thereafter unless terminated by either party on not less than 180 days' written notice in advance of the end of any year. The agreement may also be terminated in the event of a material default by either party or at the option of BMC. The Company has no current intention to terminate the Marketing Services Agreement.

BMC's customers are primarily large chemical or MTBE producers located in the U.S. Some sales have been made to Central and South America.

Methanol Contracts. BMC has a number of long-term methanol sales contracts, the most significant of which is with DuPont (the "DuPont Contract"). Through August 31, 1994, BMC had sold over 85% of its 1994 production under such contracts. For the remainder of 1994 and 1995, BMC has contracted to sell nearly 100% of its production at prices indexed to published sources. Most of BMC's sales contracts (other than the DuPont Contract) cover fixed volumes and have terms of up to three years.

Under the DuPont Contract, DuPont has agreed to purchase 108 million gallons of methanol each year until 2001 (representing 39% of the Beaumont Facility capacity). The DuPont Contract will continue in effect after the initial term unless terminated by either party on two years' notice. Commencing in 1998, each of BMC and DuPont will have the unilateral right (exercisable one time only for the remaining term of the contract) to permanently reduce the contract quantity required to be delivered by BMC to DuPont in any contract year by up to 54 million gallons. The price for the methanol delivered under the DuPont Contract is generally indexed to certain published sources.

#### PRODUCT FORMULATIONS

The Company's Blytheville Formulation Facility formulates dry flowable ("DF") crop protection products and liquid crop protection chemicals in separate production lines at the same location. DF formulations are small, dry, water-dispersible granules that are mixed with water before application.

Because of their dry form, the granules have several benefits compared with liquid formulations, including: easier package disposal; easier cleanup of accidental spills; absence of toxic solvents; no fumes; less weight; less space required for storage; and no product loss from freezing temperatures or settling. Because of these benefits, the Company expects more agricultural chemicals will be offered to growers in DF form in the future. The Blytheville

Formulation Facility is one of 13 known DF plants in the U.S. and formulates eight DF products and six liquid products. Approximately 40% of the plant's volume in 1993 was attributable to the Company's own Riverside brand product line. The Company has developed several DF formulations not available from any other producer or formulator. The Company has also developed DF formulations for a number of companies that contract all or portions of their production at the Blytheville Formulation Facility.

#### CREDIT

A substantial portion of the Company's sales to its grower and dealer customers is made on credit terms customary in the industry. During the third quarter of 1992, the Company established a grower financing program to provide crop input financing to certain grower customers for all operating requirements on extended payment terms. In 1993, the Company provided approximately \$25 million in financing to grower customers under this program and, in 1994, the Company expects to finance approximately \$60 million to \$65 million. The Refinancing is designed to allow the Company to continue such program.

#### SEASONALITY AND VOLATILITY

The agricultural products business is seasonal, based upon the planting, growing and harvesting cycles. Inventories must be accumulated in the first few months of the calendar year to be available for seasonal sales, requiring significant storage capacity. Inventory accumulations are financed by suppliers or short-term borrowings, which are retired with the proceeds of the sales of such inventory. In times of lower demand, the Company can reduce purchases, thereby decreasing inventory carrying costs. In the past, over half of the Company's sales generally occurred during the second quarter of each year. This seasonality also generally results in higher fertilizer prices during peak periods, with prices typically reaching their highest point in the spring, dropping in the summer, increasing in the fall (as depleted inventories are restored) through the spring.

The agricultural products business can also be volatile as a result of a number of other factors, the most important of which, for U.S. markets, are weather patterns and field conditions (particularly during periods of high fertilizer consumption), current and projected grain stocks and prices and the U.S. government's agricultural policy. Among the governmental policies that influence the markets for fertilizer are those directly or indirectly influencing the number of acres planted, the level of grain stocks, the mix of crops planted and crop prices.

As with any commodity chemical, the price of methanol is volatile. The industry has experienced cycles of oversupply resulting in depressed prices and idled capacity, followed by periods of shortage and rapidly rising prices. During 1994 to date, increased world demand for methanol combined with industry production problems to create a tight market and dramatically increased prices over 1993 levels. There can be no assurances that such conditions will continue. In part, future demand for methanol will depend on the regulatory environment with respect to oxygenated gasoline. See "Investment Considerations--Factors Affecting Demand For Methanol and MTBE." Most methanol sold in the U.S. is sold pursuant to long-term contracts based on market index pricing and a fixed volume. See "Methanol--Methanol Contracts."

#### RAW MATERIALS

The principal raw material used to produce nitrogen fertilizer is natural gas. The Company estimates that natural gas costs comprised nearly 50% of the total costs and expenses associated with the Company's manufactured fertilizer operations in 1993. Natural gas is also the primary raw material used in the production of methanol. Following the completion of the Acquisition, the Company, through BMC, will

own the largest methanol facility in the U.S. The Company estimates that natural gas represents over 50% of the costs and expenses associated with methanol operations. A significant increase in the price of natural gas that could not be recovered through an increase in nitrogen fertilizer or methanol prices could have a material adverse effect on the Company's profitability and cash flow. The Company's policy is to fix the unit cost for 40% to 80% of its natural gas requirements for the upcoming 12-month period using supply contracts and various hedging techniques. See "Factors Affecting Demand For Methanol and MTBE."

Reliable sources for supply of crop inputs at competitive prices are critical to the distribution portion of the Company's business. The Company's sources for fertilizer, agricultural chemicals and seed are typically manufacturers of the products without an internal capability to distribute products to the North

American grower.

#### TRANSPORTATION

The Company uses several modes of transportation to receive and distribute products to customers and its own locations, including railroad and tank cars, common carrier trucks, barges, common carrier pipelines and Company-owned or leased vehicles. The Company operates 35 liquid, 21 dry and two anhydrous ammonia fertilizer terminal storage facilities in 18 states and Ontario, Canada. The Company also has varying amounts of warehouse space at each of its farm service centers. AMCI operates 45 liquid, 7 dry and 11 anhydrous ammonia fertilizer storage facilities (some of which are in the same locations) in 21 states and one methanol storage facility in Beaumont, Texas.

Through Terra Express, Inc. and Terra Express of Oklahoma, Inc., wholly-owned truck transportation subsidiaries of Terra International (together, "Terra Express"), the Company provides transportation services to its own facilities and customers as a contract carrier. Terra Express uses approximately 90 owner-operated trucks and twenty Company-owned trucks to deliver fertilizer, crop protection products, seed, feed ingredients and other products to its own facilities and customers. At its manufacturing facilities, its Blytheville Formulation Facility and liquid fertilizer storage locations, the Company utilizes railcars as the major method of transportation. All of the Company's approximately 1,100 railcars are leased.

Purchased natural gas is transported to the Port Neal Facility via an interstate pipeline operating as an open access natural gas transporter. Under a Federal Energy Regulatory Commission order, the Company maintains facilities for direct access to its interstate pipeline shipper, avoiding additional costs of local utility services. The Company transports purchased natural gas for its Woodward Facility through an intrastate pipeline that is not an open access carrier; however, the Company is able to transport gas supplies from any in-state source connected to the widespread pipeline system. The Courtright Facility utilizes local gas storage service provided by a local utility, and purchased gas is transported from western Canada through the TransCanada Pipeline under various delivery contracts.

AMCLP transports product primarily via barge and rail car. Additionally, AMCLP uses trucks to transport smaller quantities of product, and the Verdigris Facility distributes ammonia through the MAPCO pipeline. As of December 31, 1993, AMCLP's transportation equipment included 104 leased ammonia rail cars, and 818 leased UAN rail cars. AMCI transports purchased natural gas for its facilities through several natural gas pipeline companies under agreements with various terms.

BMC transports methanol primarily by marine transport via the Neches River to the Intercoastal Canal and the Gulf of Mexico and via pipeline to selected customers. Access to the wharf and pipeline use at the Beaumont Facility is provided through BMC's agreements with DuPont.

#### RESEARCH AND DEVELOPMENT

The Company operates a 70-acre Agronomy Research Station near its Port Neal Facility for product and program development and testing, and routinely conducts product evaluation and testing with growers and universities. The Company also develops DF and other chemical formulations for its Riverside product line and for basic chemical products at its product development laboratory located in Blytheville, Arkansas.

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#### COMPETITION

Nitrogen fertilizer is a global commodity and customers, including end-users, dealers and other fertilizer producers, base their purchasing decisions principally on the delivered price of the product. The Company competes with a number of U.S. producers, and producers in other countries, including state-owned and government-subsidized entities. Some of the Company's principal competitors may have greater total resources and may be less dependent on earnings from nitrogen fertilizer sales than is the Company. Some foreign competitors may have access to lower cost or government-subsidized natural gas supplies. The Company believes that it competes with other manufacturers of nitrogen fertilizer on the basis of delivery terms and availability of products as well as on price.

The market for the fertilizer, crop protection products and seed distributed by the Company is highly competitive. In 1993, sales attributable to the Company's farm service centers accounted for less than 10% of total crop production products sold in the U.S. Within the specific market areas served by its farm service centers, however, the Company's share of the market was

substantially higher in most instances. The Company's competitors include cooperatives, divisions of diversified agribusiness companies, regional distributors and independent dealers, some of which have substantially greater financial and other resources than the Company. The Company competes primarily by providing a comprehensive line of products and by providing what the Company believes to be superior services to growers and dealers.

The methanol industry, like the fertilizer industry, is highly competitive and such competition is based largely on price, reliability and deliverability. The relative cost and availability of natural gas and the efficiency of production facilities are important competitive factors. Significant determinants of a plant's competitive position are the natural gas acquisition and transportation contracts that a plant negotiates with its major suppliers. Domestic competitors for methanol include a number of large integrated petrochemical producers, many of which are better capitalized than the Company. In addition, the production and trade of methanol has become increasingly global, and a number of foreign competitors produce methanol primarily for the export market. See "Investment Considerations--Factors Affecting Demand for Methanol and MTBE".

#### ENVIRONMENTAL AND OTHER REGULATORY MATTERS

The Company's and AMCI's operations are subject to various federal, state and local environmental, safety and health laws and regulations, including laws relating to air quality, hazardous and solid wastes and water quality. Terra Canada's operations are subject to various federal and provincial regulations regarding such matters, including the Canadian Environmental Protection Act administered by Environment Canada, and the Ontario Environmental Protection Act administered by the Ontario Ministry of the Environment. The Company and AMCI are also involved in the manufacture, handling, transportation and storage of materials that are or may be classified as hazardous or toxic by federal, state, provincial or other regulatory agencies. Precautions are taken to reduce the likelihood of accidents involving these materials. If such materials have been or are disposed of at sites that are targeted for cleanup by federal or state regulatory authorities, the Company or AMCI may be among those responsible under CERCLA or analogous state laws for all or part of the costs of such cleanup.

Terra International has been designated as a PRP under CERCLA or its state analogues with respect to various sites. Under CERCLA, all PRPs may be held jointly and severally liable for the costs of investigation and remediation of an environmentally damaged site. After consideration of such factors as the number and levels of financial responsibility of other PRPs, the existence of contractual indemnities, the availability of defenses and the speculative nature of the costs involved, the Company's management believes that its liability with respect to these matters will not be material.

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AMCLP has been named as a PRP at the Glenn Wynn Lagoon portion of the Sand Springs, Oklahoma, Superfund site. Soil remediation has been completed at the site, and a long-term ground water monitoring program is in place. FMRP entered into and paid a de minimis settlement relating to this site in 1991 and has agreed to indemnify AMCLP for any further liability, if any, incurred by AMCLP. AMCI believes that such agreement will provide a full indemnity for any further liability, if any, incurred by the Operating Partnership in connection with such Superfund site. Except for AMCLP's involvement at the Glenn Wynn Lagoon portion of the Sand Springs Superfund site, AMCI has not been named as a PRP by any regulatory agency or other party.

Certain state regulatory agencies have enacted requirements to provide secondary containment for bulk agricultural chemical storage facilities present at the Company's farm service centers and AMCI's terminals. It is expected that other states will adopt similar requirements pursuant to federal mandate. The Company and AMCI have commenced construction of these facilities at their farm service centers and terminals, respectively, and estimate that the future cost of complying with these regulations in 1994 and beyond will be approximately \$6.5 million.

On September 27, 1993, Region 6 of the EPA filed a complaint, compliance order and notice of opportunity for hearing against BMC in connection with the Beaumont Facility's past management of an ignitable alcohol-containing waste stream pursuant to the Resource Conservation and Recovery Act, as amended ("RCRA"), and the Texas Solid Waste Disposal Act. In its complaint, U.S. EPA proposed to assess a civil penalty of \$583,950 against BMC for violations of hazardous waste treatment, storage and disposal, and management and record-keeping requirements. AMCI has implemented modifications to ensure that its alcohol-containing stream is non-hazardous under RCRA. AMCI filed its answers to the complaint, is in negotiations with the EPA and expects to reach a settlement for less than the proposed civil penalty. Except for this matter,



minor exceedances of permit limitations and AMCI's involvement at the Sand Springs Superfund site, AMCI is not currently a party to any regulatory proceeding or litigation relating to environmental matters.

With respect to the Verdigris Facility and Blytheville Facility, FMRP retains liability for certain environmental matters. With respect to the Beaumont Facility, DuPont retains responsibility for certain environmental costs and liabilities stemming from conditions or operations at the Beaumont Plant to the extent such conditions or operations existed or occurred prior to the 1991 acquisition of BMC from DuPont. AMCI does not believe that any such environmental matters, whether or not retained by FMRP or DuPont, will have a material effect on AMCI's financial condition or results of operations.

Insulation and other construction or building materials at AMCI's plants contain asbestos. Over 400 suits have been filed by contractors' employees against DuPont based on exposure to asbestos-containing material at the complex in which the Beaumont Facility is located. At least nine of these are directly related to the Beaumont Facility. An estimate of potential liability associated with these suits is not available. DuPont will retain responsibility for all claims based on exposure to hazardous materials, including asbestos, prior to the 1991 acquisition of BMC from DuPont. Although no suits relating to asbestos exposure have been filed against BMC to date, the possibility exists that liability could be incurred in the future for claims based on exposure to asbestos-containing material after such acquisition.

AMCI and the Company may be required to install additional air and water quality control equipment, such as low NOx burners, scrubbers, ammonia sensors and continuous emission monitors, at certain of its facilities in order to maintain compliance with Clean Air Act and Clean Water Act requirements. These equipment requirements are also typically applicable to competitors as well. The Company estimates that the cost of complying with these requirements will be approximately \$11 million to \$13 million through 1997.

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The Company endeavors to comply (and has incurred substantial costs in connection with such compliance) in all material respects with applicable environmental, safety and health regulations. The Company does not expect its continued operation in compliance with such regulations (including operation of the business acquired from AMCI) to have a material adverse effect on its earnings or competitive position.

#### EMPLOYEES

The Company had approximately 2,390 full-time employees at December 31, 1993, none of whom were covered by a collective bargaining agreement. In addition, the Company, which annually hires temporary employees on a seasonal basis, hired approximately 1,500 temporary employees during its spring selling season in 1993. As of December 31, 1993, AMCI had 398 employees. None of AMCI's employees are subject to collective bargaining agreements.

#### DESCRIPTION OF CAPITAL STOCK

##### GENERAL

The total number of shares of stock of all classes which the Company has authority to issue is 133,500,000 shares of capital stock (without par value). As of the completion of this offering, all such shares will be classified as Common Shares. A stockholder of the Company has no preemptive rights to subscribe for additional shares of stock or other securities of the Company except as may be granted by the Board of Directors.

##### COMMON SHARES

A holder of Common Shares is entitled to one vote for each share held on all matters submitted generally to a vote of stockholders and, subject to the voting rights of the holders of preferred shares, if any, the exclusive voting power for all purposes is vested in the holders of the Common Shares. Holders of Common Shares do not have the right of cumulative voting in connection with the election of directors. The Common Shares have no conversion rights and are not subject to redemption.

Subject to the rights of the holders of preferred shares, if any, the holders of Common Shares of the Company are entitled to receive, pro rata, dividends when, as and if declared by the Board of Directors from funds legally available therefor. In the event of any liquidation, dissolution or winding up of the Company, after payment or providing for the payment of all liabilities and amounts due the holders of preferred shares, if any, the holders of Common Shares are entitled to share ratably in all the remaining assets.



All of the outstanding Common Shares are, and the Common Shares offered hereby will be, validly issued, fully paid and nonassessable.

The Transfer Agent for the Common Shares is First Chicago Trust Company of New York in the United States and Montreal Trust Company in Canada.

#### OTHER CLASSES AND SERIES OF STOCK

The Board of Directors may classify and reclassify any unissued shares of capital stock into other classes and series, including one or more series of preferred shares, by setting or changing in any one or

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more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption of such shares of stock. Such stock may rank senior to the Common Shares in one or more respects.

#### CERTAIN PROVISIONS OF MARYLAND LAW

The Company is incorporated under the laws of the State of Maryland. The following paragraphs summarize certain provisions of Maryland General Corporation Law (the "MGCL") and the Company's Articles of Incorporation (the "Charter") and By-Laws. The summary does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and the Company's Charter and By-Laws for complete information.

**Business Combinations.** The MGCL prohibits certain "business combinations" (including a merger, consolidation, share exchange, or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an "Interested Stockholder." An Interested Stockholder is any person (a) who beneficially owns 10% or more of the voting power of the corporation's shares or (b) an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was an Interested Stockholder or an affiliate or an associate thereof. Such business combinations are prohibited for five years after the most recent date on which the Interested Stockholder became an Interested Stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by all holders of voting shares of the corporation, and (b) 66 2/3% of the votes entitled to be cast by all holders of voting shares of the corporation other than voting shares held by the Interested Stockholder or an affiliate or associate of the Interested Stockholder, with whom the business combination is to be effected, unless, among other things, the corporation's stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of directors of the corporation prior to the time that the Interested Stockholder becomes an Interested Stockholder. A Maryland corporation may adopt an amendment to its charter or by-laws electing not to be subject to the special voting requirements of the foregoing legislation. Any such amendment would have to be approved by the affirmative vote of at least 80% of the votes entitled to be cast by all holders of outstanding shares of voting stock and 66 2/3% of the votes entitled to be cast by holders of outstanding shares of voting stock who are not Interested Stockholders. The Company has not adopted such an amendment to its Charter. These provisions of the MGCL also do not apply to certain corporations (including the Company) which had an Interested Stockholder on May 31, 1983 unless a resolution is passed by the directors of such corporation electing to have these provisions apply. The directors of the Company have not passed such a resolution and, thus, such provisions of the MGCL do not currently apply to the Company.

**Control Share Acquisitions.** The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock owned by the acquiror or by officers or directors who are employees of the corporation. Control shares are voting shares of stock which, if aggregated with all other shares of stock previously acquired by such a person, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (a) 20% or more but less than 33 1/3%; (b) 33 1/3% or more but less than a majority; or (c) a majority of all voting power. Control shares do not include shares of stock an acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means, subject to certain exceptions, the acquisition of, ownership of or the power to direct the exercise of voting power with

A person who has made or proposed to make a "control share acquisition," upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors to call a special meeting of stockholders to be held within 50 days of demand therefor to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as permitted by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to voting rights, as of the date of the last control share acquisition or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for "control shares" are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the stock as determined for purposes of such appraisal rights may not be less than the highest price per share paid in the control share acquisition, and certain limitations and restrictions otherwise applicable to the exercise of dissenters' rights do not apply in the context of a "control share acquisition."

The control share acquisition statute does not apply to stock acquired in a merger, consolidation or stock exchange if the corporation is a party to the transaction, or to acquisitions previously approved or exempted by a provision in the articles of incorporation or by-laws of the corporation. The By-Laws of the Company contain an exception from the control share acquisition statute for shares held by Minorco, any affiliate, associate or immediate transferee of Minorco, or any associate or affiliate of such immediate transferee of Minorco.

#### DESCRIPTION OF CERTAIN INDEBTEDNESS AND OTHER OBLIGATIONS

The following is a brief description of the basic terms of and instruments governing certain indebtedness and other obligations of the Company and its subsidiaries which will be in existence after the consummation of the Acquisition and the Refinancing. Capitalized terms used in such instruments but not defined herein have the meaning ascribed to them in such instruments. These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the instruments governing such indebtedness and other obligations.

#### SENIOR NOTES

AMCI presently has outstanding, and the Company will assume by virtue of the merger of AMCI into the Company, \$175 million in aggregate principal amount of the Senior Notes. The Senior Notes are issued under an Indenture dated as of October 15, 1993 (the "Indenture"), between AMCI and Society National Bank, as trustee and will mature on September 30, 2003. Following such merger, the Senior Notes will be senior, unsecured obligations of the Company and will rank pari passu in right of payment with any other senior indebtedness of the Company. Because the Company is a holding company, all existing and future liabilities of the Company's subsidiaries, including those under the Credit Agreement, will be effectively senior to the Senior Notes. In addition, the Senior Preference Units of AMCLP described below will be effectively senior to the Senior Notes.

The Senior Notes will be redeemable at the option of the Company, in whole or in part, at any time on or after September 30, 1998, initially at 105.375% of their principal amount, plus accrued interest, declining to 100% of their principal amount on September 30, 2000. In addition, at any time prior to September 30, 1996, the Company may, at its option, redeem up to \$61.25 million aggregate principal amount of Senior Notes out of the proceeds of one or more underwritten public offerings of equity securities at a redemption price of 110% of their principal amount, plus accrued interest.

The Indenture provides that upon a Change of Control each holder may require the repurchase of its Senior Notes in cash at a purchase price of 101% of the principal amount thereof, plus accrued interest, pursuant to an offer to repurchase which must be mailed within 45 days after the Change of Control. Because the Acquisition will constitute a Change of Control, the Company will

be required to make such a repurchase offer after consummation of the Acquisition. The Company will have funds available under the Credit Agreement to make such repurchases. The Senior Notes are publicly-held and the Company presently does not know the extent to which Noteholders may accept such offer.

The Indenture contains certain covenants which will limit various actions by the Company and its subsidiaries, including the incurrence of indebtedness, the payment of dividends and other distributions, the extent to which the Company and its subsidiaries may agree to consensual restrictions on the ability of subsidiaries to pay dividends and indebtedness owed to the Company and other subsidiaries, the sale of subsidiary stock to third parties, transactions with affiliates and shareholders, the incurrence of liens, participation in sale-leaseback transactions, sales of assets and mergers. In general, the Indenture will permit the Company and certain subsidiaries to incur indebtedness if, after giving effect to the incurrence of such indebtedness and the receipt and application of the proceeds therefrom, the Interest Coverage Ratio of the Company and its consolidated subsidiaries would be greater than 2:1.

#### CREDIT AGREEMENT

The following description is based upon the commitment letter which the Company has received from Citibank, N.A., who will act as agent for the ultimate lenders under the Credit Agreement. The terms of the final Credit Agreement are not anticipated to differ materially from those described below.

The Facilities. The Credit Agreement will establish the following credit facilities: a \$150 million five-year term loan facility ("Terra Facility A"), a \$80 million seven-year term loan facility ("Terra Facility B"), a \$177 million seven-year term loan facility ("Terra Facility C"), a \$80 million seven-year term loan facility ("Terra Facility D"), a \$175 million five-year revolving credit facility ("Terra Facility E"), a \$35 million five-year term facility ("AMLP Facility A") and a \$50 million five-year revolving credit facility ("AMLP Facility B").

Terra Facilities A, B and D will be used to finance the consummation of the Acquisition and to refinance certain outstanding indebtedness of the Company and Terra International. Terra Facility C will be available to finance any required repurchase of the Senior Notes. Terra Facility E will be available to provide for the on-going working capital needs of Terra Capital, Terra International, BMCH and BMC. AMLP Facility A will be used to refinance existing indebtedness of the Operating Partnership and AMLP Facility B will be available to provide for the on-going working capital needs of the Operating Partnership. After consummation of the Acquisition and the Refinancing, the primary obligor with respect to the Credit Agreement will be Terra Capital, which will own Terra International, AMC and BMCH. Terra Capital will be wholly-owned by Terra Holdings, another new subsidiary of the Company, and Terra Holdings will be wholly-owned by the Company. See "Summary--Post Acquisition Company Structure."

Interest and Commitment Fees. Loans under the Credit Agreement will bear interest at one, three or six-month LIBOR, plus the Applicable Margin. The Applicable Margin will be 2% for all of the Facilities except Terra Facility B until loans under Terra Facility D are paid in full; thereafter the Applicable Margin for such Facilities will be 1.5%; provided that such Applicable Margin will be subject to adjustment up to 2% and down to 1% depending on the Company's consolidated ratio of debt to cash flow. The Applicable Margin for Terra Facility B will be 2.5%. Comparable interest rates based on Citibank's Base Rate will also be available. Commitment fees of 0.5% per year (subject to reduction if the ratio of debt to cash flow falls to a certain level) will be charged for unused facilities.

Amortization. Subject to prepayment as summarized below, the loans under the Facilities will be due as follows: Terra Facility A--semiannual payments over the first five years after closing of the Merger, Terra Facility B--semiannual payments over the sixth and seventh years after closing of the Merger, Terra Facility C--semiannual payments over the six years following the first year after Senior Notes are required to

be repurchased, Terra Facility D--semiannual payments over the first seven years after closing of the Merger, Terra Facility E--five years after closing, AMLP Facilities A and B--five years after closing. Prepayments will be required in an amount equal to 75% of Terra Capital's consolidated annual Excess Cash Flow (earnings before interest, taxes, depreciation and amortization less the sum of cash interest expense, minority interest payments, capital expenditures, "Specified Payments" (meaning all interest due on the Senior Notes, dividends on the Common Shares not exceeding \$10 million in 1995, \$13 million in 1996, \$17 million in 1997, \$20 million in 1998 and \$23 million thereafter, dividends on equity securities issued to retire loans under the Credit Agreement and ordinary expenses of the Company plus up to \$5 million per year for other pre-

existing obligations), scheduled payments of principal on indebtedness and cash payments of taxes), reducing to 50% after \$20 million has been so paid in any year; 100% of the net proceeds over \$10 million per year of non-ordinary course asset sales, reducing to 75% after Terra Facilities C and D have been retired; and 100% of the net proceeds of any equity security issuances until Terra Facilities C and D have been retired.

Collateral. Loans under the Credit Agreement will be guaranteed by the Company, Terra Holdings, Terra Capital, AMC, and BMC and will be secured by pledges of the stock of Terra Capital, Terra International, AMC and BMCH and security interests in substantially all of the personal property of BMCH and BMC and the Operating Partnership, provided that the security interest granted in the Operating Partnership's assets will only secure the AMLP Facilities A and B.

Covenants. The Credit Agreement will contain covenants customary for financings of this type including: (a) a limitation on annual capital expenditures to \$40 million, (b) a prohibition on optional redemptions and repurchases of subordinated indebtedness, (c) limitations on additional debt, liens, receivables sales, investments, changes in lines of business and transactions with affiliates and (d) an annual limitation on acquisitions of \$15 million (increasing to \$50 million when Terra Facilities C and D have been retired, Terra Facilities A and B have been paid down to \$100 million or less and the debt to cash flow ratio has reached 2.5 to 1 or better), subject to a 50% carryover for one year of any unused amount.

The Credit Agreement will also include financial covenants requiring the Company to meet and maintain certain financial tests. These include requirements that the Company maintain, on a consolidated basis, ratios of earnings before interest, taxes, amortization and depreciation to interest charges of greater than 4.0 to 1 increasing to 4.50 in 1998 and 5.0 in 2001 and debt to cash flow of less than 3.75 to 1 until 1996 and 3.0 thereafter, a current ratio of at least 1.25 to 1 through 1997 and 1.50 thereafter (to be replaced by a ratio of debt to capital once Terra Facilities C and D are retired) and a minimum net worth of \$375 million plus increases in capital stock and 50% of net income.

Events of Default and Other Matters. The Credit Agreement will also contain customary events of default, including those relating to failure to pay amounts due, misrepresentation, failure to perform covenants, bankruptcy or insolvency, litigation and unsatisfied judgments, violations of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and environmental laws and changes in control or ownership (except that after Terra Facilities C and D have been retired, it will not be an event of default if Minorco's ownership is at least 20% of the outstanding number of Common Shares and Minorco remains the single largest holder of Common Shares). In addition, if dividends and other payments with respect to the capital stock of Terra Capital exceed the sum of Specified Payments plus 50% of the portion of Excess Cash Flow from the previous year that is not required to be used to prepay the facilities, the lenders under the Credit Agreement may choose to terminate their commitments to lend or cause the Company to repurchase their loans.

#### OTHER OBLIGATIONS OF THE COMPANY'S SUBSIDIARIES

The following briefly describes certain indebtedness and other obligations of Terra International and Terra Canada that will remain outstanding after the consummation of the Acquisition and the Refinancing. See the Company's financial statements and the notes thereto included herein and incorporated by reference.

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Terra International is a party to a receivables purchase agreement dated as of March 31, 1994, which expires March 31, 1996, allowing for the sale of an undivided interest in a designated revolving pool of accounts receivable up to \$50 million in proceeds. As of June 30, 1994, \$50 million of proceeds were received.

Terra International also has outstanding \$9.2 million Industrial Development Revenue Bonds dated April 1, 1992 which bear interest at an average of 6.8% and are subject to sinking fund requirements of \$145,000 in 1994 and increasing to \$1,240,000 for the final payment in 2011. The bonds are secured by a first mortgage on the Company's headquarters building in Sioux City, Iowa.

Terra International has \$37.5 million unsecured notes outstanding as of June 30, 1994 with various institutional investors. Such notes bear interest at rates between 8.48% and 9.625% and mature between 1996 and 2005. Terra International is also a party to various non-cancelable operating leases for agricultural equipment, rail cars and office, production and storage facilities expiring on various dates through 2001. In addition, it is a party to various

letters of credit and swap agreements and financial derivatives to manage exposure to interest rates and natural gas prices.

Terra Canada has a \$37.8 million (Cdn.) lease arrangement covering certain assets of the Courtright Facility, which will be increased by approximately \$20 million (Cdn.) to provide for an expanded urea plant. Current annual lease payments are approximately \$4 million (Cdn.). The lease expires April 8, 1997, but can be extended for up to an additional five years with the consent of the lessor and is guaranteed by Terra International.

Terra Canada also has a \$35 million (Cdn.) revolving credit facility used to provide for working capital needs which expires May 31, 1995 and is renewable every 120 days for a 360 day term. Terra International provides a guarantee for this facility. Terra Canada has various foreign exchange forward and option contracts to manage exposure to currency fluctuations. These agreements are entered as designated hedges of fixed obligations and hedges of net foreign currency transaction exposures. It also has various swap agreements to manage exposure to interest rates.

AMCLP SENIOR PREFERENCE UNITS AND OTHER OBLIGATIONS

AMC holds a 2% interest as general partner in AMCLP and the Operating Partnership on a combined basis. AMCLP's limited partnership interests are divided into publicly held Senior Preference Units with a 39.8% interest and Junior Preference Units and Common Units with a 58.2% interest, both of which are owned by AMC. The Senior Preference Units are entitled to receive the minimum quarterly distribution of \$0.605 per unit, plus arrearages, before any amounts are paid to AMC as limited partner. In addition, the limited partnership agreement requires that 100% of any excess available cash after payment of the minimum quarterly distribution on Senior Preference Units be used to fund an \$18.5 million reserve fund for the payment of future distributions on the Senior Preference Units. This reserve was fully funded at June 30, 1994. After payment of the minimum quarterly distribution on the Senior Preference Units, assuming the reserve is fully funded, the Junior Preference Units are entitled to receive the minimum quarterly distribution, plus arrearages, and after the Junior Preference Units are paid, the Common Units are entitled to receive the minimum quarterly distribution, plus arrearages other than arrearages outstanding on June 30 of any year on or prior to the Junior Conversion Date (as defined in AMCLP's limited partnership agreement), which shall be eliminated. Available cash remaining after the Common Units have received the minimum quarterly distribution is distributed to all unit holders pro rata, except that the right of the Senior Preference Units to participate in any such additional distribution terminates on the Senior Conversion Date, which is generally defined as the date (but no sooner than December 31, 1996) on which cash distributions of at least \$2.64 per Senior Preference Unit have been paid for three consecutive 12-month periods. AMC, as general partner, also receives 2% of all distributions of Available Cash and is entitled, as an incentive, to larger percentage interests to the extent that distributions significantly exceed the minimum quarterly distributions.

For a description of the capitalized lease obligations of the Operating Partnership that will continue after the consummation of the Acquisition and the Refinancing, see Note 6 to the Consolidated Financial Statements of AMCI included herein.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, the underwriters named below (the "Underwriters") have severally agreed to purchase from the Company, and the Company has agreed to sell to them, the respective numbers of shares set forth opposite the names of such Underwriters below.

<TABLE>  
<CAPTION>

UNDERWRITERS	NUMBER OF SHARES
-----	-----
<S>	<C>
S. G. Warburg & Co. Inc.....	
Total.....	9,000,000
	=====

</TABLE>

Subject to the terms and conditions set forth in the Underwriting Agreement, the Underwriters are committed to purchase all of the Common Shares, if any are so purchased.

The Underwriters propose to offer such Common Shares to the public initially at the offering price per share as set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ \_\_\_\_\_ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$ \_\_\_\_\_ per share on sales to certain other dealers. This offering of the Common Shares is made for delivery when, as, and if accepted by the Underwriters and subject to prior sale and withdrawal, cancellation, or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of the shares. After this offering of the Common Shares, the public offering price and the concessions may be changed by the Underwriters.

Each Underwriter has represented and agreed that: (a) it has not offered or sold and will not offer or sell in the United Kingdom, by means of any document, any Common Shares other than to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Act of 1985, as amended; (b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Common Shares in, from or otherwise involving the United Kingdom; and (c) it has issued or passed on and will issue or pass on in the United Kingdom any document received by it in connection with the issue of the Common Shares only to a person who is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 or is a person to whom the document may otherwise lawfully be issued or passed on.

The Company has granted to the Underwriters an option for 30 days from the date of this Prospectus to purchase up to 1,350,000 additional Common Shares. The Underwriters may exercise such option only to cover over-allotments of the Common Shares offered hereby. To the extent the Underwriters exercise this option, each Underwriter will be obligated, subject to certain conditions, to purchase the number of additional Common Shares proportionate to such Underwriter's initial commitment.

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The Underwriters expect that Minorco USA and its affiliates will purchase from the Underwriters approximately 53% of the Common Shares offered hereby (and 53% of any Common Shares purchased under the over-allotment option) at a price equal to the price to the public less the underwriting discount.

The Company has agreed to indemnify the Underwriters against certain liabilities, including any liabilities under the Securities Act of 1933, as amended (the "Securities Act").

Each of the Company, Minorco USA and certain directors and officers of the Company has agreed not to offer, sell, contract to sell or otherwise dispose of any Common Shares, or securities convertible into or exchangeable for Common Shares, except in limited circumstances, for a period of 90 days from the date of this Prospectus without the prior written consent of S.G.Warburg & Co. Inc.

S. G. Warburg & Co. Inc. has provided financial advisory services to the Company in connection with the Acquisition for which it will receive customary fees and also has provided financial advisory services to Minorco and its affiliates for which it received customary fees.

#### LEGAL MATTERS

Certain legal matters regarding the issuance of the Common Shares pursuant to this offering will be passed upon for the Company by Kirkland & Ellis, Chicago, Illinois (who will rely upon Piper & Marbury, Baltimore, Maryland, with respect to certain matters of Maryland law) and for the Underwriters by Andrews & Kurth L.L.P. (who will rely upon Piper & Marbury with respect to certain matters of Maryland law).

#### EXPERTS

The consolidated financial statements and schedules of the Company as of December 31, 1992 and 1993, and for each of the two years in the period ended December 31, 1993, included and incorporated by reference in this Prospectus and in the Registration Statement in which this Prospectus is included have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are included and incorporated by reference herein, and have been so included and incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements and schedules of the Company as of December 31, 1991 and for the year then ended included elsewhere and

incorporated by reference in this Prospectus and in the Registration Statement in which this Prospectus is included have been audited by Price Waterhouse LLP, independent certified public accountants, as indicated in their reports thereon, which are incorporated by reference herein. The financial statements and schedules audited by Price Waterhouse LLP have been included herein in reliance on their reports given their authority as experts in accounting and auditing.

The consolidated financial statements of AMCI at December 31, 1992 and 1993, and for each of the three years in the period ended December 31, 1993, appearing in this Prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

#### AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "Commission"). Reports, proxy statements and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 13th Floor, Seven World Trade Center, New York, New York 10048 and 500 West Madison Street, Chicago, Illinois 60661. Copies of such material can be obtained by mail from the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In

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addition, reports, proxy statements and other information concerning the Company may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005 and the Toronto Stock Exchange, Exchange Tower, 2 First Canadian Place, Toronto, Ontario M5X 1J2 Canada.

Additional information regarding the Company and the Common Shares offered hereby is contained in the registration statement on Form S-3 (together, with all exhibits and amendments, the "Registration Statement") filed with the Commission under the Securities Act. This Prospectus does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the Commission's rules. For further information pertaining to the Company and the Common Shares offered hereby, reference is made to the Registration Statement (including the exhibits thereto), which may be inspected without charge at the office of the Commission at 450 Fifth Street N.W., Washington, D.C. 20549, and copies thereof may be obtained from the Commission at prescribed rates.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Commission (File No. 1-8520) are incorporated herein by reference: (i) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993; (ii) the Company's Quarterly Report on Form 10-Q for the fiscal quarters ended March 31, 1994 and June 30, 1994; (iii) the Company's Current Report on Form 8-K dated August 9, 1994; and (iv) the description of the Common Shares, set forth in the Registration Statement on Form 8-A dated May 2, 1988.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the Offering of the Common Shares offered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits, unless such exhibits are specifically incorporated by reference in such documents). Written requests for such copies should be directed to George H. Valentine, Vice President, General Counsel and Corporate Secretary, Terra Industries Inc., Terra Centre, 600 Fourth Street, P.O. Box 6000, Sioux City, Iowa 51102-6000, telephone: (712) 277-1340.



AMCI and AMCLP are subject to certain of the informational requirements of the Exchange Act and, in accordance therewith, file reports and other information with the Commission. Information herein with respect to AMCI and its subsidiaries, including the AMCI consolidated financial statements (and related notes) included herewith, have been derived from AMCI's and AMCLP's Annual Reports on Form 10-K for the year ended December 31, 1993 and Quarterly Reports on Form 10-Q for the quarter ended June 30, 1994. Copies of all such reports filed by AMCI and AMCLP are available from the Commission as described under "Available Information."

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</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and  
Stockholders of Terra Industries Inc.

We have audited the accompanying consolidated statement of financial position of Terra Industries Inc. and its subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Corporation for the year ended December 31, 1991 were audited by other auditors whose report, dated February 13, 1992, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such 1993 and 1992 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation at December 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



As discussed in Note 3 to the financial statements, the Corporation changed its method of accounting for post-retirement medical benefits and income taxes effective January 1, 1992 to conform with Statements of Financial Accounting Standards No. 106 and 109.

DELOITTE & TOUCHE LLP

Omaha, Nebraska  
February 1, 1994

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TERRA INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(IN THOUSANDS, EXCEPT SHARE AND PER-SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	DECEMBER 31,		
	JUNE 30, 1994	1993	1992
	(UNAUDITED)		
<S>	<C>	<C>	<C>
<b>ASSETS</b>			
Cash and short-term investments.....	\$ 40,520	\$ 65,102	\$ 121,789
Accounts receivable, less allowance for doubtful accounts of \$7,348, \$5,788 and \$6,427.....	352,464	122,774	71,995
Inventories.....	268,357	244,995	198,621
Deferred tax asset--current.....	27,338	26,011	22,660
Other current assets.....	25,459	10,586	7,611
Total current assets.....	714,138	469,468	422,676
Equity and other investments.....	--	2,218	480
Property, plant and equipment, net.....	124,786	110,670	91,969
Deferred tax asset--non-current.....	5,772	24,742	23,599
Net assets of discontinued operations.....	3,522	3,488	32,369
Other assets.....	28,677	23,896	9,099
Total assets.....	\$ 876,895	\$ 634,482	\$ 580,192
<b>LIABILITIES</b>			
Debt due within one year.....	\$ 109,671	\$ 9,636	\$ 12,508
Accounts payable.....	293,361	99,886	86,941
Accrued and other liabilities.....	105,270	128,659	107,410
Total current liabilities.....	508,302	238,181	206,859
Long-term debt.....	45,782	119,061	121,171
Deferred tax liability--non-current.....	2,383	451	--
Other liabilities.....	32,472	33,809	30,686
Commitments and contingencies (Note 11).....	--	--	--
Total liabilities.....	588,939	391,502	358,716
<b>STOCKHOLDERS' EQUITY</b>			
Capital stock			
Common Shares, authorized 114,375 shares; outstanding 70,553, 69,455 and 65,346 shares.....	123,550	122,257	83,931
Trust Shares, authorized 16,500 shares; outstanding none, none and 4,010 shares...	--	--	22,312
Paid-in capital.....	523,915	516,128	531,609
Cumulative translation adjustment.....	(795)	(488)	--
Accumulated deficit.....	(358,714)	(394,917)	(416,376)
Total stockholders' equity.....	287,956	242,980	221,476
Total liabilities and stockholders' equity.....	\$ 876,895	\$ 634,482	\$ 580,192

</TABLE>

See accompanying Notes to the Consolidated Financial Statements.

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## TERRA INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,		
	1994	1993	1993	1992	1991
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
<b>REVENUES</b>					
Net sales.....	\$1,059,475	\$807,153	\$1,212,510	\$1,062,045	\$1,003,766
Other income, net.....	18,281	13,188	25,491	20,146	18,831
	1,077,756	820,341	1,238,001	1,082,191	1,022,597
<b>COST AND EXPENSES</b>					
Cost of sales.....	897,685	681,611	1,021,187	904,246	849,684
Depreciation and amortization.....	9,060	7,757	15,470	14,994	14,399
Selling, general and administrative expense.....	100,172	84,137	161,791	137,232	132,845
Equity in earnings of unconsolidated affiliates.....	(36)	(940)	(2,275)	--	--
Interest income.....	(1,983)	(1,868)	(3,261)	(3,084)	(1,789)
Interest expense.....	5,841	6,652	12,944	10,617	14,352
	1,010,739	777,349	1,205,856	1,064,005	1,009,491
Income from continuing operations before income taxes and extraordinary items..	67,017	42,992	32,145	18,186	13,106
Income tax provision..	25,400	12,155	9,300	7,757	1,073
	41,617	30,837	22,845	10,429	12,033
Income from continuing operations before extraordinary items..	41,617	30,837	22,845	10,429	12,033
Loss from discontinued operations:					
(Loss) income from operations, net of taxes.....	--	--	--	(4,025)	1,192
Gain (loss) on disposition, net of taxes.....	--	--	--	2,360	(170,000)
	41,617	30,837	22,845	8,764	(156,775)
Income (loss) before extraordinary items and cumulative effect of accounting changes.....	41,617	30,837	22,845	8,764	(156,775)
Extraordinary gain (loss) on early retirement of debt...	(2,614)	--	--	--	5,115
Cumulative effect of accounting changes...	--	--	--	22,265	--
	\$ 39,003	\$ 30,837	\$ 22,845	\$ 31,029	\$ (151,660)
<b>NET INCOME (LOSS).....</b>					
Weighted average number of shares outstanding..	70,336	69,033	69,064	69,103	67,103
<b>EARNINGS (LOSS) PER SHARE:</b>					
Continuing operations..	\$ 0.59	\$ 0.45	\$ 0.33	\$ 0.15	\$ 0.18
Discontinued operations.....	--	--	--	(0.02)	(2.51)
Income (loss) before extraordinary items..	0.59	0.45	0.33	0.13	(2.33)
Extraordinary gain (loss) on early retirement of debt...	(0.04)	--	--	--	0.07

Cumulative effect of accounting changes...	--	--	--	0.32	--
Net Earnings (Loss).....	\$ 0.55	\$ 0.45	\$ 0.33	\$ 0.45	\$ (2.26)

</TABLE>

See accompanying Notes to the Consolidated Financial Statements.

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TERRA INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(IN THOUSANDS)

<TABLE>

<CAPTION>

	COMMON SHARES	CLASS A SHARES	TRUST SHARES	PAID-IN CAPITAL	CUMULATIVE TRANSLATION ADJUSTMENT	ACCUMULATED DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 1990.....	\$ 52,203	\$17,898	\$28,821	\$527,607	\$ (8,823)	\$ (295,745)	\$321,961
Exchange of HBMS Special Shares.....	1,366	--	(796)	(570)	--	--	--
Translation adjustment.	--	--	--	--	8,823	--	8,823
Retirement of convertible debentures.....	2,626	--	--	8,533	--	5,115	16,274
Conversion of Class A Shares.....	17,898	(17,898)	--	--	--	--	--
Stock Incentive Plan...	4	--	--	9	--	--	13
Net Loss.....	--	--	--	--	--	(156,775)	(156,775)
December 31, 1991.....	74,097	--	28,025	535,579	--	(447,405)	190,296
Exchange of HBMS Special Shares.....	9,791	--	(5,713)	(4,078)	--	--	--
Exercise of stock options.....	36	--	--	95	--	--	131
Stock Incentive Plan...	7	--	--	13	--	--	20
Net Income.....	--	--	--	--	--	31,029	31,029
December 31, 1992.....	83,931	--	22,312	531,609	--	(416,376)	221,476
Exchange of HBMS Special Shares.....	38,213	--	(22,312)	(15,901)	--	--	--
Exercise of stock options.....	213	--	--	767	--	--	980
Stock repurchase.....	(107)	--	--	(360)	--	--	(467)
Translation adjustment.	--	--	--	--	(488)	--	(488)
Stock Incentive Plan...	7	--	--	13	--	--	20
Dividends.....	--	--	--	--	--	(1,386)	(1,386)
Net Income.....	--	--	--	--	--	22,845	22,845
December 31, 1993.....	122,257	--	--	516,128	(488)	(394,917)	242,980
Stock Incentive Plan...	120	--	--	847	--	--	967
Exercise of stock options.....	442	--	--	1,764	--	--	2,206
Conversion of convertible debentures.....	731	--	--	5,176	--	--	5,907
Translation adjustment.	--	--	--	--	(307)	--	(307)
Dividends.....	--	--	--	--	--	(2,800)	(2,800)
Net Income.....	--	--	--	--	--	39,003	39,003
June 30, 1994 (unaudited).....	\$123,550	\$ --	\$ --	\$523,915	\$ (795)	\$ (358,714)	\$287,956

</TABLE>

See accompanying Notes to the Consolidated Financial Statements.

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TERRA INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,		
	1994	1993	1993	1992	1991
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
<b>OPERATING ACTIVITIES</b>					
Net income (loss).....	\$ 39,003	\$ 30,837	\$ 22,845	\$ 31,029	\$ (151,660)
Adjustments to reconcile net income from continuing operations to net cash (used in) provided by operating activities:					
Depreciation and amortization.....	9,060	7,757	15,470	14,994	14,399
Income taxes.....	20,902	5,494	5,500	6,313	(345)
(Gain) loss on early retirement of debt...	2,614	--	--	--	(5,115)
Cumulative effect of accounting changes...	--	--	--	(22,265)	--
Loss from discontinued operations.....	--	--	--	1,665	168,808
Unfunded retiree medical costs.....	--	--	723	1,161	--
Equity in earnings of unconsolidated affiliates.....	(36)	--	(2,275)	--	--
Other.....	533	508	713	--	--
Change in current assets and liabilities, excluding working capital purchased/sold:					
Accounts receivable...	(241,589)	(223,463)	(24,540)	(1,764)	(30,847)
Inventories.....	(22,032)	20,160	(6,718)	(32,136)	(30,452)
Other current assets..	(1,214)	2,241	(2,893)	(875)	917
Accounts payable.....	193,442	134,573	(9,945)	(2,071)	12,693
Accrued and other liabilities.....	(16,945)	(5,887)	2,452	38	20,048
Other.....	(1,526)	(1,001)	(2,354)	684	(4,891)
<b>NET CASH USED IN OPERATING ACTIVITIES...</b>	<b>(17,788)</b>	<b>(28,781)</b>	<b>(1,022)</b>	<b>(3,227)</b>	<b>(6,445)</b>
<b>INVESTING ACTIVITIES</b>					
Proceeds from asset sales.....	--	5,773	24,391	23,065	124,983
Discontinued operations.....	(1,794)	(3,337)	5,630	(5,504)	(42,755)
Purchase of property, plant and equipment..	(20,978)	(13,431)	(21,620)	(17,620)	(12,728)
Acquisitions.....	(13,833)	(17,160)	(58,260)	--	--
Proceeds from investments.....	582	--	--	--	--
Dividends of unconsolidated affiliates.....	--	--	537	--	--
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES.....</b>	<b>(36,023)</b>	<b>(28,155)</b>	<b>(49,322)</b>	<b>(59)</b>	<b>69,500</b>
<b>FINANCING ACTIVITIES</b>					
Net short-term borrowings.....	100,007	42,628	7,313	--	--
Retirement of convertible debentures.....	--	--	--	--	(14,430)
Premium paid on retirement of convertible debentures.....	(2,533)	--	--	--	--
Proceeds from issuance of long-term debt....	--	--	250	30,000	--
Principal payments on long-term debt.....	(67,344)	(6,468)	(12,545)	(5,842)	(5,832)
Dividends.....	(2,800)	--	(1,386)	--	--

Stock issuance/repurchase-- net.....	2,206	--	513	--	--
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES.....	29,536	36,160	(5,855)	24,158	(20,262)
Foreign exchange effect on cash and short-term investments.....	(307)	--	(488)	--	--
(DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS.....	(24,582)	(20,776)	(56,687)	20,872	42,793
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF PERIOD....	65,102	121,789	121,789	100,917	58,124
CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD.....	\$ 40,520	\$ 101,013	\$ 65,102	\$121,789	\$ 100,917
INTEREST PAID.....			\$ 11,800	\$ 10,400	\$ 14,700
TAXES PAID.....			\$ 3,800	\$ 6,000	\$ 1,100

</TABLE>

See accompanying Notes to the Consolidated Financial Statements.

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TERRA INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

The Consolidated Financial Statements include the accounts of Terra Industries Inc., formerly Inspiration Resources Corporation, and all majority-owned subsidiaries ("the Corporation").

Operating results and, where appropriate, other data presented for prior years have been reclassified to reflect discontinued operations described in Note 4.

Business segment:

The Corporation operates in the agribusiness industry through its wholly owned subsidiary, Terra International, Inc., a marketer and producer of fertilizer, crop protection products, seed and services for agriculture.

Foreign Exchange:

Results of operations for the Canadian subsidiary are translated using average currency exchange rates during the period, while assets and liabilities are translated using current rates. Resulting translation adjustments are recorded as currency translation adjustments in stockholders' equity.

Cash and short-term investments:

The Corporation considers short-term investments with an original maturity of three months or less to be cash equivalents which are reflected at their approximate fair value.

Inventories:

Inventories are stated at the lower of cost or estimated net realizable value. The cost of inventories is determined using the first-in, first-out method.

Property, plant and equipment:

Expenditures for plant and equipment additions, replacements and major improvements are capitalized. Related depreciation is charged to expense on a straight-line basis over estimated useful lives. Maintenance and repair costs are expensed as incurred.

Reclassifications:

Certain reclassifications have been made to prior years' financial statements to conform with current year presentation.

Per-share results:

Earnings-per-share data are based on the weighted average number of Common Shares that would become outstanding after allowing for the full exchange of Hudson Bay Mining and Smelting Co., Limited Special Shares held by the public and exercise of outstanding stock options. All previously unexchanged Special Shares were automatically exchanged for Common Shares of the Corporation on July 6, 1993. The dilutive effect of the Corporation's outstanding restricted shares, stock options and convertible debentures was not significant.

Interim Financial Information:

The unaudited consolidated financial statements as of June 30, 1994 contain all adjustments necessary to summarize fairly the financial position of Terra Industries Inc. and all majority-owned subsidiaries and

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TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

the results of the Corporation's operations for the six months ended June 30, 1994 and 1993. All such adjustments are of a normal recurring nature. Because of the seasonal nature of the Corporation's operations and effects of weather-related conditions in several of its marketing areas, earnings of any single reporting period should not be considered as indicative of results for a full year.

2. ACQUISITIONS

On April 8, 1993, a wholly owned subsidiary of the Corporation, Terra International (Canada) Inc. ("Terra Canada") acquired rights to an anhydrous ammonia manufacturing plant and related upgrading facilities ("the nitrogen plant") located at Courtright, Ontario effective as of March 31, 1993. In addition, Terra Canada purchased working capital associated with the nitrogen plant and interests in 32 farm service centers operating under the trademark, Agromart(TM). All but two of the Agromarts(TM) are owned by corporations in which Terra Canada has a 50% interest, and the remaining 50% interests are owned by local management and other investors. The remaining two Agromarts(TM) are wholly owned by Terra Canada. The amount paid in connection with the transaction was approximately \$73 million (Cdn) of which approximately \$47 million (Cdn) was provided through lease financing and the remainder was funded by a working capital line of credit and cash.

On December 31, 1993, Terra International, Inc. purchased net assets of certain operations of Asgrow Florida Company, Inc. ("Terra Asgrow Florida"), a distributor of fertilizer, chemicals and seed, for \$39 million. Terra Asgrow Florida operates 12 distribution centers and is a supplier to the vegetable and ornamental markets, mostly in Florida. The amount paid at closing was approximately \$31 million which was provided from available cash.

Terra Canada's operating results from the date of acquisition are included in the Consolidated Statements of Income. The following represents unaudited pro forma summary results of operations as if both acquisitions had occurred at the beginning of 1992:

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 1994	YEAR ENDED DECEMBER 31,	
		1993	1992
(IN THOUSANDS, EXCEPT PER-SHARE DATA)			
<S>	<C>	<C>	<C>
Revenues.....	\$887,700	\$1,351,000	\$1,282,800
Income before extraordinary items and cumulative effect of accounting changes...	\$ 31,847	\$ 25,500	\$ 14,300
Net income.....	\$ 31,847	\$ 25,500	\$ 36,600
Net income per share.....	\$ 0.46	\$ 0.37	\$ 0.53

</TABLE>

The pro forma operating results were adjusted to include lease expense rather

than depreciation for the nitrogen plant, increased costs of seed sales, amortization of intangibles, interest expense on the acquisition borrowings and the effect of income taxes.

The pro forma information listed above does not purport to be indicative of the results that would have been obtained if the operations were combined during the above period. In addition, they are not intended to be a projection of future operating results or trends.

### 3. ACCOUNTING CHANGES

In 1992, the Corporation adopted Statement of Financial Accounting Standard ("SFAS") 106, "Employers Accounting for Post-Retirement Benefits Other than Pensions" and SFAS 109, "Accounting for Income Taxes." In connection with the adoption of SFAS 106, the Corporation elected to recognize

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## TERRA INDUSTRIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

immediately the prior service cost of providing post-retirement medical benefits during the active service of the employee. This resulted in a one-time charge of \$5.7 million, net of income taxes of \$3.5 million. Net income from continuing operations for 1992 was reduced \$0.7 million from that which would have been reported under the Corporation's previous accounting method. The pro forma effect of the change on prior years is not determinable. Prior to 1992, the Corporation recognized expense in the period the benefits were paid. These benefit costs were not significant in 1991.

Accounting for income taxes under SFAS 109 requires recognition of deferred tax assets and liabilities for the effect of future tax consequences of events recognized in the Corporation's financial statements or tax returns. SFAS 109 requires the Corporation to recognize the income tax benefit of operating loss and tax credit carryforwards expected to be realized; such recognition was prohibited under SFAS 96, the Corporation's previous method of accounting for income taxes. A \$28.0 million credit was recorded as the effect at January 1, 1992 of a change in accounting principle. Income tax expense from continuing operations was increased \$6.5 million for 1992 pursuant to SFAS 109.

### 4. DISCONTINUED OPERATIONS

During 1993, the Corporation sold the leasing business and the construction materials businesses, discontinued in 1992.

As of December 31, 1992, the Corporation's Board of Directors approved plans to sell the leasing and construction materials businesses as well as equity interests in a copper alloy producer, an undeveloped beryllium mine property and its gold mining affiliate. As a result of this decision and a gain on the sale of remaining coal properties, discontinued in 1990, the Corporation realized a \$2.4 million gain on disposition of discontinued operations during 1992.

During the 1991 third quarter, the Corporation sold its interests in its base metals segment consisting of Hudson Bay Mining and Smelting Co., Limited ("HBMS") and related metals marketing and trading operations. The base metals segment was sold to Minorco, the Corporation's majority stockholder, for \$87 million. The Corporation recognized a \$170 million loss on the disposal of the base metals segment.

Financial results of the base metals, coal, leasing and other discontinued businesses for 1993 have been applied against their respective reserves and 1992 and 1991 amounts have been included in discontinued operations and are as follows:

<TABLE>  
<CAPTION>

	1992	1991
	----	-----
	(IN MILLIONS)	
<S>	<C>	<C>
Revenues:		
Base metals.....	\$ --	\$176.8
Leasing.....	5.9	8.3
Construction materials.....	27.8	29.4
	-----	-----
	\$33.7	\$214.5
	=====	=====

Income (loss) from operations, net of income taxes:

Base metals.....	\$ --	\$ (4.8)
Leasing.....	(2.8)	3.8
Construction materials.....	(0.8)	(0.2)
Other.....	(0.4)	2.4
	-----	-----
	\$ (4.0)	\$ 1.2
	=====	=====

</TABLE>

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TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

5. RELATIONSHIP WITH MAJORITY STOCKHOLDER

Minorco, through its beneficial ownership of Common Shares, owns approximately 53 percent of the equity of the Corporation. In 1992, the Corporation discontinued its remaining operations in the gold mining business conducted through its 50 percent interest in Western Gold Exploration and Mining Company, Limited Partnership ("WestGold"). The remaining 50 percent interest is owned by Minorco. During 1991, the Corporation sold its base metals segment to Minorco as described in Note 4. The Corporation subleases office space to Minorco, procures certain insurance coverages for Minorco and related companies and shares the cost of an executive of both organizations. Payments in settlement of these services are made on an ongoing basis.

6. INVENTORIES

Inventories consisted of the following:

<TABLE>

<CAPTION>

	JUNE 30, 1994	DECEMBER 31,	
		1993	1992
(IN THOUSANDS)	(UNAUDITED)	-----	-----
<S>	<C>	<C>	<C>
Raw materials.....	\$ 28,751	\$ 22,983	\$ 14,770
Finished goods.....	239,606	222,012	183,851
	-----	-----	-----
Total.....	\$268,357	\$244,995	\$198,621
	=====	=====	=====

</TABLE>

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following:

<TABLE>

<CAPTION>

	JUNE 30, 1994	DECEMBER 31,	
		1993	1992
(IN THOUSANDS)	(UNAUDITED)	-----	-----
<S>	<C>	<C>	<C>
Land and buildings.....	\$ 75,359	\$ 66,343	\$ 59,589
Plant and equipment.....	190,582	179,095	152,766
	-----	-----	-----
	265,941	245,438	212,355
Less accumulated depreciation and amortization.....	(141,155)	(134,768)	(120,386)
	-----	-----	-----
Total.....	\$ 124,786	\$ 110,670	\$ 91,969
	=====	=====	=====

</TABLE>

8. DEBT DUE WITHIN ONE YEAR

Debt due within one year consisted of the following:

<TABLE>

<CAPTION>

	JUNE 30, 1994	DECEMBER 31,	
		1993	1992
	-----	-----	-----



(IN THOUSANDS)	(UNAUDITED)	-----	-----
<S>	<C>	<C>	<C>
Short-term borrowings.....	\$107,320	\$7,313	\$ --
Current maturities of long-term debt.....	2,351	2,323	12,508
	-----	-----	-----
Total.....	\$109,671	\$9,636	\$12,508
	=====	=====	=====

</TABLE>

The Corporation has short-term domestic bank lines of credit consisting of a \$130 million revolving credit facility, which is used primarily to provide for domestic seasonal working capital needs, a \$26.2

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TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

million (\$35 million Cdn) revolving credit facility used to provide for working capital needs for its Canadian operations, and a \$15 million uncommitted line for working capital needs. There was \$7.3 million outstanding at December 31, 1993 under the Canadian facility at an average rate of 4.6%. Interest on borrowings under these lines is charged at current market rates.

Under both the domestic and Canadian facility, the Corporation has agreed, among other things, to maintain certain levels of working capital and net worth, adhere to maximum debt leverage limitations and restrict payments to the Corporation from operating subsidiaries. The Corporation's \$130 million revolving credit agreement expires December 31, 1995. A commitment fee of 1/4 percent is paid on the unused portion of the facility, and no borrowings were outstanding at December 31, 1993. The Corporation's \$35 million (Cdn) revolving credit agreement expires January 5, 1995 and is renewable every 120 days for a 360-day term. A commitment fee of 1/8 percent is paid on the facility. The Corporation's \$15.0 million line is subject to periodic review and may be withdrawn by the bank at any time.

9. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consisted of the following:

<TABLE>

<CAPTION>

(IN THOUSANDS)	JUNE 30, 1994	DECEMBER 31,	
<S>	(UNAUDITED)	1993	1992
<S>	<C>	<C>	<C>
Customer deposits.....	\$ 7,751	\$ 50,714	\$ 41,714
Payroll and benefit costs.....	24,085	17,072	15,167
Income taxes.....	16,983	17,025	9,551
Other.....	56,451	43,848	40,978
	-----	-----	-----
Total.....	\$105,270	\$128,659	\$107,410
	=====	=====	=====

</TABLE>

10. LONG-TERM DEBT

Long-term debt consisted of the following:

<TABLE>

<CAPTION>

(IN THOUSANDS)	JUNE 30, 1994	DECEMBER 31,	
<S>	(UNAUDITED)	1993	1992
<S>	<C>	<C>	<C>
8.5% Convertible Subordinated Debentures, due 2012.....	\$ --	\$ 72,057	\$ 72,057
Unsecured Senior Notes, 8.48%, due 2005.....	30,000	30,000	30,000
Industrial Development Revenue Bonds bearing interest at an average 6.78% with increasing payments from 1994 to 2011.....	9,210	9,355	9,485
Industrial Development Revenue Bonds bearing a variable interest rate repaid December, 1993..	--	--	5,000
Unsecured Notes, 8.75% to 9.63%, due 1996 to 1998.....	7,500	8,500	10,500
Bank Note, floating rate repaid January, 1993..	--	--	5,258

Other.....	1,423	1,472	1,379
	-----	-----	-----
	48,133	121,384	133,679
Less current maturities.....	(2,351)	(2,323)	(12,508)
	-----	-----	-----
Total.....	\$45,782	\$119,061	\$121,171
	=====	=====	=====
Estimated Fair Value.....	\$45,800	\$121,500	\$121,000
	=====	=====	=====

</TABLE>

Scheduled principal payments for each of the five years 1994 through 1998 are \$2.3 million, \$2.3 million, \$2.8 million, \$1.3 million and \$6.5 million, respectively. See Note 19 for subsequent events.

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TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The Corporation's 8.5 percent Convertible Subordinated Debentures ("Debentures") are convertible into Common Shares any time prior to maturity, unless previously redeemed, at a conversion price of \$8.083 per share. The Debentures are subject to redemption, upon not less than 20 days notice by mail, at any time, as a whole or in part, at the election of the Corporation. The redemption price, expressed as a percent of the principal amount of the Debentures to be redeemed, is 103.40% until May 31, 1994, 102.55% until May 31, 1995 and decreasing yearly thereafter to 100% at June 1, 1997.

During 1992, the Corporation entered into a long-term note purchase agreement of \$30 million in 8.48 percent Senior Notes requiring semi-annual payments through May 1, 2005. The Corporation has executed interest rate swap agreements to convert one-half of these notes to LIBOR-based floating rate instruments. The interest rate agreements became effective on April 15, 1993 and terminates on April 15, 2003. At December 31, 1993, the interest rate spread, in the Company's favor, amounted to 1.5% on the underlying instruments and resulted in an effective interest rate 7.7% on the \$30 million Senior Notes. The debt agreement includes covenants similar to the Revolving Credit Agreement described in Note 8 and a requirement for rental and interest obligations coverage.

The Industrial Development Revenue Bonds due in 2011 are secured by a letter of credit guaranteed by the Corporation and, along with other long-term debt due in 2003, by the Corporation's headquarters building located in Sioux City, Iowa.

The fair value of long-term debt was established by reference to the public exchange market for the publicly traded long-term securities of the Corporation and consideration of redemption provisions. Estimates of fair value developed by the Corporation were utilized for other long-term debt.

11. COMMITMENTS AND CONTINGENCIES

The Corporation and its subsidiaries are committed to various non-cancelable operating leases for agricultural equipment, and office, production, and storage facilities expiring on various dates through 2001. Total minimum rental payments are as follows:

<TABLE>  
<CAPTION>

(IN THOUSANDS)	<S>	<C>
1994.....		\$25,178
1995.....		21,329
1996.....		16,998
1997.....		11,244
1998 and thereafter.....		5,061
		-----
Total.....		\$79,810
		=====

</TABLE>

The Corporation entered a lease financing agreement in connection with the purchase of an ammonia manufacturing plant and related upgrading facilities located near Sarnia, Ontario. The agreement is for a four-year term requiring annual lease payments of approximately \$4.0 million (Cdn). Terra Canada has an option to purchase the nitrogen plant during the term of the lease and at expiration for approximately \$47 million (Cdn). If, at the end of the lease term, Terra Canada elects not to exercise its purchase option, the Corporation

must pay to the lessor approximately \$40 million (Cdn), subject to reimbursement based on the proceeds realized upon the sale of the nitrogen plant by the lessor. Terra Canada has entered into certain agreements in order to convert its obligations with respect to the nitrogen plant set forth above from Canadian dollar and fixed rental obligations to U.S. dollar and variable rental obligations based on interest rate changes tied to LIBOR.

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TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Total rental expense under all leases, including short-term cancelable operating leases, was approximately \$24.7 million, \$19.4 million and \$18.9 million for the years ended December 31, 1993, 1992 and 1991, respectively.

In 1988, the Corporation formulated a fungicide for E. I. DuPont de Nemours and Company ("DuPont") at the Blytheville facility. The fungicide was recalled and claims in excess of \$90 million, plus punitive damages, have been filed by third parties alleging damages from product use. During 1993, the Corporation reached a settlement with DuPont whereby DuPont will assume responsibility for all related pending product claims and will reimburse the Corporation for claims previously settled and not reimbursed by insurers. As a result of this settlement, reserves established in 1989 to cover expected recall and claims costs will not be required. Accordingly, the Corporation reduced 1993 costs in the fourth quarter by \$4.2 million, the remaining amount of such reserves.

A subsidiary of the Corporation has been notified by the United States Environmental Protection Agency ("EPA") that it is a potentially responsible party ("PRP") in the Matter of Valley Chemical Site, Greenville, Mississippi. Ten other companies have also been named as PRPs. Based on discussions with the EPA and review of information from other PRPs, the Corporation believes its responsibility is limited to a portion of material removal costs which should not be significant to its operating results.

The Corporation is contingently liable for retiree medical benefits of employees of coal mining operations sold on January 12, 1993. Under the purchase agreement, the purchaser agreed to indemnify the Corporation against its obligations under certain employee benefit plans. Due to the Coal Industry Retiree Health Benefit Act of 1992, certain retiree medical benefits of union coal miners have become statutorily mandated, and all companies owning 50 percent or more of any company liable for such benefits as of certain specified dates becomes liable for such benefits if the company directly liable is unable to pay them. As a result, if the purchaser becomes unable to pay its retiree medical obligations assumed pursuant to the sale, the Corporation may have to pay such amount. The Corporation has estimated that the present value of liabilities for which it retains contingent responsibility approximates \$12 million at December 31, 1993. In the event the Corporation would be required to assume this liability, mineral reserves associated with the sold coal subsidiary would revert to the Corporation.

The Corporation and certain of its subsidiaries are involved in the above mentioned and various other legal actions and claims, including environmental matters, arising from the normal course of business. Although it is not possible to predict with any certainty the outcome of such matters, it is the opinion of management that these matters will not have a material adverse effect on either the financial position or results of operations of the Corporation.

12. FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Financial Instruments--The Corporation enters into foreign exchange forward and option contracts to manage exposure to currency fluctuations. These agreements are entered as designated hedges of fixed obligations and hedges of net foreign currency transaction exposures. At December 31, 1993, the notional amounts for all foreign exchange forward and foreign currency option contracts totaled \$98.2 million. These amounts are a reflection of the extent of such activity and are disclosed for informational purposes only. They do not indicate the significantly smaller credit or economic risks involved in these agreements.

These contracts had a carrying amount of \$0.1 million and a fair value of \$0.9 million. Fair value of foreign exchange forward contracts is based on quotations received from a quotation service and on computations prepared by the Corporation which are based on current rates of exchange. Maturities, which

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

are consistent with the settlement dates of items being hedged, extend through April 1997. The gains and losses on these contracts are deferred and included as a component of the related transaction.

The Corporation fixes some natural gas supply prices through the use of swap agreements and financial derivatives. The Corporation had gas contracts with a computed value of \$24.7 million and a fair value of \$24.2 million based on contract prices and rates in effect at December 31, 1993. Gains and losses on futures contracts and swap agreements are credited or charged to manufacturing cost in the month to which the hedged transaction relates.

At December 31, 1993, the Corporation had letters of credit outstanding totaling \$19.5 million, guaranteeing various insurance and financing activities. Short-term investments of \$13.0 million at December 31, 1993 and 1992 are restricted to collateralize certain of the letters of credit.

The Corporation enters into the above agreements with a limited number of major international financial institutions. The Corporation does not expect any losses from credit exposure due to review and control procedures established by corporate policy.

Concentrations of Credit Risk--The Corporation is subject to credit risk through trade receivables and short-term investments. Although a substantial portion of its debtors' ability to pay is dependent upon the agribusiness economic sector, credit risk with respect to trade receivables is minimized due to a large customer base and its geographic dispersion. Short-term cash investments are placed with well capitalized, high quality financial institutions and in short duration corporate and government debt securities funds. By policy, the Corporation limits the amount of credit exposure in any one type of investment instrument.

## 13. STOCKHOLDERS' EQUITY

The Corporation allocates \$1.00 per share upon the issuance of Common Shares to the Common Share capital account.

On July 6, 1993, the outstanding HBMS Special Exchangeable Non-Voting Shares ("HBMS Special Shares") were each automatically exchanged for one Common Share of the Corporation. Through the Corporation's Trust Shares, each HBMS Special Share had a vote equivalent to one Common Share of the Corporation. For Common Shares issued upon the exchange of HBMS Special Shares subsequent to August 31, 1986, the Corporation allocated \$9.53 per share to the Common Share capital account, representing the average historical capitalization of the HBMS Special Shares.

In 1992, the Corporation issued 375,500 restricted Common Shares under its 1992 Stock Incentive Plan to certain key employees of the Corporation. During 1993 an additional 38,500 shares were issued and 45,500 shares were forfeited. At December 31, 1993, 368,500 of the unvested shares remain outstanding. Under terms of the issuance, vesting of stock granted is contingent upon the attainment, prior to March 1999, of pre-established market price objectives for the Corporation's shares and/or, for approximately 31 percent of participants, specified regional or divisional three-year operating profit objectives. In 1991, the Corporation issued 33,300 restricted Common Shares under its 1987 Stock Incentive Plan. The agreement restricts the shares to vesting in equal annual installments over five years. The shares issued are entitled to normal voting rights and earn dividends as declared during the performance periods. Compensation expenses are accrued on ratable bases through the performance periods.

The Corporation has authorized 16,500,000 Trust Shares for issuance. All Trust Shares previously outstanding were cancelled in July 1993.

In addition to the Common and Trust Shares, the Corporation has authorized 19,125,000 Class A Shares for issuance. All Class A Shares previously outstanding were converted to Common Shares in 1991.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

A summary of changes in the Corporation's outstanding capital stock follows:

<TABLE>

<CAPTION>

	COMMON SHARES	CLASS A SHARES	TRUST SHARES	TOTAL SHARES
(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
December 31, 1990.....	43,207	17,898	5,181	66,286
Exchanges of HBMS Special Shares.....	144	--	(144)	--
Retirement of Convertible Debentures.....	2,626	--	--	2,626
Conversion of Class A Shares.....	17,898	(17,898)	--	--
Stock Incentive Plan.....	33	--	--	33
December 31, 1991.....	63,908	--	5,037	68,945
Exchange of HBMS Special Shares.....	1,027	--	(1,027)	--
Exercise of stock options.....	36	--	--	36
Stock Incentive Plan.....	375	--	--	375
December 31, 1992.....	65,346	--	4,010	69,356
Exchange of HBMS Special Shares.....	4,010	--	(4,010)	--
Exercise of stock options.....	213	--	--	213
Repurchase of shares.....	(107)	--	--	(107)
Stock Incentive Plan.....	(7)	--	--	(7)
December 31, 1993.....	69,455	--	--	69,455

</TABLE>

At December 31, 1993, 12.5 million Common Shares were reserved for issuance upon award of restricted shares, exercise of employee stock options and conversion of convertible debentures.

14. STOCK OPTIONS

The Corporation's 1992 Stock Incentive Plan authorized granting key employees options to purchase Common Shares at not less than fair market value on the date of grant and also authorizes the award of performance units and restricted shares. The Corporation's 1983 Stock Option Plan and 1987 Stock Incentive Plan authorized granting key employees similar options to purchase Common Shares. No further options may be granted under the 1983 and 1987 Plan. Awards to a maximum of 2.5 million Common Shares may be granted under the 1992 Plan. Options generally may not be exercised prior to one year or more than ten years from the date of grant. At December 31, 1993, 1,763,500 Common Shares were available for grant under the 1992 Plan. A summary of activity under the 1992, 1987 and 1983 Plans follows:

<TABLE>  
<CAPTION>

	SHARES UNDER OPTION	PRICE RANGE PER SHARE
(IN THOUSANDS)		
<S>	<C>	<C>
Balance at December 31, 1990.....	2,603	\$4.13 to \$13.11
Granted.....	356	3.38
Expired/terminated.....	505	3.38 to 13.11
Exercised.....	--	--
Balance at December 31, 1991.....	2,454	\$3.38 to \$13.11
Granted.....	328	5.00
Expired/terminated.....	163	3.38 to 11.15
Exercised.....	36	3.38 to 4.13
Balance at December 31, 1992.....	2,583	\$3.38 to \$13.11
Granted.....	41	5.00
Expired/terminated.....	266	4.125 to 13.11
Exercised.....	213	3.38 to 6.75
Balance at December 31, 1993.....	2,145	\$3.38 to \$11.38

</TABLE>

TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The number of options exercisable at December 31 for each of the past three years follows:

<TABLE>  
<CAPTION>

(IN THOUSANDS)	PRICE RANGE	
	OPTIONS	PER SHARE
<S>	<C>	<C>
1991.....	2,101	\$4.13 to \$13.11
1992.....	2,255	3.38 to 13.11
1993.....	1,777	3.38 to 11.38
	=====	=====

</TABLE>

#### 15. RETIREMENT PLANS

The Corporation and its subsidiaries maintain non-contributory pension plans that cover substantially all salaried and hourly employees. Benefits are based on a final pay formula for the salaried plans and a flat benefit formula for the hourly plans. The plans' assets consist principally of equity securities and corporate and government debt securities. The Corporation and its subsidiaries also have certain non-qualified pension plans covering executives, which are unfunded. The Corporation accrues pension costs based upon annual independent actuarial valuations for each plan and funds these costs in accordance with statutory requirements. The components of net periodic pension expense (credit) were as follows:

(IN THOUSANDS)	1993	1992	1991
<S>	<C>	<C>	<C>
Current service cost.....	\$2,627	\$2,019	\$1,914
Interest on projected benefit obligation.....	3,539	2,322	2,077
Actual return on assets.....	(4,629)	(2,290)	(4,251)
Net amortization and other.....	853	28	2,395
	=====	=====	=====
Pension expense.....	\$2,390	\$2,079	\$2,135

</TABLE>

The following table reconciles the plans' funded status to amounts included in the Consolidated Statements of Financial Position at December 31:

(IN THOUSANDS)	1993		1992	
	PLANS WITH ASSETS IN EXCESS OF ACCUMULATED BENEFITS	PLANS WITH ACCUMULATED BENEFITS IN EXCESS OF PLAN ASSETS	PLANS WITH ASSETS IN EXCESS OF ACCUMULATED BENEFITS	PLANS WITH ACCUMULATED BENEFITS IN EXCESS OF PLAN ASSETS
<S>	<C>	<C>	<C>	<C>
Actuarial present value of:				
Vested benefit obligations...	\$ (32,550)	\$ (1,532)	\$ (21,764)	\$ (1,069)
Accumulated benefit obligations.....	\$ (36,213)	\$ (1,680)	\$ (24,376)	\$ (1,109)
Projected benefit obligations.....	\$ (51,173)	\$ (1,993)	\$ (33,558)	\$ (1,155)
Plan assets at fair value.....	45,626	--	30,732	--
	-----	-----	-----	-----
Funded status.....	(5,547)	(1,993)	(2,826)	(1,155)
Unrecognized net experience loss (gain).....	4,061	295	1,673	(386)
Unrecognized prior service cost.....	636	107	667	116
Unrecognized net transition (asset) obligation.....	(3,469)	645	(3,835)	705
Additional minimum liability...	--	(734)	--	(389)
	-----	-----	-----	-----
Pension liability included in the Consolidated Statements of Financial Position.....	\$ (4,319)	\$ (1,680)	\$ (4,321)	\$ (1,109)
	=====	=====	=====	=====

</TABLE>

Under the terms of the Canadian purchase agreement, the Corporation established a pension plan for transferring employees, whereby the seller will transfer assets, which approximate the projected benefit

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

obligations of \$9.8 million. The assumptions used to determine the actuarial present value of benefit obligations and pension expense during each of the years in the three-year period ended December 31, 1993 were as follows:

	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Weighted average discount rates to determine:			
Pension expense.....	7.5%	8.5%	8.5%
Present value of benefit obligations.....	7.5%	8.5%	8.5%
Long-term per annum compensation increase.....	5.0%	6.0%	6.0%
Long-term return on plan assets.....	9.5%	9.5%	9.5%
	====	====	====

The Corporation also sponsors a qualifying savings plan covering most full-time employees. Contributions made by participating employees are matched based on a specified percentage of employee contributions to 6% of the employees' pay base. The cost of the Corporation's matching contribution to the savings plan totaled \$1.4 million in 1993, and \$1.1 million in 1992 and 1991.

## 16. POST-RETIREMENT BENEFITS

The Corporation also provides health care benefits for eligible retired employees of its agribusiness subsidiary. Participants generally become eligible after reaching retirement age with ten years of service. The plan pays a stated percentage of most medical expenses reduced for any deductible and payments made by government programs. The plan is unfunded.

Employees hired prior to January 1, 1990 are eligible for participation in the plan. Participant contributions and co-payments are subject to escalation.

The following table indicates the components of the post-retirement medical benefits obligation included in the Corporation's Consolidated Statement of Financial Position at December 31, 1993:

	1993	1992
	-----	-----
(IN THOUSANDS)		
<S>	<C>	<C>
Accumulated post-retirement medical benefit obligation:		
Retirees.....	\$ 2,054	\$ 2,168
Fully eligible active plan participants.....	1,946	2,075
Other active participants.....	5,305	6,205
	-----	-----
Funded status.....	(9,305)	(10,448)
Unrecognized net (gain) loss.....	149	37
Unrecognized prior service (benefit).....	(2,040)	--
	-----	-----
(Accrued) post-retirement benefit cost.....	\$ (11,196)	\$ (10,411)
	=====	=====

Net periodic post-retirement medical benefit cost consisted of the following components:

	1993	1992
	-----	-----
(IN THOUSANDS)		
<S>	<C>	<C>
Service cost of benefits earned.....	\$ 526	\$ 723
Interest cost on accumulated post-retirement medical benefit obligation.....	614	730
Net amortization and other.....	(127)	--
	-----	-----
Net periodic post-retirement medical benefit cost.....	\$1,013	\$1,453
	=====	=====

The Corporation limits its future obligation for post-retirement medical benefits by capping at 5% the annual rate of increase in the cost of claims it assumes under the Plan. The weighted average discount rate used in determining the accumulated post-retirement medical benefit obligation is 7.5% and was 8.0% in 1992. The determination of the Corporation's accumulated post-retirement benefit obligation as of December 31, 1993 utilizes the annual limit of 5% for increases in claims costs.

17. OTHER INCOME, NET

Other income consisted of the following:

<TABLE>  
<CAPTION>

	1993	1992	1991
(IN THOUSANDS)	-----	-----	-----
<S>	<C>	<C>	<C>
Fertilizer service revenue.....	\$13,531	\$10,354	\$ 9,743
Service charge income.....	3,930	3,963	3,833
Other, net.....	8,030	5,829	5,255
	-----	-----	-----
Total.....	\$25,491	\$20,146	\$18,831
	=====	=====	=====

</TABLE>

18. INCOME TAXES

Components of the income tax provision (benefit) applicable to continuing operations are as follows:

<TABLE>  
<CAPTION>

	1993	1992	1991
(IN THOUSANDS)	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ 4,884	\$ 640	\$ 600
Foreign.....	3,750	--	--
State.....	4,709	804	818
	-----	-----	-----
	13,343	1,444	1,418
Deferred:			
Federal.....	(4,126)	6,288	(119)
Foreign.....	451	--	--
State.....	(368)	25	(226)
	-----	-----	-----
	(4,043)	6,313	(345)
	-----	-----	-----
Total income tax provision.....	\$ 9,300	\$7,757	\$1,073
	=====	=====	=====

</TABLE>

Effective January 1, 1992, the Corporation adopted SFAS 109 to account for income taxes as described in Note 3 above. The Corporation has accumulated net operating loss ("NOL") carryforwards and, in prior years under provisions of its previous accounting method, the benefits from loss carryforwards had been included as a reduction of income tax expense in the year utilized.

TERRA INDUSTRIES INC.

The income tax provision differs from the federal statutory provision for the following reasons:

<TABLE>  
<CAPTION>

	1993	1992	1991
(IN THOUSANDS)	-----	-----	-----
<S>	<C>	<C>	<C>
Income (loss) from continuing operations before taxes:			
U.S.....	\$19,046	\$18,186	\$13,106
Canada.....	13,099	--	--



	1993	1992	1991
Statutory income tax:			
U.S.....	\$ 6,666	\$ 6,183	\$ 4,456
Canada.....	4,978	--	--
	11,644	6,183	4,456
Non-deductible expenses.....	698	710	705
State and local income taxes.....	3,061	547	391
Benefit of loss carryforwards.....	(4,494)	--	(5,036)
Change in federal tax rates.....	(1,233)	--	--
Undistributed equity earnings.....	(865)	--	--
Other.....	489	317	557
Income tax provision.....	\$ 9,300	\$ 7,757	\$ 1,073

</TABLE>

Deferred tax assets totaled \$50.8 million and \$46.3 million at December 31, 1993 and 1992, respectively. At December 31, 1993, undistributed earnings of the Canadian subsidiary, considered permanently invested, for which deferred income taxes have not been provided, was \$8.9 million. The tax effect of NOL and tax credit carryforwards and significant temporary differences between reported and taxable earnings that gave rise to net deferred tax assets were as follows:

<TABLE>  
<CAPTION>

	1993	1992
(IN THOUSANDS)		
<S>	<C>	<C>
NOL, capital loss and tax credit carryforwards.....	\$ 28,937	\$31,209
Discontinued business costs.....	7,295	8,992
Unfunded employee benefits.....	8,146	8,354
Accrued liabilities.....	8,658	5,705
Inventory valuation.....	4,059	3,418
Account receivable allowances.....	2,176	2,286
Depreciation.....	(6,297)	(4,020)
Valuation allowance.....	(2,765)	(9,554)
Other.....	93	(131)
	\$ 50,302	\$46,259

</TABLE>

Remaining unutilized NOL carryforwards were approximately \$55 million and \$51 million at December 31, 1993 and 1992, respectively. NOL carryforwards that have not been utilized expire in 2005. Investment tax credits of approximately \$1.7 million expire in varying amounts from 1998 through 2000. Alternative minimum taxes paid of \$5.2 million are available to offset future tax liabilities and have an indefinite life. The Corporation's capital loss carryforwards totalled \$7.9 million and \$28.1 million at December 31, 1993 and 1992, respectively. Capital loss carryforwards that are not utilized will expire in 1997. The change in the valuation allowance reflects current utilization of capital losses against capital gains and changes in tax rates. A valuation allowance is provided since the realization of tax benefits of capital loss carryforwards is not assured.

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TERRA INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONCLUDED)

Components of income tax provision (benefit) included in net income other than from continuing operations are as follows:

<TABLE>  
<CAPTION>

	1993	1992	1991
(IN THOUSANDS)			
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ --	\$ 120	\$2,496
State and local.....	--	5,479	1,992
	--	5,599	4,488
Deferred:			

Federal.....	--	(18,887)	554
State and local.....	--	(2,001)	(629)
		-----	-----
	--	(20,888)	(75)
		-----	-----
	\$ --	\$ (15,289)	\$4,413
		=====	=====

</TABLE>

19. SUBSEQUENT EVENTS

Subsequent to June 30, 1994 the following events occurred:

On August 9, 1994, the Corporation announced it had signed a definitive agreement to acquire Agricultural Minerals and Chemicals Inc. ("AMCI"). AMCI has annual sales of approximately \$366 million and operates two fertilizer and one methanol manufacturing facilities. The acquisition will be accounted for under the purchase method of accounting. The Corporation will obtain additional funds from a combination of debt financing, offering of equity securities and utilization of available cash. See Pro Forma Condensed Consolidated Financial Statements appearing elsewhere in this Prospectus.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Agricultural Minerals and Chemicals Inc.

We have audited the accompanying consolidated balance sheets of Agricultural Minerals and Chemicals Inc. as of December 31, 1993 and 1992, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Agricultural Minerals and Chemicals Inc. at December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Tulsa, Oklahoma  
February 11, 1994

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AGRICULTURAL MINERALS AND CHEMICALS INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER-SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	JUNE 30,	DECEMBER 31,	
	1994	1993	1992
	-----	-----	-----
	(UNAUDITED)		
<S>	<C>	<C>	<C>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 88,718	\$ 60,653	\$ 44,367
Receivables:			
Trade--net of allowance for doubtful			

accounts of \$630 at December 31, 1993 and \$500 at December 31, 1992.....	37,534	24,893	18,722
Other, including related party (Note 9)....	4,332	5,017	3,922
Inventory--finished products.....	14,546	21,262	32,435
Inventory--materials and supplies.....	10,836	10,365	14,998
Prepaid expenses.....	15,673	15,399	8,555
	-----	-----	-----
Total current assets.....	171,639	137,589	122,999
Net property, plant and equipment (Notes 4 and 6).....	319,383	326,899	347,012
Deferred finance charges, net of accumulated amortization of \$2,338 and \$3,734 at December 31, 1993 and 1992, respectively.....	10,412	11,450	7,297
Distribution reserve fund (Note 10).....	18,480	18,480	18,480
Other assets.....	10,891	11,977	10,125
	-----	-----	-----
Total assets.....	\$530,805	\$506,395	\$505,913
	=====	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable.....	\$ 28,531	\$ 35,379	\$ 30,549
Accrued liabilities.....	24,197	15,491	11,974
Customer prepayments.....	428	2,928	4,377
Revolving credit borrowings (Note 6).....	--	9,000	24,000
Current portion of long-term debt (Note 6)....	1,370	726	14,691
	-----	-----	-----
Total current liabilities.....	54,526	63,524	85,591

Long-term debt and capital lease obligations

(Note 6).....	215,659	218,692	120,428
Other liabilities.....	4,179	2,055	2,999
Deferred income taxes.....	25,231	16,425	13,816
Minority interest.....	161,798	156,352	155,043
Common stock and options with liquidity rights (Note 5).....	4,347	4,294	15,792

Stockholders' equity:

Agricultural Minerals and Chemicals Inc.

common stock, par value \$.01 per share (Notes 1 and 8):

Class A: 25,000,000 and 15,000,000 shares authorized, 16,951,630 and 9,717,080 shares issued and outstanding at December 31, 1993 and 1992, respectively.....	170	170	97
---	-----	-----	----

Class B: 25,000,000 and 15,000,000 shares authorized, 207,000 and 1,067,000 shares issued and outstanding at December 31, 1993 and 1992, respectively.....	2	2	11
--	---	---	----

BMC Holdings Inc. common stock, par value \$.01 per share (Note 1):

Class A: 15,000,000 shares authorized, 5,775,000 shares issued and outstanding....	--	--	58
--	----	----	----

Class B: 15,000,000 shares authorized, 1,050,000 shares issued and outstanding....	--	--	10
--	----	----	----

Capital in excess of par value.....	40,472	40,485	106,005
Retained earnings.....	24,421	4,396	6,063
	-----	-----	-----
Total stockholders' equity.....	65,065	45,053	112,244
	-----	-----	-----

Total liabilities and stockholders'

equity.....	\$530,805	\$506,395	\$505,913
	=====	=====	=====

</TABLE>

See accompanying notes.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

<TABLE>  
<CAPTION>

SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,		
1994	1993	1993	1992	1991
-----				
(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>

Revenues.....	\$231,782	\$193,579	\$365,786	\$324,953	\$252,729
Cost of goods sold.....	151,040	147,796	283,908	234,537	173,500
Gross profit.....	80,742	45,783	81,878	90,416	79,229
Operating expenses.....	(12,973)	(11,657)	(27,775)	(25,033)	(18,231)
Other operating income.....	37	34	299	230	795
Operating income.....	67,806	34,160	54,402	65,613	61,793
Interest income.....	1,971	798	1,820	2,317	3,252
Interest expense.....	(12,622)	(7,368)	(17,759)	(14,870)	(21,448)
Other income (expense).....	94	316	(2,409)	486	(29)
Income before income taxes, minority interest and extraordinary expense.....	57,249	27,906	36,054	53,546	43,568
Income taxes (Note 3).....	(14,898)	(6,868)	(7,721)	(12,484)	(16,484)
Minority interest.....	(15,526)	(13,810)	(19,789)	(20,450)	(1,325)
Income before extraordinary expense.....	26,825	7,228	8,544	20,612	25,759
Extraordinary expense--early retirement of debt, net of income tax benefit of \$1,313 in 1993 and \$3,616 in 1991..	--	--	(2,550)	--	(5,899)
Net income.....	\$ 26,825	\$ 7,228	\$ 5,994	\$ 20,612	\$ 19,860
Weighted average shares outstanding.....	17,435	17,438	17,438	17,438	11,402
EARNINGS PER SHARE:					
Income before extraordinary expense.....	\$ 1.54	\$ 0.41	\$ 0.49	\$ 1.18	\$ 2.26
Extraordinary expense.....	--	--	(0.15)	--	(0.52)
Net income.....	\$ 1.54	\$ 0.41	\$ 0.34	\$ 1.18	\$ 1.74

</TABLE>

See accompanying notes.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS, EXCEPT SHARES AND PER-SHARE AMOUNTS)

<TABLE>

<CAPTION>

	AGRICULTURAL MINERALS AND CHEMICALS INC. COMMON STOCK		BMC HOLDINGS INC. COMMON STOCK		CAPITAL IN	RETAINED
	SHARES	AMOUNT	SHARES	AMOUNT	EXCESS OF PAR VALUE	EARNINGS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1990.....	10,900,000	\$109	--	\$--	\$108,891	\$ 3,015
Capital contributed at BMCH formation.....	--	--	7,000,000	70	69,930	--
Net income.....	--	--	--	--	--	19,860
Capital contribution from Equity Incentive Plan compensation....	--	--	--	--	1,560	--
Dividends paid (AMCI-- \$5.72 per share)....	--	--	--	--	(46,074)	(16,274)
Issuance of liquidity rights on shares and options.....	(115,920)	(1)	--	--	(5,649)	--
Balance at December 31, 1991.....	10,784,080	108	7,000,000	70	128,658	6,601
Net income.....	--	--	--	--	--	20,612
Capital contribution from Equity Incentive Plan compensation....	--	--	--	--	1,000	--

Dividends paid (AMCI--\$3.18 per share).....	--	--	--	--	(13,512)	(21,150)
Issuance of liquidity rights on shares and options.....	--	--	(175,000)	(2)	(1,858)	--
Change in value of liquidity rights on shares and options...	--	--	--	--	(8,283)	--
-----						
Balance at December 31, 1992.....	10,784,080	108	6,825,000	68	106,005	6,063
Net income.....	--	--	--	--	--	5,994
Capital contribution from Equity Incentive Plan compensation....	--	--	--	--	(2,061)	--
Dividends paid (AMCI--\$7.58 per share).....	--	--	--	--	(74,961)	(7,661)
Change in value of liquidity rights on shares and options...	--	--	--	--	11,498	--
Exchange of BMCH shares for AMCI shares (Note 1).....	6,374,550	64	(6,825,000)	(68)	4	--
-----						
Balance at December 31, 1993.....	17,158,630	172	--	--	40,485	4,396
Net income (unaudited).....	--	--	--	--	--	26,825
Dividends paid (AMCI--\$0.39 per share (unaudited)).....	--	--	--	--	--	(6,800)
Repurchase of Common Shares (unaudited)...	(3,248)	--	--	--	(37)	--
Capital contribution from Equity Incentive Plan Compensation (unaudited).....	--	--	--	--	77	--
Change in value of liquidity rights on shares and options (unaudited).....	--	--	--	--	(53)	--
-----						
Balance at June 30, 1994 (unaudited).....	17,155,382	\$172	--	\$--	\$ 40,472	\$24,421
=====						

</TABLE>

See accompanying notes.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		
	1994	1993	1993	1992	1991
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING ACTIVITIES					
Net income.....	\$26,825	\$ 7,228	\$ 5,994	\$20,612	\$ 19,860
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization.	14,269	13,285	26,876	26,713	16,168
Amortization and write-off of deferred finance charges.....	1,042	1,315	6,448	2,816	5,416
Provision for deferred income taxes.....	8,806	468	2,609	5,782	6,119
Minority interest in earnings.	15,526	13,810	19,789	20,450	1,325
Changes in operating assets and liabilities:					
Receivables.....	(9,172)	(10,506)	(7,266)	2,614	(2,678)
Inventories.....	6,245	20,368	15,806	(13,600)	(336)

Prepaid expenses.....	(274)	(4,564)	(6,844)	(1,648)	(151)
Accounts payable, accrued liabilities and customer prepayments.....	(642)	3,491	6,898	(1,313)	14,409
Other.....	3,650	(2,001)	(4,370)	181	(2,193)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	66,275	42,894	65,940	62,607	57,939
INVESTING ACTIVITIES					
Purchase of methanol assets...	--	--	--	--	(164,869)
Capital expenditures.....	(5,576)	(4,261)	(6,968)	(9,878)	(3,163)
Proceeds from sale of assets..	--	--	--	1,100	--
NET CASH USED IN INVESTING ACTIVITIES.....	(5,576)	(4,261)	(6,968)	(8,778)	(168,032)
FINANCING ACTIVITIES					
Borrowings under revolving line of credit.....	2,500	35,000	80,000	37,000	5,000
Repayments of revolving line of credit.....	(17,500)	(45,500)	(89,000)	(18,000)	--
Proceeds from issuance of long-term obligations.....	--	--	175,000	--	140,000
Repayment of long-term debt...	(315)	(7,299)	(96,701)	(9,085)	(170,567)
Capital contribution.....	--	--	--	--	70,000
Proceeds from public offering.	--	--	--	--	153,033
Financing fees and transaction costs paid.....	(439)	(545)	(10,883)	(7,469)	(8,792)
Distribution reserve funding..	--	--	--	(18,480)	--
Partnership distributions to minority interests.....	(10,080)	(9,240)	(18,480)	(15,265)	--
Dividends to shareholders.....	(6,800)	(12,752)	(82,622)	(34,662)	(62,348)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.....	(32,634)	(40,336)	(42,686)	(65,961)	126,326
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	28,065	(1,703)	16,286	(12,132)	16,233
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	60,653	44,367	44,367	56,499	40,266
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$88,718	\$42,664	\$60,653	\$44,367	\$ 56,499

</TABLE>

See accompanying notes.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

1. ORGANIZATION AND BUSINESS

Agricultural Minerals and Chemicals Inc. ("AMCI"), a holding company incorporated in the State of Delaware, owns 100% of the common stock of both BMC Holdings Inc. ("BMCH") and Agricultural Minerals Corporation ("AMC"), the general partner of Agricultural Minerals Company, L.P. ("AMCLP"). AMCLP is a Delaware limited partnership which owns a 99% limited partner interest as the sole limited partner in Agricultural Minerals, Limited Partnership (the "Operating Partnership"). The Morgan Stanley Leveraged Equity Fund II, L.P. ("MSLEF II"), is majority owner of AMCI, formerly AMC Holdings Inc. MSLEF II, which owns AMCI common stock representing 74.2% of all the AMCI common equity on a fully diluted basis as of June 30, 1994, is a Delaware limited partnership whose general partner, MSLEF II, Inc., is a wholly owned subsidiary of Morgan Stanley Group Inc.

In October 1993, AMCI completed the following principal elements of a recapitalization (the "1993 AMCI Recapitalization"): (a) the transfer to AMCI of all the outstanding shares of common stock of BMCH by the equity holders of BMCH in exchange for shares of AMCI common stock, and the exchange of all the outstanding options to purchase shares of common stock of BMCH for options to purchase shares of AMCI common stock, at a rate of .934 of a share of AMCI common stock for each share of common stock of BMCH (the "BMCH Transfer"), including the exchange by MSLEF II of all the outstanding shares of voting common stock of BMCH for shares of common stock of AMCI, resulting in BMCH

becoming a wholly owned subsidiary of AMCI; (b) the public offering of \$175 million aggregate principal amount of 10 3/4% Senior Notes due 2003 of AMCI (the "Notes"), the net proceeds of which (\$169.8 million) were used to (i) prepay the entire \$85.5 million principal amount of a term loan outstanding under the then existing credit agreement of Beaumont Methanol Corporation ("BMC"), (ii) pay dividends or dividend equivalents in an aggregate amount of \$75 million to the holders (prior to the BMCH Transfer) of the outstanding common equity of AMCI, and (iii) for general corporate purposes; (c) the execution and delivery of a credit agreement among BMCH, BMC and certain lenders and the agent named therein, providing for the establishment of (i) a \$20 million revolving credit facility, which was used to repay all revolving loans outstanding under BMC's existing \$20 million revolving credit facility and to provide for BMC's ongoing working capital requirements and for other general corporate purposes, (ii) a \$50 million letter of credit facility (for the account of BMC and for the benefit of AMCI) to support the payment of interest on the Notes for a period not to extend beyond December 31, 1996, and (iii) a guaranty by BMCH of BMC's obligations thereunder. In addition, the holders of shares of AMCI Class B common stock exchanged their shares for AMCI Class A common stock. The BMCH Transfer was accounted for as a merger of entities under common control. Accordingly, the assets and obligations of BMCH were recorded at their historical cost as of the date of the BMCH Transfer.

The Operating Partnership was organized by AMC, the general partner, to succeed to and acquire the nitrogen fertilizer business of AMC on December 4, 1991. AMC, as the general partner, conducts, directs, manages and exercises full control over all business and affairs of AMCLP.

The Operating Partnership is in the business of manufacturing, distributing and selling fertilizer products, including ammonia, urea and urea ammonium nitrate solution which are principally used by farmers to improve the yield and quality of their crops. Customers vary in size and are primarily related to the agriculture industry. The Operating Partnership sells products throughout the United States and internationally. The Partnership's customers vary in size and are primarily related to the agricultural industry. Credit is extended based on an evaluation of the customer's financial condition, and generally collateral is not required. Expected credit losses have been provided for in the financial statements.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

On December 4, 1991, AMCLP completed a public offering of 7,636,364 Senior Preference Units at \$21.50 per unit. Immediately prior to the closing, AMC conveyed substantially all its assets (except for \$107.6 million in cash plus certain assets necessary to provide general and administrative services) and operations to the Operating Partnership, and the Operating Partnership assumed substantially all its liabilities (excluding income tax liabilities) in exchange for a 99% limited partnership interest and a 1% general partnership interest in the Operating Partnership. The contributed net assets and assumed obligations of the Operating Partnership were recorded at AMC's historical cost as of December 4, 1991. AMC then contributed all of its limited partner interest in the Operating Partnership to AMCLP in exchange for (i) 6,000,000 Junior Preference Units and 5,172,414 Common Units and (ii) 1.0101% or 1/99th general partnership interest in AMCLP. Thereafter, AMCLP contributed the net proceeds of the offering to the Operating Partnership. The \$148.5 million net proceeds from the sale of the units, after deducting underwriting discounts and offering expenses of \$15.6 million, were used, along with other available funds, to repay \$150.5 million of long-term debt. Following these transactions, the Senior Preference Unit holders, which are reported as minority interests in these consolidated financial statements, have a 39.8% limited partnership interest in the combined Partnership (AMCLP and the Operating Partnership). AMC has a 58.2% limited partnership interest in the combined Partnership through its ownership of Junior Preference Units and Common Units. In addition, AMC owns a 2% general partnership interest in the combined Partnership.

BMCH, a holding company, owns 100% of BMC. BMCH was incorporated in the State of Delaware on November 27, 1991. Prior to the acquisition discussed below, BMCH did not have significant operations. BMC is in the business of manufacturing, distributing and selling methanol, which is principally used as a raw material in the production of a variety of chemical derivatives and in the production of MTBE, an oxygenate and an octane enhancer for gasoline. BMC sells methanol produced at its facility located in Beaumont, Texas. BMC's customers are primarily large chemical or MTBE producers.

On December 12, 1991, BMCH invested \$70 million in BMC to provide funding for BMC's acquisition of certain assets of E. I. du Pont de Nemours and Company's ("DuPont") methanol business in Beaumont, Texas for a purchase price of approximately \$165 million and to provide start-up capital. The balance of the acquisition was financed by BMC with \$105 million of bank term notes which were subsequently repaid in connection with the 1993 AMCI Recapitalization discussed above. The acquisition was accounted for as a purchase, and the purchase price was allocated to the assets and liabilities based upon their estimated fair values at the date of the acquisition as follows (in millions):

<TABLE>

<CAPTION>

Property, plant and equipment.....	\$ 158
<S>	<C>
Receivables.....	2
Other assets and obligations (net).....	5
	----
	\$ 165
	=====

</TABLE>

Concurrent with the acquisition, BMC entered into several agreements with DuPont, including the DuPont Services Agreement, whereby DuPont provides certain operating services to the facility on substantially the same terms and conditions as it provides services and allocates costs to the other manufacturing processes at the Beaumont complex. Under the Interim Operating Agreement, which ended November 30, 1992, DuPont operated the facility, assisted BMC in training new employees and provided consulting and advisory services. The DuPont carbon dioxide Supply Agreement provides that DuPont will supply carbon dioxide to the Beaumont facility at agreed quantities and prices. Under the methanol purchase and sale agreement, BMC sells methanol to DuPont for a term of ten years from the date of

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)  
 acquisition at agreed quantities and prices. Under this agreement, DuPont must purchase a minimum of 108 million gallons of methanol per year at market-based prices. For the years ended December 31, 1993, 1992 and 1991, sales to DuPont were \$41.3 million, \$46.6 million and \$5.3 million, respectively.

BMC also has an exclusive marketing services agreement with Trammochem, a division of Transammonia, Inc., to provide marketing services for the methanol produced at the Beaumont facility. Trammochem is a major marketer of chemicals, including methanol, throughout the world (see Note 8).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

These financial statements present the consolidated financial position, results of operations and cash flows of AMCI. As discussed in Note 1, the BMCH Transfer completed in October 1993 resulted in BMCH becoming a wholly owned subsidiary of AMCI. Subsequent to its formation in late 1991 and until the BMCH Transfer, the financial statements of BMCH have been combined and presented as a single entity with those of AMCI because of common ownership, management and control. Accordingly, the consolidated financial statements of AMCI for all periods presented include the account balances of that company, AMC, AMCLP and the Operating Partnership and BMCH and BMC subsequent to their formation. AMCLP's income is allocated to AMC in accordance with the provisions of the Agreement of Limited Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents:

AMCI considers liquid debt instruments with a maturity of three months or less to be cash equivalents. At December 31, 1993, substantially all cash and cash equivalents (\$60.7 million) is placed with three high credit quality financial institutions. Cash on hand includes \$27.8 million maintained at AMC (see Note 10 for AMC minimum net worth requirements).

Inventories:

Product inventories are stated at the lower of average cost or market. Cost includes labor, materials, depreciation and other production costs. Materials



and supplies inventories are stated at the lower of average cost or market.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets, principally on the straight-line basis. Expenditures for additions, major renewals and betterments are capitalized, and expenditures for maintenance and repairs are charged to income as incurred. When properties are retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is reflected in income.

Deferred Finance Charges:

Deferred finance charges consist of debt issuance costs related to the issuance of debt securities and are amortized using the interest method over the term of the related debt.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

Plant Turnaround and Catalyst Replacement Costs:

Costs related to the periodic scheduled maintenance of production facilities (plant turnarounds) and catalyst replacement are capitalized when incurred and amortized on a straight-line basis, generally over one or two years, until the next scheduled turnaround for plant turnarounds and over the life of the catalyst for catalyst replacements. Included in prepaid expenses and other assets at December 31, 1993 and 1992 are \$17.5 million and \$8.4 million, respectively, of unamortized plant turnaround and catalyst replacement costs incurred by the Operating Partnership and BMC. Prior to 1993, BMC had not incurred any plant turnaround or catalyst replacement costs.

Hedging Transactions:

Realized gains or losses from natural gas hedging transactions are deferred on the balance sheet as a current liability or asset at the end of the accounting period, and credited or charged to production costs in the month to which the hedged transaction relates.

Income Taxes:

Subsequent to the BMCH Transfer discussed in Note 1, BMCH will be included in the consolidated tax return of AMCI. Prior to the BMCH Transfer, AMCI and BMCH filed separate consolidated tax returns.

Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial reporting basis and the tax basis of AMCI's assets and liabilities.

Earnings Per Share:

Earnings per share are calculated based on the weighted average number of shares of AMCI common stock outstanding, including shares subject to put rights, retroactively adjusted for the BMCH Transfer. Shares issuable upon exercise of outstanding stock options have been excluded from the calculation since the effect would be antidilutive.

Dividends Per Share:

Dividends per share, prior to the 1993 AMCI Recapitalization, are calculated based on 10,900,000 shares of common stock issued and outstanding for AMCI, including 115,920 shares subject to put rights. Distributions to participants in the 1993 AMCI Management Equity Plan and the 1990 AMCI Equity Incentive Plan resulting from their right to participate in AMCI dividends are not included in dividends or the computation of dividends per share. These dividend equivalent payments are classified as compensation expense.

Environmental Liabilities:

Environmental liabilities are recognized when it is probable that a loss has been incurred and the amount of that loss is reasonably estimable. Environmental liabilities are accrued based upon estimates of expected future

costs without discounting to present value the estimated costs to be paid in the future, and without consideration of possible recoveries from third parties.

AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

3. INCOME TAXES

AMCI follows the provisions of FASB Statement No. 109, "Accounting for Income Taxes."

The provision for income taxes consists of the following:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER		
	31,		
(IN THOUSANDS)	1993	1992	1991
<S>	<C>	<C>	<C>
Current tax expense:			
Federal.....	\$3,537	\$ 6,526	\$ 7,096
State.....	262	176	230
	3,799	6,702	7,326
Deferred tax expense:			
Federal.....	3,235	4,070	6,925
State.....	687	1,712	2,233
	3,922	5,782	9,158
Total income taxes.....	\$7,721	\$12,484	\$16,484

</TABLE>

Effective with the 1993 AMCI Recapitalization, BMCH became part of the consolidated AMCI federal tax return. Operating losses generated by BMCH prior to the 1993 AMCI Recapitalization can only be used to offset BMCH taxable income. Operating losses generated by BMCH after the 1993 AMCI Recapitalization can be used by AMCI to offset any taxable income reported on the consolidated return.

At December 31, 1993, AMCI has net operating losses of \$8.3 million and BMCH has a net operating loss of \$87.6 million and an Alternative Minimum Tax net operating loss of \$24.4 million available to carry forward to future periods for federal tax purposes which, if not utilized, will expire beginning in 2005 and 2007, respectively. AMCI's current federal tax expense results from the application of the Alternative Minimum Tax. As of December 31, 1993, deferred taxes have been reduced by AMCI's Alternative Minimum Tax Credit carryover of \$13.6 million and the benefit of AMCI's and BMCH's net operating loss carry forwards.

Significant components of AMCI's deferred tax assets and liabilities are as follows:

<TABLE>

<CAPTION>

	DECEMBER 31,	
	1993	1992
(IN THOUSANDS)	<C>	<C>
Deferred tax liabilities:		
Investment in AMCLP.....	\$30,852	\$31,583
Tax over book depreciation.....	29,788	17,660
Other.....	612	--
Total deferred tax liabilities.....	61,252	49,243
Deferred tax assets:		
Net operating loss carryover.....	30,962	18,945
Alternative Minimum Tax credit carryover.....	13,630	12,577
Overhead allocations to inventory.....	235	2,508

Other.....	--	1,397
Total deferred tax assets.....	44,827	35,427
Net deferred tax liability.....	\$16,425	\$13,816

</TABLE>

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

The provision for income taxes differs from the amounts computed by applying the statutory federal income tax rate of 35% (34% for 1992 and 1991) to income before income taxes and extraordinary expense for the following reasons:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER		
	31,		
	1993	1992	1991
(IN THOUSANDS)			
<S>	<C>	<C>	<C>
Tax at U.S. statutory rates.....	\$12,619	\$18,204	\$14,812
Minority interest in consolidated partnership.....	(6,926)	(6,953)	(450)
Change in federal tax rates.....	628	--	--
BMCH losses not benefited.....	782	--	--
State income taxes, net of federal benefit...	618	1,233	1,694
Other.....	--	--	428
Total income taxes.....	\$ 7,721	\$12,484	\$16,484

</TABLE>

During the six months ended June 30, 1994 and the years ended December 31, 1993, 1992 and 1991, income taxes paid were \$6.1 million, \$4.9 million, \$6.5 million and \$7.1 million, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

<TABLE>

<CAPTION>

	DECEMBER 31,		
	JUNE 30,	1993	1992
	1994		
(UNAUDITED)			
(IN THOUSANDS)			
<S>	<C>	<C>	<C>
Land and improvements.....	\$ 5,223	\$ 5,223	\$ 5,092
Plant and equipment.....	404,351	397,624	391,285
Terminals and transportation equipment.....	5,887	5,882	5,866
	415,461	408,729	402,243
Less accumulated depreciation and amortization.....	96,078	81,830	55,231
	\$319,383	\$326,899	\$347,012

</TABLE>

Included in the amounts above are assets under capital leases, principally two terminals and certain processing equipment, amounting to approximately \$3.4 million at both December 31, 1993 and 1992. Accumulated amortization of such assets was \$576,000 and \$371,000 at December 31, 1993 and 1992, respectively. Amortization of these assets has been included in depreciation and amortization expense.

5. EMPLOYEE BENEFIT PLANS

Effective July 1, 1990 and January 1, 1992, AMC and BMC, respectively, adopted noncontributory defined benefit pension plans covering substantially all employees. Benefits are based on years of service and average final compensation. Pension costs are funded to satisfy minimum requirements prescribed by the Employee Retirement Income Security Act of 1974.

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## AGRICULTURAL MINERALS AND CHEMICALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

Net periodic pension cost of the plans consists of the following:

	YEARS ENDED DECEMBER		
	31,		
(IN THOUSANDS)	1993	1992	1991
<S>	<C>	<C>	<C>
Service cost.....	\$1,026	\$ 926	\$ 778
Interest cost.....	304	228	182
Return on plan assets.....	(166)	(109)	--
Net amortization and deferrals.....	71	73	72
Net periodic pension cost.....	\$1,235	\$1,118	\$1,032

&lt;/TABLE&gt;

The following table reconciles the funded status of the plans to the amount included in the balance sheets:

	DECEMBER 31,	
	1993	1992
(IN THOUSANDS)		
<S>	<C>	<C>
Actuarial present value of benefit obligations:		
Vested benefit obligation.....	\$2,806	\$1,263
Nonvested benefit obligation.....	700	544
Accumulated benefit obligation.....	3,506	1,807
Effect of salary projection.....	2,136	1,782
Projected benefit obligation.....	5,642	3,589
Fair value of plan assets (which are substantially publicly traded mutual funds).....	(2,308)	(1,495)
Unrecognized amount for prior service cost.....	(1,081)	(1,109)
Unrecognized net gain.....	(304)	328
Pension liability.....	\$1,949	\$1,313

&lt;/TABLE&gt;

Included in the vested benefit obligation is \$250,000 for former DuPont employees. An equal amount of assets were transferred from DuPont to the BMC pension plans.

The discount rate used to measure the present value of benefit obligations is 7.0% and 8.5% and the assumed rate of increase in future compensation levels is 4.0% and 5.5% at December 31, 1993 and 1992, respectively. The expected long-term rate of return on the plans' assets is 9.0% at December 31, 1993 and 1992.

## OTHERS BENEFIT PLANS--

AMC and BMC have defined contribution plans under which employees who meet specified service requirements may contribute a percentage of their total compensation, up to a maximum defined by the plan. Each employee's contribution, up to a specified maximum, may be matched in full by the respective company at its discretion. Employee contributions vest immediately, while company contributions vest over five years. The companies' contributions

to the plans were \$800,000, \$700,000 and \$500,000 for the years ended December 31, 1993, 1992 and 1991, respectively.

AMC and BMC also have incentive compensation plans covering substantially all of their employees. Incentive compensation is paid to employees under the plans based on specified levels of earnings before

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

interest, taxes, depreciation and amortization generated during the 12 month period ended June 30. Incentive compensation expense under AMC's plan for the years ended December 31, 1993, 1992 and 1991 was \$3.4 million, \$3.6 million and \$3.6 million, respectively. There was no such compensation under the BMC plan for 1993, 1992 or 1991.

As a part of the 1993 AMCI Recapitalization, AMCI adopted the 1993 AMCI Management Equity Plan, pursuant to which the Compensation Committee granted options ("AMCI Options") to purchase shares of AMCI common stock and granted the right to purchase restricted shares of AMCI common stock ("AMCI Restricted Shares") to officers and key employees of AMCI and its subsidiaries, including AMC and BMC. Each AMCI Option represents the right to purchase one share of AMCI common stock. All AMCI Options are nonqualified options. The maximum number of shares of AMCI common stock that may be issued in connection with AMCI Options or as AMCI Restricted Shares is 3,056,838, constituting 15.0% of the fully diluted common equity of AMCI following the 1993 AMCI Recapitalization.

Following the 1993 AMCI Recapitalization, the officers and key employees of AMC and BMC own 279,370 AMCI Restricted Shares and 1,729,367 AMCI Options. Such AMCI Options have an exercise price of \$10.73 per share. The AMCI Options generally vest and become exercisable on September 30, 1998. The 1993 AMCI Management Equity Plan provides for accelerated vesting of all AMCI Options in the event of the holder's death, and for partial accelerated vesting (based on the number of years elapsed from the date of grant) in the event of the holder's disability, retirement, involuntary termination without cause or resignation for good reason. In the event that cash dividends are paid on the outstanding AMCI common stock, each holder of an outstanding AMCI Option is entitled, pursuant to the 1993 AMCI Management Equity Plan, to receive in cash a dividend equivalent payment in respect of the shares subject to such AMCI Option and an additional dividend equivalent payment in respect of a pro rata portion of the shares, if any, available at such time for future awards of AMCI Options or AMCI Restricted Shares under the 1993 AMCI Management Equity Plan. Dividend equivalent payments are made at the same rate as cash dividends are paid on outstanding shares. As of December 31, 1993, no payments have been made under this plan.

Prior to the 1993 AMCI Recapitalization, both AMCI and BMCH sponsored an Equity Incentive Plan which, among other things, provided for the sale of restricted Class B common stock and the granting of options to purchase one share of Class B common stock of the respective holding company (AMCI or BMCH) per option to officers and key employees of AMC and BMC. The total number of AMCI options authorized was 1,787,153, of which 1,598,000 had been granted as of December 31, 1992. The total number of BMCH options authorized was 175,000 of which 134,150 had been granted as of December 31, 1992. Holders of the options received dividend equivalent payments based on AMCI and BMCH dividends, respectively. The AMCI and BMCH Equity Incentive Plans were terminated as part of the 1993 AMCI Recapitalization.

The restricted shares of common stock and options to purchase shares of common stock under the 1993 AMCI Management Equity Plan (as previously under the Equity Incentive Plans) are subject to liquidity rights under which the officers and key employees may require the companies to redeem such shares and options at prices based on the fair value of the shares and underlying options at specified future dates. The liquidity rights may be exercised with respect to 25% of such shares and options per year on September 30, 1998, 1999, 2000 and 2001.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

Shares and options subject to liquidity rights are as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,		
	1993		1992
	AMCI	AMCI	BMCH
<S>	<C>	<C>	<C>
Restricted shares subject to liquidity rights.....	279,370	115,920	175,000
Redemption value per share.....	\$ 11.47	\$ 17.50	\$ 10.63
Redemption value (in thousands).....	\$ 3,204	\$ 2,029	\$ 1,860
Options subject to liquidity rights....	1,729,367	1,407,000	175,000
Redemption value per option.....	\$ 0.63	\$ 8.46	--
Redemption value (in thousands).....	\$ 1,090	\$ 11,903	--

</TABLE>

The redemption value of the restricted shares of common stock and options has been reported as a reduction in common stock and capital in excess of par value and as a separate component outside of stockholders' equity.

Both the AMCI and BMCH Equity Incentive Plans were combination plans comprised of options with fixed exercise prices and a liquidity right. Normally, a combination plan with a liquidity right would be accounted for as a variable plan, under the presumption that the optionholder would elect to exercise the liquidity right. However, prior to the 1993 AMCI Recapitalization, AMCI management estimated the likelihood that the optionholders would elect to exercise their liquidity rights based on current economic conditions and expected future dividend payout levels, concluding that it was more likely that optionholders would elect to hold or exercise their options rather than exercise their liquidity right. Accordingly, no compensation expense was recorded for changes in the redemption value of the options subsequent to the measurement date of December 31, 1991, at which time, as a result of a \$3.67 per share reduction in the exercise price of AMCI options, AMCI measured compensation of \$4.0 million, representing the aggregate excess of fair value over the exercise price of the granted options, which was being recognized over the service period. The fair value of BMCH shares was less than the exercise price of the options, and, accordingly, no compensation had been recorded. In connection with the 1993 AMCI Recapitalization and certain resulting covenants in the indenture for the Notes which restrict the payment of dividends, management has concluded that the presumption that the previously existing AMCI optionholders would not elect to exercise their liquidity rights no longer exists and, accordingly, are accounting for the 1993 AMCI Management Equity Plan as a variable plan. Compensation expense related to these plans was \$10.5 million, including \$12.6 million of dividend equivalent payments, \$7.6 million, including \$6.6 million of dividend equivalent payments, and \$5.2 million, including \$3.6 million of dividend equivalent payments, for the years ended December 31, 1993, 1992 and 1991, respectively.

It is anticipated that certain of BMC's employee benefit plans, including the pension plan and the defined contribution plan, will be merged into the corresponding AMC plans effective December 31, 1993. These new AMC plans will be renamed, amended and restated as plans of AMCI effective January 1, 1994, subject to the review and approval of the Internal Revenue Service.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term obligations are summarized as follows:

<TABLE>  
<CAPTION>

JUNE 30,	DECEMBER 31,		
	1994	1993	1992
-----	-----	-----	-----

(IN THOUSANDS)

<S>	<C>	<C>	<C>	<C>
10 3/4% Senior Notes due 2003.....	\$175,000	\$175,000	\$	--
BMC term loan at LIBOR plus 2.5%.....	--	--	96,000	
BMC Revolver.....	--	6,000	--	
Operating Partnership term loan at LIBOR plus 2.0%.....	35,000	35,000	35,000	
Operating Partnership capitalized lease obligations due through 2000.....	7,029	3,418	4,119	
	-----	-----	-----	
	217,029	219,418	135,119	
Less current maturities.....	1,370	726	14,691	
	-----	-----	-----	
	\$215,659	\$218,692	\$120,428	
	=====	=====	=====	

&lt;/TABLE&gt;

During October 1993, in conjunction with the 1993 AMCI Recapitalization discussed in Note 1, AMCI issued \$175 million of unsecured 10 3/4% Senior Notes. The Senior Notes are due in full on September 30, 2003, and interest is payable semiannually at the stated rate. The AMCI Senior Notes rank senior to all other indebtedness of AMCI in right of payment; however, the Senior Preference Units of AMCLP are effectively senior to the Senior Notes. The Senior Notes are redeemable at AMCI's option at any time on or after September 30, 1998, upon 30 to 60 days' prior written notice. The following table sets forth the redemption price if the Senior Notes are redeemed during the 12-month period beginning September 30, of the years indicated:

&lt;TABLE&gt;

&lt;CAPTION&gt;

YEAR	REDEMPTION PRICE
----	-----
<S>	<C>
1998.....	105.375%
1999.....	102.688%
2000 and thereafter.....	100.000%

&lt;/TABLE&gt;

In addition, at any time prior to September 30, 1996, AMCI may, at its option, redeem up to \$61.25 million of the Senior Notes in connection with one or more public equity offerings following which there is a public market at a redemption price of 110% plus accrued interest. The aggregate principal amount of the Senior Notes so redeemed may not exceed the aggregate proceeds of such public equity offering.

The Senior Note Indenture, under which the Senior Notes were issued, contains certain financial tests, as well as other limitations and covenants, each of which would only be measured in the event that AMCI or a restricted subsidiary engages in certain activities, including the issuance of additional debt, payment of certain dividends, issuance of capital stock, certain transactions with affiliates, incurrence of liens, sale of assets, other than in the ordinary course of business, and sale-leaseback transactions. Dividend payments are effectively restricted to an amount not to exceed fifty percent of AMCI's Adjusted Consolidated Net Income, as defined in the Indenture.

In conjunction with the 1993 AMCI Recapitalization discussed in Note 1, AMCI contributed \$85.5 million to BMCH and BMCH loaned \$85.5 million to BMC to prepay its entire outstanding term loan balance. BMC also amended and restated its credit agreement which provides for (a) a new \$20 million revolving credit facility, that will mature on December 31, 1996 and which was used to repay all revolving

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## AGRICULTURAL MINERALS AND CHEMICALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

loans outstanding under BMC's previously existing \$20 million revolving credit facility, (b) a \$50 million letter of credit facility (for the account of BMC and the benefit of AMCI) to support the payment of interest on the Notes for a period not to extend beyond December 31, 1996, (c) a guaranty by BMCH of BMC's obligations thereunder. The indebtedness is secured by a lien on all of BMC's assets and the guarantee is secured by a pledge by BMCH of BMC's capital stock. AMCI has the right to terminate the letter of credit established under the letter of credit facility at any time.

As a result of the debt retirement discussed above, the interest rate swap agreement BMC has with Chemical Bank is no longer associated with outstanding debt. Under the interest rate swap agreement, BMC makes 6.1% fixed rate payments and receives variable-rate interest payments (3.375% at December 31, 1993). At December 31, 1993, the notional amount of the swap agreement was \$41 million and the obligation assumed and recorded for the uncovered swap was \$1.1 million. The agreements expire March 31, 1995. BMC is exposed to favorable or unfavorable market risk to the extent LIBOR increases or decreases, respectively.

As of December 31, 1993, BMC had no drawings on the letter of credit facility. Borrowings under the revolving credit facility were \$6.0 million and \$7.0 million at December 31, 1993 and 1992, respectively. Interest on the letter of credit and revolving credit facility is based on the Eurodollar lending rate plus 3.5% and 2.5%, respectively, or a prime commercial rate plus 2.5% and 1.5%, respectively, at BMC's option, selected at the start of each interest period. The effective interest rate was 7.5% at December 31, 1993. BMC incurs certain fees in connection with the borrowings discussed above, including a commitment fee equal to 1/2 of 1% of the unused amount of the revolving credit facility, and a letter of credit exposure fee of 3% on the outstanding unused amount.

The Operating Partnership has a credit agreement (the "Agreement") with a syndicate of banks which provides for a nonamortizing \$35 million term loan and a \$50 million revolving credit facility. Borrowings outstanding under the revolving credit facility were \$9 million and \$17 million at December 31, 1993 and 1992, respectively. The \$35 million term loan is due in full and the revolving credit facility expires on December 4, 1996. Subject to certain exceptions, borrowings under the revolving credit facility must be repaid for a 30-day period between July 1 and September 30 each year. Interest on both the term loan and revolving credit facility is based on the prime commercial lending rate plus 1%, or a Eurodollar rate plus 2%, at AMC's option. The Operating Partnership Agreement contains financial tests, as well as other restrictive covenants relating to the use of proceeds of borrowings. Borrowings under the Operating Partnership Agreement are secured by substantially all of the Operating Partnership's assets. At December 31, 1993, the term loan and the outstanding borrowings under the revolving credit facility bore interest at the rate of 5.4% and 6.3%, respectively. The Operating Partnership incurs a commitment fee equal to 1/2 of 1% of the unused amount of the revolving credit facility.

Future minimum payments and sinking fund requirements under long-term debt and capital lease obligations at December 31, 1993 are (in thousands):

<TABLE>	
<S>	<C>
Year ending December 31:	
1994.....	\$ 726
1995.....	763
1996.....	41,386
1997.....	386
1998.....	386
Later years.....	175,771
	-----
	\$219,418
	=====
</TABLE>	

In conjunction with its long-term debt, the Operating Partnership had obligations under two interest rate swap agreements at December 31, 1992 with an aggregate notional amount of \$103 million. The swap

AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

agreements, which effectively converted the variable interest rates on the borrowings under the Agreement to fixed interest rates, expired on March 12, 1993 and April 23, 1993. At December 31, 1992, \$68 million of the notional amount of the swap agreements was no longer associated with outstanding debt, and accordingly, an obligation was assumed and recorded for such uncovered swaps in the amount of \$1.9 million. The Operating Partnership had no such obligation outstanding at December 31, 1993.

Interest paid, including payments under the interest rate swap agreements,



was \$10.3 million, \$11.8 million, \$15.9 million and \$20.3 million for the six months ended June 30, 1994 and the years ended December 31, 1993, 1992 and 1991, respectively.

#### 7. LEASES

The Operating Partnership leases certain land, buildings and equipment. Minimum rental commitments under capital and noncancellable operating leases as of December 31, 1993 are as follows:

<TABLE>  
<CAPTION>

(IN THOUSANDS) <S>	CAPITAL OPERATING LEASES LEASES	
	<C>	<C>
Year ending December 31:		
1994.....	\$ 973	\$6,261
1995.....	966	1,880
1996.....	559	774
1997.....	525	610
1998.....	490	301
Later years.....	876	70
	-----	-----
Total minimum lease payments.....	4,389	9,896
Less amount representing interest.....	971	--
	-----	-----
Net minimum lease payments.....	\$3,418	\$9,896
	=====	=====

</TABLE>

Rent expense under noncancellable operating leases, including contingent rentals of \$2.7 million in 1993, \$2.6 million in 1992 and \$1.6 million in 1991 based primarily on throughput, amounted to approximately \$9.6 million, \$6.3 million and \$5.4 million for 1993, 1992 and 1991, respectively.

#### 8. COMMON STOCK

AMCI has two classes of common stock, Class A common voting stock and Class B common nonvoting stock. The rights and privileges to which the holders of Class A and Class B common stock are entitled, other than voting privileges, are essentially the same.

#### 9. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 1994 and the years ended December 31, 1993, 1992 and 1991, the Operating Partnership and AMC sold \$18.0 million, \$21.2 million, \$23.0 million and \$28.7 million, respectively, of nitrogen fertilizer products to Transammonia, Inc. ("Transammonia"). A key executive and principal owner of Transammonia is a general partner of two partnerships which own common stock representing approximately 7.4% of the common equity of AMCI on a fully diluted basis. Additionally, one of the members of the board of directors of AMC and AMCI is an executive of both Transammonia and Trammochem, Inc. ("Trammochem") a division of Transammonia. Accounts receivable from Transammonia are \$3.6 million, \$2.5 million and \$1.7 million at June 30, 1994, December 31, 1993 and 1992, respectively.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

Trammo Partners II is a major shareholder in AMCI. The partners in Trammo Partners II include the principal shareholder and employees of Transammonia. In addition, a key executive and principal owner of Transammonia serves as a director of BMCH. Trammochem has exclusive marketing rights to the methanol produced at the Beaumont facility. Trammochem's compensation for the marketing of methanol is based on the quantity of methanol sold and the earnings before depreciation interest and taxes of BMCH. This agreement began December 12, 1991 and continues until December 31, 1996, and from year to year thereafter, unless terminated by either party. Compensation under this agreement began January 1, 1992. Compensation for the six months ended June 30, 1994 and for the years ended December 31, 1993 and 1992 was \$1.4 million, \$1.2 million and \$2.2 million, respectively.

Transammonia holds an option to purchase 163,450 shares of common stock of

AMCI which is initially exercisable in 1998 at a price of \$10.73 per share.

#### 10. AGREEMENTS OF LIMITED PARTNERSHIP

In accordance with the Agreement of Limited Partnership of AMCLP, AMCLP makes quarterly distributions to Unitholders and the General Partner in an amount equal to 100% of its Available Cash, as defined, unless Available Cash is required to fund a reserve amount. AMCLP must fund and maintain a reserve of \$18.5 million to support Minimum Quarterly Distributions on the Senior Preference Units (the "Reserve Amount"). Such Reserve Amount was fully funded during 1992 and is invested in Eurodollars at a financial institution.

During the period commencing December 4, 1991, and not ending prior to December 31, 1996 (the "Preference Period"), Senior Preference, Junior Preference and Common Units participate equally in distributions after each class of units has received its Minimum Quarterly Distribution, subject to the General Partner's right to receive cash distributions.

The General Partner receives a combined minimum 2% of total cash distributions, and as an incentive, the General Partner's participation increases if cash distributions exceed specified target levels. During the Preference Period, distributions are subject to the rights of Senior Preference Units to receive the Minimum Quarterly Distribution of \$.605 per unit plus any arrearages, before any other distributions. After such amounts have been paid, the Reserve Amount must be funded before distributions to Junior or Common Unitholders. Distributions to Common Unitholders are subject to the preferential rights of the Junior Preference Units to receive Minimum Quarterly Distributions plus arrearages. Subject to certain conditions, the Junior Preference Units will become Senior Preference Units on December 31, 1995. As a result of this conversion, distributions on the converted Junior Preference Units will be made with, and not after, distributions on the Senior Preference Units and payment of the Minimum Quarterly Distributions on the converted Junior Preference Units will also be supported by the Reserve Amount. In addition, the converted Junior Preference Units will be entitled to receive Minimum Quarterly Distributions before funds are set aside, if necessary, to restore the Reserve Amount to its required level.

After the Preference Period the Senior Units will still be entitled to the Minimum Quarterly Distribution, but will not participate with the Common Units in any distributions above the Minimum Quarterly Distribution.

For a 90-day period after the end of the Preference Period, the holders of Senior Preference Units will have the right, subject to fulfillment of certain stock exchange listing requirements, to convert their Senior Preference Units into fully participating Common Units.

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

In order for AMCLP and the Operating Partnership to continue to be classified as partnerships for federal income tax purposes, AMC, as general partner, must maintain a minimum level of net worth without regard to its interest in AMCLP. In order to meet this requirement, AMC has maintained a cash balance (\$27.8 million at December 31, 1993) since it does not have material assets other than its partnership interests. However, AMC is not required to maintain a cash balance to meet this requirement if other assets of equivalent value are acquired in order to satisfy the substantial net worth requirement.

#### 11. OTHER FINANCIAL INFORMATION

##### FAIR VALUES OF FINANCIAL INSTRUMENTS--

The following methods and assumptions were used by AMCI in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Distribution reserve fund: The carrying amount reported in the balance sheet for the distribution reserve fund approximates its fair value.

Accrued interest rate swap obligation: The fair value of the interest rate swap obligation is based on current settlement prices, taking into account remaining terms of the agreement.

Revolving credit borrowings and long-term debt: The carrying amounts of the borrowings under revolving credit and long-term debt agreements approximate fair value.

Off-balance-sheet instruments: Fair values of the off-balance-sheet instruments (natural gas swaps) are based on contract prices in effect at December 31, 1993.

Financial instruments with a carrying value different from fair value at December 31 are as follows:

<TABLE>  
<CAPTION>

	1993		1992	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
Natural gas swaps.....	\$ --	\$ (4,849)	\$ --	\$ (3,827)
Interest rate swaps.....	(1,096)	(1,096)	(2,096)	(4,634)

</TABLE>

The Operating Partnership and BMC enter into natural gas swap agreements and futures contracts to cover approximately 50% of their natural gas requirements to effectively maintain fixed prices for natural gas to be purchased. The agreements and contracts vary in length from one month to eighteen months. Gains and losses on futures contracts and swap agreements are credited or charged to production cost in the month to which the hedged transaction relates. The Operating Partnership and BMC are exposed to favorable or unfavorable market risk to the extent that natural gas prices increase or decrease, respectively.

INDUSTRY SEGMENT DATA--

AMCI operates in two principal industries--nitrogen fertilizer and methanol, respectively. The nitrogen fertilizer business produces and distributes ammonia, urea and urea ammonium nitrate solution which are principally used by farmers to provide crops with nitrogen, an essential nutrient for plant growth. The methanol business manufactures, distributes, and sells methanol, which is principally used as a raw

AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

material in the production of a variety of chemical derivatives and in the production of MTBE, an oxygenate and an octane enhancer for gasoline. The following summarizes additional information about the reported industry segments:

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
(IN THOUSANDS, EXCEPT PER UNIT AMOUNTS)			
<S>	<C>	<C>	<C>
Revenues:			
Nitrogen fertilizer.....	\$259,782	\$243,397	\$247,209
Methanol.....	106,004	81,556	5,520
Total revenues.....	\$365,786	\$324,953	\$252,729
Operating profit:			
Nitrogen fertilizer.....	\$ 46,090	\$ 53,350	\$ 60,374
Methanol.....	8,312	12,263	1,419
Total operating income.....	54,402	65,613	61,793
Interest expense.....	(17,759)	(14,870)	(21,448)
Interest and other income (expense).....	(589)	2,803	3,223
Income before income taxes, minority interests and extraordinary expense.....	\$ 36,054	\$ 53,546	\$ 43,568

Depreciation and amortization expense:			
Nitrogen fertilizer.....	\$ 16,045	\$ 15,709	\$ 15,587
Methanol.....	10,831	11,004	581
	-----	-----	-----
	\$ 26,876	\$ 26,713	\$ 16,168
	=====	=====	=====
Capital expenditures:			
Nitrogen fertilizer.....	\$ 6,524	\$ 9,262	\$ 3,085
Methanol.....	444	616	78
	-----	-----	-----
	\$ 6,968	\$ 9,878	\$ 3,163
	=====	=====	=====

<CAPTION>

	DECEMBER 31,		
	-----		
	1993	1992	
	-----	-----	
<S>	<C>	<C>	<C>
Identifiable assets:			
Nitrogen fertilizer.....	\$330,169	\$317,035	
Methanol.....	176,226	188,878	
	-----	-----	
Total assets.....	\$506,395	\$505,913	
	=====	=====	

</TABLE>

12. CONTINGENCIES

On September 27, 1993, U.S. EPA Region 6 filed a complaint, compliance order and notice of opportunity for hearing against BMC in connection with the Beaumont facility pursuant to the Resource Conservation and Recovery Act, as amended ("RCRA"), and the Texas Solid Waste Disposal Act. Among other things, the complaint requires BMC to cease disposing of its waste alcohol stream by burning the waste in its furnace, and prohibits any such further disposal except under an operating permit issued pursuant to RCRA. In its complaint, U.S. EPA proposes to assess a civil penalty of \$583,950 against BMC for violations of hazardous waste treatment, storage and disposal, and management and recordkeeping

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AGRICULTURAL MINERALS AND CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(Information pertaining to the six months ended June 30, 1994 and 1993 is unaudited)

requirements. The Company has implemented modifications to ensure that its waste alcohol stream is nonhazardous under RCRA. The Company intends to contest such allegations vigorously and to request a hearing at the time it files its answer. The Company expects the ultimate amount of such loss to be less than the proposed penalty. Based on current knowledge, the Company does not expect this matter, or any other known environmental matter, to have a material adverse effect on its results of operations, financial condition or cash flow.

BMCH has protested the 1994, 1993 and 1992 assessed value of its plant in Jefferson County, Texas. Jefferson County has assessed the 1993 value of the plant at an amount which, if it prevails, would increase 1993 property taxes by approximately \$800,000 over the current amount recorded by BMCH. Management believes that it has adequately provided for property taxes and does not expect this matter to have a material adverse effect on the Company's financial position or future results of operations.

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[Inside Back Cover Page.]

[FOUR COLOR ART WORK AND DESCRIPTION OF THE COMPANY'S BUSINESS CYCLE APPEARS HERE]

-----  
 -----  
 NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITA-

TION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES DESCRIBED IN THIS PROSPECTUS OR AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN OR THEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF SUCH INFORMATION.

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</TABLE>

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9,000,000

TERRA INDUSTRIES INC.

LOGO

COMMON SHARES

-----

P R O S P E C T U S

-----

S.G.WARBURG & CO. INC.

OCTOBER , 1994

-----  
 -----

PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth an estimate (except for the Securities and Exchange Commission Registration Fee and NYSE Fee) of all expenses, other than the underwriting discount, payable by the Company in connection with the issuance and sale of securities being registered.

<S>	<C>
SEC Registration Fee.....	\$ 45,504
NYSE Filing Fee.....	66,525
NASD Filing Fee.....	13,696
Printing Costs.....	200,000
Accounting Fees and Expenses.....	138,000
Legal Fees and Expenses (not including Blue Sky).....	400,000
Blue Sky Fees and Expenses.....	20,000
Miscellaneous.....	200,275
	-----
Total.....	\$1,084,000
	=====

</TABLE>

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Maryland General Corporate Law provides the following with respect to the indemnification of directors, officers, employees and agents:

(a) Any director made a party to any proceeding in its capacity as a director, may be indemnified by registrant against certain liabilities unless it is established that: (i) the act or omission of the director was material to such proceeding and was committed in bad faith or was the result of active and deliberate dishonesty; or (ii) the director actually received an improper benefit in money, property or services, or (iii) in the case of criminal proceedings, the director had reasonable cause to believe that the act or omission was unlawful.

(b) A director who performs his duties in accordance with the standard of care required of directors by Maryland law has no liability by reason of being or having been director of a corporation.

The indemnification provided by Maryland General Corporate Law and the registrant's By-Laws is not exclusive of any other rights to which a director or officer of the registrant may be entitled. The registrant also carries directors' and officers' liability insurance.

The Company's Articles of Incorporation provide that the Company shall indemnify (i) its directors to the fullest extent provided by the general laws of the State of Maryland now or hereafter in force, including the advance of expenses under the procedures provided by such laws; (ii) its officers to the same extent as it shall indemnify its directors; and (iii) its officers who are not directors to such further extent as shall be authorized by the Board of Directors and be consistent with law.

The foregoing shall not limit the authority of the Company to indemnify other employees and agents consistent with law.

The proposed form of Underwriting Agreement for the Common Shares to be sold in the offering contains provisions under which the Underwriters agree to indemnify the Company's directors and officers against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

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ITEM 16. EXHIBITS

<C>	<S>	<C>
1	Form of Underwriting Agreement*	
2	Merger Agreement	
4.1.1	Articles of Restatement of the Company filed with the State of Maryland on September 11, 1990, filed as Exhibit 3.1 to the Company's Form 10-K for the year ended December 31, 1990, is incorporated herein by reference.	

4.1.2	Articles of Amendment of the Company filed with the State of Maryland on May 6, 1992, filed as Exhibit 3.1.2 to the Company's Form 10-K for the year ended December 31, 1992, is incorporated herein by reference.
4.2	By-Laws of the Company, as amended through August 7, 1991, filed as Exhibit 3 to the Company's Form 8-K dated September 30, 1991, is incorporated herein by reference.
5	Opinion re Legality*
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of Price Waterhouse LLP
23.3	Consent of Ernst & Young LLP
23.4	Consent of Kirkland & Ellis*
23.5	Consent of Piper & Marbury (included in Exhibit 5)
24	Power of Attorney

</TABLE>

\* To be supplied by Amendment.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 13(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it is declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions described under Item 15, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is,

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therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-3 AND HAS DULY CAUSED THIS AMENDMENT REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF SIOUX CITY AND THE STATE OF IOWA, ON SEPTEMBER 22, 1994.

Terra Industries Inc.

/s/ GEORGE H. VALENTINE

By: \_\_\_\_\_  
George H. Valentine

Its: \_\_\_\_\_  
Vice President, General Counsel  
and Corporate Secretary

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT NO. 2 TO REGISTRATION STATEMENT HAS BEEN SIGNED ON THE DATE OR DATES INDICATED, BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED:

<TABLE>  
<CAPTION>

SIGNATURE -----	TITLE -----	DATE(S) -----
<S> * _____ Reuben F. Richards	<C> Chairman of the Board	<C> September 22, 1994
* _____ Burton M. Joyce	Chief Executive Officer, President and Director (Principal Executive Officer)	September 22, 1994
* _____ Francis G. Meyer	Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 22, 1994
* _____ Edward G. Beimfohr	Director	September 22, 1994
* _____ Carol L. Brookins	Director	September 22, 1994
* _____ Edward M. Carson	Director	September 22, 1994
* _____ David E. Fisher	Director	September 22, 1994
* _____ Basil T.A. Hone	Director	September 22, 1994
* _____ Antony W. Lea	Director	September 22, 1994
* _____ John R. Norton III	Director	September 22, 1994
* _____ Henry R. Slack	Director	September 22, 1994

</TABLE>

/s/ GEORGE H. VALENTINE

By: \_\_\_\_\_  
George H. Valentine  
Attorney-in-Fact

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INDEX TO EXHIBITS

<TABLE>  
<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
----------------------------	----------------------

SEQUENTIALLY NUMBERED PAGE -----
---



<C>	<S>	<C>
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2	Merger Agreement.....	
4.1.1	Articles of Restatement of the Company filed with the State of Maryland on September 11, 1990, filed as Exhibit 3.1 to the Company's Form 10-K for the years ended December 31, 1990, is incorporated herein by reference.....	
4.1.2	Articles of Amendment of the Company filed with the State of Maryland on May 6, 1992, filed as Exhibit 3.1.2 to the Company's Form 10-K for the year ended December 31, 1992, is incorporated herein by reference.....	
4.2	By-Laws of the Company, as amended through August 7, 1991, filed as Exhibit 3 to the Company's Form 8-K dated September 30, 1991, is incorporated herein by reference.....	
5	Opinion re Legality*.....	
23.1	Consent of Deloitte & Touche LLP.....	
23.2	Consent of Price Waterhouse LLP.....	
23.3	Consent of Ernst & Young LLP.....	
23.4	Consent of Kirkland & Ellis*.....	
23.5	Consent of Piper & Marbury (included in Exhibit 5) ..	
24	Power of Attorney.....	

</TABLE>  
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\*To be supplied by amendment.

Graphic Material Cross-Reference Page

Appearing on page 2 is a map of the principal manufacturing facilities and storage terminals for Terra Industries Inc. ("TRA"), including the principal manufacturing facilities and storage terminals of the operations to be acquired from Agricultural Minerals and Chemicals Inc. ("AMCI"). The map includes locations of the following facilities: TRA UAN terminals; TRA dry terminals; TRA anhydrous ammonia storage; TRA manufacturing plants; AMCI terminals; AMCI manufacturing plants; and the AMCI methanol plant. Underneath the map is a caption containing the following text: "The map is not intended to represent the entire operations of Terra Industries Inc. or those to be acquired through the acquisition of Agricultural Minerals and Chemicals Inc."

Appearing on page 10 is a chart representing the anticipated organization of the Company and certain of its subsidiaries after the consummation of the Acquisition, the Merger of AMCI into the Company and the Refinancing.

Appearing on the inside back cover page of the prospectus is a graphical representation, including textual description, of the Company's business cycle. The graphical image is separated into four quadrants, labeled: "First Quarter", "Second Quarter", "Third Quarter", and "Fourth Quarter". The quadrant containing the heading "First Quarter" appears in the upper left section of the page; the quadrant containing the heading "Second Quarter" appears in the upper right section of the page; the quadrant containing the heading "Third Quarter" appears in the lower right section of the page; and the quadrant containing the heading "Fourth Quarter" appears in the lower left section of the page. In the quadrant labeled "First Quarter", the following textual items appear as bullet points: "Wholesale sales of fertilizer and chemicals occur to fill storage and build inventory."; "Crop input planning with growers continues."; "Dealer program sign-ups continue."; and "Planting in the Southwest begins." In the quadrant labeled "Second Quarter", the following textual items appear in the form of bullet points: "Planting in the Corn Belt and mid-South begins."; "Custom application of fertilizer and chemicals occurs in the Corn Belt and mid-South."; and "Over half of the year's sales occur." Under the quadrant labeled "Third Quarter", the following textual items appear in the form of bullet points: "Fields inspected; insecticides and late, post-emergent herbicides applied."; "Side dressing and winter wheat fertilizer applied."; "Majority of turf and nursery sales occur."; "Seed ordering begins in Midwest."; and "Planning/budgeting for next year take place." Under the quadrant labeled "Fourth Quarter", the following textual items appear in the form of bullet points: "Harvesting continues."; "Soil tested; crop input plans developed with growers."; "Fall fertilizer applied."; "Supplier programs negotiated; sales strategies developed."; "Dealer program sign-ups begin."; and "Seed sales begin nationwide."

MERGER AGREEMENT dated as of August 8, 1994 (the "Agreement"), among TERRA INDUSTRIES INC., a Maryland corporation ("Parent"), AMCI ACQUISITION CORPORATION, a Delaware corporation ("Parent Sub"), and a wholly owned subsidiary of Parent, and AGRICULTURAL MINERALS AND CHEMICALS INC., a Delaware corporation (the "Company").

WHEREAS, Parent Sub, upon the terms and subject to the conditions of this Agreement and in accordance with the General Corporation Law of the State of Delaware ("Delaware Law"), will merge with and into the Company (the "Merger"); and

WHEREAS, the Board of Directors of the Company has determined that the Merger is fair to, and in the best interests of, the Company and the holders of Class A Common Stock, par value \$.01 per share ("Class A Common Stock"), and Class B Common Stock, par value \$.01 per share ("Class B Common Stock"; such Class A and Class B Common Stock is hereinafter referred to as "Company Common Stock"), and has approved this Agreement and the transactions contemplated hereby;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement, the parties hereto agree as follows:

## ARTICLE I

### THE MERGER

SECTION 1.01. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with Delaware Law, at the Effective Time (as hereinafter defined), Parent Sub shall be merged with and into the Company. As a result of the Merger, the separate corporate existence of Parent Sub shall cease and the Company shall continue as the surviving corporation of the Merger (the "Surviving Corporation"). The name of the Surviving Corporation shall be Agricultural Minerals and Chemicals Inc.

SECTION 1.02. Effective Time. As promptly as practicable after the satisfaction or, if permissible, waiver of the conditions set forth in Article VII, the parties hereto shall cause the Merger to be consummated by filing a certificate of merger (the "Certificate of Merger") with the Secretary of State of the State of Delaware, in such form as required by, and executed in accordance with the relevant provisions of, Delaware Law (the date and time of the filing of the Certificate of Merger or the time specified therein being the

"Effective Time").

SECTION 1.03. Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, except as otherwise provided herein, all the property, rights, privileges, powers and franchises of Parent Sub and the Company shall vest in the Surviving Corporation, and all debts, liabilities and duties of Parent Sub and the Company shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.04. Certificate of Incorporation; By-Laws. At the Effective Time, the Certificate of Incorporation of the Surviving Corporation shall be as set forth in Exhibit 1.04 and the By-Laws of Parent Sub, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation.

SECTION 1.05. Directors and Officers. The directors of Parent Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with

the Certificate of Incorporation and By-Laws of the Surviving Corporation, and the officers of Parent Sub immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

SECTION 1.06. Closing. (a) The closing (the "Closing") of the Merger will take place at the offices of Kirkland & Ellis, New York, New York at 10:00 a.m., local time, on a date to be mutually agreed upon by Parent and the Company, which date shall be no later than the fifth business day following the date upon which the last to occur of the conditions set forth in Article VII is fulfilled or duly waived.

(b) Subject to the satisfaction or waiver of each of the conditions set forth in Article VII, at the Closing, (i) the closing certificates and other documents required by Article VII shall be delivered, and (ii) the appropriate officers of the Surviving Corporation shall execute and acknowledge the Certificate of Merger.

## ARTICLE II

### CONVERSION OF SECURITIES; EXCHANGE OF CERTIFICATES

SECTION 2.01. Conversion of Securities. At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Parent Sub, the Company or the holders of any of the following securities:

(a) Subject to the other provisions of this Section 2.01, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (excluding any shares described in Section 2.01(c) and any Dissenting Shares (as hereinafter defined)) shall be converted into the right to receive \$21.2066 in cash, without interest (the "Per Share Amount"). All such shares of Company Common Stock shall cease to be outstanding and shall automatically be canceled and retired and shall cease to exist, and each certificate previously evidencing any such shares shall thereafter represent only the right to receive the Per Share Amount as described below. The holders of certificates previously evidencing such shares of Company Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares of Company Common Stock, except as otherwise provided herein or by law. Each such certificate previously evidencing shares of Company Common Stock shall be exchanged for the Per Share Amount multiplied by the number of shares previously evidenced by the canceled certificate upon the surrender of such certificate in accordance with the provisions of Section 2.02, without interest.

(b) Subject to the other provisions of this Section 2.01, each Option (as hereinafter defined) outstanding immediately prior to the Effective Time shall be converted into the right to receive \$10.4765 in cash, without interest (the "Per Option Amount"). All such Options shall cease to be outstanding and shall automatically be canceled and shall cease to exist, and each option agreement relating to any such Option shall thereafter represent only the right to receive the Per Option Amount as described below. The optionees party to option agreements previously evidencing such Options outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Options and the shares of Company Common Stock issuable upon the exercise thereof, except as otherwise provided herein. Each such Option outstanding immediately prior to the Effective Time shall be exchanged for the Per Option Amount multiplied by the number of shares of Company Common Stock subject to such Option upon the surrender of such option agreement in accordance with the provisions of Section 2.02, without interest.

(c) Each share of Company Common Stock held in the treasury of the Company and each share of Company Common Stock owned by any direct or indirect subsidiary of the Company immediately prior to the Effective Time shall be canceled and extinguished without any conversion thereof and no payment shall be made with respect thereto.

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(d) Each share of Common Stock, par value \$.01 per share, of Parent Sub ("Parent Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one duly and validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation.

SECTION 2.02. Payment. (a) Paying Agent. As of the Effective Time, Parent shall deposit, or shall cause to be deposited, with a bank theretofore designated by the Company and Parent (the "Paying Agent"), for the benefit of the holders of shares of Company Common Stock and the holders of Options, for payment in accordance with this Article II, through the Paying Agent, cash in an amount equal to (i) the Per Share Amount multiplied by the number of shares of Company Common Stock outstanding immediately prior to the Effective Time, and (ii) the Per Option Amount multiplied by the number of Options outstanding immediately prior to the Effective Time (such cash being hereinafter referred to as the "Payment Fund"). The Paying Agent shall, pursuant to irrevocable instructions, deliver the cash contemplated to be paid pursuant to this Article II out of the Payment Fund. The Payment Fund shall not be used for any other purpose.

(b) Payment Procedures. Upon surrender of a certificate that, immediately prior to the Effective Time, evidenced outstanding shares of Company Common Stock (other than shares described in Section 2.01(c) and Dissenting Shares) (a "Certificate") for cancellation to the Paying Agent, together with such other customary documents as may be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the cash that such holder is entitled to receive in accordance with Section 2.01 (the "Merger Stock Consideration") and the Certificate so surrendered shall forthwith be canceled. Until surrendered as contemplated by this Section 2.02, each Certificate shall be deemed at any time after the Effective Time to evidence only the right to receive upon such surrender the Merger Stock Consideration.

At the Effective Time, each holder of Options shall be entitled to receive in exchange therefor the cash that such holder is entitled to receive in accordance with Section 2.01 (the "Merger Option Consideration"). For purposes of this Agreement, "Merger Consideration" means the Merger Stock Consideration and the Merger Option Consideration. The payment of the Merger Option Consideration to any holder of MEP Options shall be subject to any applicable Federal, state or local tax withholding requirements.

(c) No Further Rights in Company Common Stock or Options. All cash paid upon conversion of the shares of Company Common Stock and with respect to the Options in accordance with the terms of this Article II, and all cash paid pursuant to Section 2.05, shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of Company Common Stock or Options, as the case may be.

(d) Termination of Payment Fund. Any portion of the Payment Fund that remains undistributed to the holders of Company Common Stock or Options for 30 days after the Effective Time shall be delivered to Parent, upon demand, and any holders of Company Common Stock or Options that have not theretofore complied with this Article II shall thereafter look only to Parent for the Merger Consideration to which they are entitled.

(e) No Liability. Neither Parent nor the Surviving Corporation shall

be liable to any holder of shares of Company Common Stock or of Options for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

SECTION 2.03. Stock Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company. On or after the Effective Time, any certificates for shares of Company Common Stock presented to the Paying Agent, the Surviving Corporation or Parent for any reason shall be converted into the Merger Stock Consideration.

SECTION 2.04. Dissenting Shares. Notwithstanding any other provisions of this Agreement to the contrary, shares of Company Common Stock that are outstanding immediately prior to the Effective Time and that are held by stockholders who shall not have voted in favor of the Merger or consented thereto in writing and who shall have demanded properly in writing appraisal for such shares in accordance with Section

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262 of Delaware Law (collectively, the "Dissenting Shares") shall not be converted into or represent the right to receive the Merger Stock Consideration. Such stockholders shall be entitled to receive payment of the appraised value of such shares of Company Common Stock held by them in accordance with the provisions of such Section 262, except that all Dissenting Shares held by stockholders who shall have failed to perfect or who effectively shall have withdrawn or lost their rights to appraisal of such shares of Company Common Stock under such Section 262 shall thereupon be deemed to have been converted into and to have become exchangeable, as of the Effective Time, for the right to receive, without any interest thereon, the Merger Stock Consideration, upon surrender, in the manner provided in Section 2.02, of the certificate or certificates that formerly evidenced such shares of Company Common Stock.

SECTION 2.05. Working Capital. (a) Estimate. Not later than one business day after the date for the Closing is determined pursuant to Section 1.06, the Company shall deliver to Parent the Company's good faith estimate (the "Estimate") of the Consolidated Working Capital (as hereinafter defined) of the Company immediately prior to the Effective Time. In connection with the preparation and review of the Estimate, employees of Parent and Deloitte & Touche, its independent public accountants ("Parent's Accountants"), shall be entitled to access to the Company and its work papers prepared in connection with the Estimate and shall be entitled to discuss the Estimate with the Company prior to the Effective Time. (i) In the event that the Estimate exceeds \$86 million, the Company shall, at the Effective Time, pay to Sellers' Representative (as hereinafter defined), in immediately available funds, an amount equal to such excess (the "Excess"), and (ii) in the event that the Estimate is less than \$86 million, Sellers' Representative shall, at the Effective Time, pay to the Company, in immediately available funds, an amount equal to such deficit; provided, however, that in any event the amount paid by



the Company at the Effective Time pursuant to clause (i) above shall not result in the aggregate amount of cash and cash equivalents of the Company and its subsidiaries (other than AMCLP and AMLP) after such payment being less than \$36 million. In the event that, as a result of the application of the foregoing proviso, the entire Excess shall not have been paid to Sellers' Representative at the Effective Time, the Company shall pay such unpaid portion of the Excess to Sellers' Representative upon the earliest to occur of (i) the distribution to AMC by AMCLP of amounts of cash equal to such unpaid portion of the Excess and (ii) the date set forth in Section 2.05(d).

(b) Statement of Working Capital. As soon as practicable, but in any event within 60 calendar days following the Effective Time, Sellers' Representative shall deliver to Parent a statement of the Consolidated Working Capital of the Company pursuant to this Agreement (the "Statement of Working Capital"), as of the Effective Time, together with a report thereon of Ernst & Young, independent accountants for Sellers' Representative ("Sellers' Representative's Accountants"), stating that the Statement of Working Capital fairly presents the Consolidated Working Capital of the Company, as of the Effective Time, in accordance with generally accepted accounting principles as applied by the Company ("Company Accounting Policies") on a basis consistent with the preparation of the audited balance sheet of the Company as at December 31, 1993.

(c) Cooperation. During the preparation of the Statement of Working Capital by Sellers' Representative and the period of any dispute referred to in Section 2.05(e), (i) employees of Parent and Parent's Accountants shall be entitled to access to Sellers' Representative's Accountants and their work papers prepared in connection with the Statement of Working Capital and shall be entitled to discuss the Statement of Working Capital with Sellers' Representative's Accountants, in each case at mutually agreeable times as work progresses during the preparation of the Statement of Working Capital, and (ii) Parent shall provide Sellers' Representative's Accountants full access to the books, records, facilities and employees of the Company and shall cooperate fully with Sellers' Representative's Accountants, in each case to the extent required by Sellers' Representative's Accountants in order to prepare the Statement of Working Capital and to investigate the basis for any such dispute; provided however, that (i) any such investigation shall be conducted in such a manner as not to interfere unreasonably with the operation of the Company and (ii) Parent shall not be required to supply the Sellers' Representative with any information which Parent is under a legal obligation not to supply.

(d) Certain Adjustments. Subject to the limitations set forth in Section 2.05(e), within 10 calendar days after the date of receipt by Parent of the Statement of Working Capital:

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(i) in the event that the Consolidated Working Capital of the Company set forth on the Statement of Working Capital is less than the Estimate, Sellers' Representative shall pay to Parent, in immediately

available funds, an amount equal to such deficiency; or

(ii) in the event that the Consolidated Working Capital of the Company set forth on the Statement of Working Capital exceeds the Estimate, Parent shall pay, or shall cause the Surviving Corporation to pay, to Sellers' Representative, in immediately available funds, an amount equal to such excess.

(e) Disputes.

(i) Subject to Section 2.05(e)(ii), the Statement of Working Capital delivered by Sellers' Representative to Parent and Parent's Accountants shall have the legal effect of an arbitral award and shall be final, binding and conclusive on Sellers' Representative, holders of Company Common Stock, holders of Options and Parent.

(ii) Parent may dispute any amounts reflected on the Statement of Working Capital to the extent that the net effect of such disputed amounts in the aggregate would be to reduce the Consolidated Working Capital by more than the Designated Amount (as hereinafter defined), but only on the basis that the Statement of Working Capital does not present fairly the Consolidated Working Capital of the Company, as of the Effective Time, in accordance with Company Accounting Policies; provided, however, that Parent shall notify Sellers' Representative in writing of each disputed item, specifying the amount thereof in dispute and setting forth, in detail, the basis for such dispute, within 30 calendar days after receipt from Sellers' Representative of the Statement of Working Capital. In the event of such a dispute, Parent and Sellers' Representative shall attempt to reconcile their differences and any resolution by them as to any disputed amounts shall be final, binding and conclusive on Parent, holders of Company Common Stock, holders of Options and Sellers' Representative. If any such resolution by Parent and Sellers' Representative leaves in dispute amounts the net effect of which in the aggregate would not be to reduce the Consolidated Working Capital reflected on the Statement of Working Capital by at least the Designated Amount, all such amounts remaining in dispute shall then be deemed to have been resolved in favor of the Statement of Working Capital and such resolution shall be final, binding and conclusive on Parent, holders of Company Common Stock, holders of Options and Sellers' Representative. If Parent and Sellers' Representative are unable to reach a resolution with such effect within 14 calendar days of Parent's written notice of dispute to Sellers' Representative, Parent and Sellers' Representative shall submit the items remaining in dispute for resolution to an independent accounting firm of national reputation mutually appointed by Parent and Sellers' Representative (the "Independent Accounting Firm"), which shall, within 30 calendar days of such submission, determine and report to Parent and Sellers' Representative upon such remaining disputed items and such report shall have the legal effect of an arbitral award and shall be final, binding and conclusive on Parent, holders of Company Common Stock, holders of Options and Sellers'



Representative. The fees and disbursements of the Independent Accounting Firm shall be allocated between Parent and Sellers' Representative in the same proportion that the aggregate amount of such remaining disputed items so submitted to the Independent Accounting Firm that is unsuccessfully disputed by each (as finally determined by the Independent Accounting Firm) bears to the total amount of such remaining disputed items so submitted.

(iii) No adjustment to any amount payable by Parent or Sellers' Representative pursuant to Section 2.05(d) shall be made with respect to amounts disputed by Parent pursuant to this Section 2.05(e), unless the net effect of the amounts successfully disputed by Parent in the aggregate is to reduce the Consolidated Working Capital reflected on the Statement of Working Capital by at least the Designated Amount. The amount payable as determined pursuant to this Section 2.05(e) shall not be reduced by the Designated Amount.

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(iv) Any amount that is subject to dispute under this Section 2.05(e) shall be paid by Parent or Sellers' Representative, as the case may be, in immediately available funds, within five calendar days following the resolution of such dispute and in an amount in accordance with such resolution.

(v) In acting under this Agreement, Sellers' Representative's Accountants, Parent's Accountants and the Independent Accounting Firm shall be entitled to the privileges and immunities of arbitrators.

(f) Interest. Any payment required to be made by Parent or Sellers' Representative pursuant to this Section 2.05 shall bear interest from the Effective Time through the date of payment at the Designated Rate (as hereinafter defined), calculated from the Effective Time to the date of such payment.

(g) Effect of Adjustments. All amounts paid by Sellers' Representative, Parent or the Company pursuant to this Section 2.05 shall constitute adjustments to the consideration paid in the Merger.

(h) Withholding. Payments pursuant to this Section 2.05 in respect of MEP Options shall be subject to any applicable Federal, state or local tax withholding requirements.

SECTION 2.06. Certain Definitions. For purposes of this Article II, the following terms shall have the following meanings:

(a) "Consolidated Working Capital" means the excess of the consolidated current assets of the Company over the consolidated current liabilities of the Company, calculated in accordance with Company Accounting Policies. For purposes of calculating Consolidated Working Capital, (i) all

fees and expenses of financial, accounting, legal and other advisors to the Company relating to services in respect of the Merger billed or to be billed to the Company and remaining unpaid at the Effective Time shall be deemed to be consolidated current liabilities and (ii) all amounts expended by the Company after the date hereof and prior to the Effective Time with respect to post-closing directors' and officers' liability insurance shall be deemed to be a current receivable from Parent.

(b) "Designated Amount" means \$100,000.

(c) "Designated Rate" means LIBOR (as defined in the documentation for the bank Financing (as hereinafter defined)) plus a margin of 1.50%.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the disclosure schedule delivered by the Company to Parent concurrently with the execution of this Agreement (the "Company Disclosure Schedule"), which shall identify exceptions by specific section references, the Company hereby represents and warrants to Parent and Parent Sub that:

SECTION 3.01. Organization and Qualification; Subsidiaries. (a) Each of the Company and its corporate subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has all requisite power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties makes such qualification necessary, other than where the failure to be so duly organized, validly existing and in good standing, or to have such power and authority, or to be duly qualified and in good standing, as the case may be, would not have a Company Material Adverse Effect (as hereinafter defined). The term "Company Material Adverse Effect" as used in this Agreement means any change or effect (other than a change or effect relating to the industry of the Company, the financial markets or the economy generally) that,

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individually or when taken together with all other such changes or effects, would be materially adverse to the financial condition, business, operations, earnings or prospects of the Company and its subsidiaries, taken as a whole.

(b) Section 3.01 of the Company Disclosure Schedule sets forth, as of the date hereof, a complete and correct list of all the Company's directly or indirectly owned subsidiaries, together with (i) the jurisdiction of incorporation or formation of each subsidiary and the percentage of each subsidiary's outstanding capital stock or other equity interests owned by each

holder of such stock or interests, to the extent such ownership by persons other than the Company or its subsidiaries is known to the Company, and (ii) indication of whether each such subsidiary is a "Significant Subsidiary" (as hereinafter defined). The Company owns no subsidiaries that are not corporate subsidiaries other than AMCLP, AMLP and Oklahoma CO\2\ Partnership (as hereinafter defined).

(c) AMCLP has been duly formed and is validly existing as a limited partnership under the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act"), with partnership power and authority to own or lease its properties and conduct its business as it is now being conducted, and is duly qualified or registered as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties makes such qualification or registration necessary, except where the failure to be so duly formed and validly existing, or to have such power and authority or to be so qualified or registered would not have a Company Material Adverse Effect; AMLP has been duly formed and is validly existing as a limited partnership under the Delaware Act, with partnership power and authority to own or lease its properties and conduct its business as it is now being conducted, and is duly qualified or registered as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties makes such qualification or registration necessary, except where the failure to be so duly formed and validly existing, or to have such power and authority or to be so qualified or registered, would not have a Company Material Adverse Effect.

SECTION 3.02. Certificates of Incorporation and By-Laws. The Company has heretofore furnished to Parent complete and correct copies of the Certificates of Incorporation and the By-Laws or the equivalent organizational documents, in each case as amended or restated, of the Company, AMC, AMCLP, AMLP, BMCH and BMC (as hereinafter defined).

SECTION 3.03. Capitalization. (a) The authorized capital stock of the Company, as of immediately prior to the Effective Time, will consist of 50,000,000 shares of Company Common Stock of which: (i) 25,000,000 shares are shares of Class A Common Stock and 25,000,000 shares are shares of Class B Common Stock, (ii) 17,224,302 shares of Class A Common Stock and 207,000 shares of Class B Common Stock are issued and outstanding, none of which is subject to preemptive rights created by statute, the Company's Certificate of Incorporation or By-Laws or any agreement to which the Company is a party or is bound; (iii) 6,698 shares of Company Common Stock are held in the treasury of the Company; and (iv) (A) 163,450 shares of Class A Common Stock are reserved for issuance in connection with the Option Agreement dated as of October 25, 1993, between the Company and Transammonia, Inc., a Delaware corporation (the "Transammonia Option Agreement"), and (B) 2,732,668 shares of Class A Common Stock are reserved for issuance pursuant to outstanding employee stock options (the "MEP Options") granted pursuant to the Company's Management Equity Plan, as amended (the "MEP") (such Transammonia Option Agreement and the MEP Options are herein collectively referred to as the "Options"); each of the outstanding shares of capital stock of each of the Company and its corporate subsidiaries is duly

authorized and validly issued, and fully paid and nonassessable, and such shares owned by the Company or another subsidiary of the Company are owned free and clear of all liens, claims, encumbrances, security interests or other charges ("Encumbrances"), except for such Encumbrances that would not have a Company Material Adverse Effect.

(b) AMC is the sole general partner of AMCLP, with a general partner interest in AMCLP of approximately 1.0101%; such general partner interest is duly authorized by the Agreement of Limited Partnership of AMCLP dated as of December 4, 1991 (the "AMCLP Agreement"), by and among AMC, the Company and each holder of Units (as hereinafter defined), and is validly issued to AMC and is fully

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paid; AMC owns such general partner interest free and clear of all Encumbrances; AMC is the sole general partner of AMLP, with a general partner interest in AMLP of 1.0%; such general partner interest is duly authorized by the Agreement of Limited Partnership of AMLP dated as of December 4, 1991 (the "AMLP Agreement"), by and among AMC, the Company and AMCLP (the AMCLP Agreement and the AMLP Agreement are herein collectively referred to as the "Partnership Agreements"), and is validly issued to AMC and is fully paid; AMC owns such general partner interest free and clear of all Encumbrances; 7,636,764 senior preference units representing limited partner interests in AMCLP (the "Senior Preference Units") have been issued; AMC is a limited partner of AMCLP with a limited partner interest represented by 6,000,000 junior preference units representing limited partner interests in AMCLP (the "Junior Preference Units"), and 5,172,414 common units representing limited partner interests in AMCLP (the "Common Units"; the Senior Preference Units, Junior Preference Units and Common Units are herein collectively referred to as the "Units"); the Junior Preference Units and the Common Units and the limited partner interests represented thereby are authorized by the AMCLP Agreement, and are validly issued and fully paid and are owned by AMC free and clear of all Encumbrances. AMCLP is the sole limited partner of AMLP, with a limited partner interest of 99.0%; such limited partner interest is authorized by the AMLP Agreement, has been validly issued and is fully paid; and AMCLP owns, directly or indirectly, such limited partner interest in AMLP free and clear of all Encumbrances.

(c) Except as set forth in Section 3.03(a), immediately prior to the Effective Time, there will be no options, warrants or other rights (including registration rights), agreements, arrangements or commitments of any character to which the Company or any of its subsidiaries is a party relating to the issued or unissued capital stock of the Company or any of its subsidiaries or obligating the Company or any of its subsidiaries to grant, issue or sell any shares of the capital stock of the Company or any of its subsidiaries, by sale, lease, license or otherwise. There are no obligations, contingent or otherwise, of the Company or any of its subsidiaries to (i) repurchase, redeem or otherwise reacquire any shares of Company Common Stock or the capital stock of, or other equity interests in, any subsidiary of the Company; or (ii) (other than advances to subsidiaries in the ordinary course of business) provide material funds to,

or make any material investment in (in the form of a loan, capital contribution or otherwise), or provide any guarantee with respect to the obligations of, any subsidiary of the Company or any other person. As of the date hereof, neither the Company nor any of its subsidiaries directly or indirectly owns, or has agreed to purchase or otherwise acquire, the capital stock of, or any interest convertible into or exchangeable or exercisable for, the capital stock of any corporation, partnership, joint venture or other business association or entity. Except for any agreements, arrangements or commitments between the Company and any of its subsidiaries or between such subsidiaries, there are no material agreements, arrangements or commitments of any character (contingent or otherwise) pursuant to which any person is or may be entitled to receive any payment based on the revenues or earnings, or calculated in accordance therewith, of the Company or any of its subsidiaries. There are no voting trusts, proxies or other material agreements or understandings to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound with respect to the voting of any shares of capital stock of the Company or any of its subsidiaries.

(d) The Company has made available to Parent complete and correct copies of (i) the MEP and the forms of MEP Options issued pursuant to the MEP, including all amendments thereto, and (ii) the Transammonia Option Agreement, including all amendments thereto. All copies of documents furnished by the Company to Parent in connection with the transactions contemplated hereby are true and correct copies of such documents.

SECTION 3.04. Authority. The Company has all requisite corporate power and authority to execute and deliver this Agreement and the Minorco Voting Agreement dated as of the date hereof among the Company, Parent and Minorco (U.S.A.) Inc., a Colorado corporation ("Minorco"), in the form attached hereto as Exhibit 3.04 (the "Minorco Voting Agreement"), (collectively, the "Basic Agreements"), to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby to be consummated by the Company. The execution and delivery of each Basic Agreement by the Company and the consummation by the Company of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action and no other corporate proceedings on the part of the Company are necessary to authorize any Basic Agreement or to consummate the transactions contemplated hereby and thereby. Each

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Basic Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company.

SECTION 3.05. No Conflict; Required Filings and Consents. (a) The execution and delivery of each Basic Agreement by the Company do not, and the performance of each Basic Agreement by the Company will not (i) conflict with or violate the Certificate of Incorporation or By-Laws, or the equivalent organizational documents, in each case as amended or restated, of the Company or any of its subsidiaries, (ii) conflict with or violate any federal, state,

foreign or local law, statute, ordinance, rule, regulation, permit, order, judgment or decree (collectively, "Laws") in effect as of the date hereof and applicable to the Company or any of its subsidiaries or by which any of their respective properties is bound, or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or require payment under, or result in the creation of any Encumbrance on any of the properties or assets of the Company or any of its subsidiaries pursuant to, or trigger any right of first refusal under, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties is bound, except for any such conflicts or violations described in clause (ii) or breaches, defaults, events, rights of termination, amendment, acceleration or cancellation, payment requirements, Encumbrances or rights of first refusal described in clause (iii) that would not have a Company Material Adverse Effect. The Board of Directors of the Company has taken all actions necessary under Delaware Law, including approving the transactions contemplated by each Basic Agreement, to ensure that Section 203 of Delaware Law does not, or will not, apply to the transactions contemplated by the Basic Agreements.

(b) The execution and delivery of each Basic Agreement by the Company do not, and the performance of each Basic Agreement by the Company will not, require the Company to obtain any consent, approval, authorization or permit of, or to make any filing with or notification to, any governmental or regulatory authority, domestic or foreign ("Governmental Entities") based on laws, rules, regulations and other requirements of any Governmental Entities, except (i) the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the filing and recordation of the Certificate of Merger as required by Delaware Law and (ii) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, either individually or in the aggregate, prevent the Company from performing its obligations under any Basic Agreement and would not have a Company Material Adverse Effect or have been resolved.

SECTION 3.06. Permits; Compliance. As of the date hereof, each of the Company and its subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease and operate its properties and to carry on its business as it is now being conducted (collectively, the "Company Permits"), and there is no action, proceeding or investigation pending or, to the knowledge of the Company, threatened regarding suspension or cancellation of any of the Company Permits, except where the failure to possess, or the suspension or cancellation of, such Company Permits would not have a Company Material Adverse Effect. As of the date hereof, neither the Company nor any of its subsidiaries is in conflict with, or in default or violation of (a) any Law applicable to the Company or any of its subsidiaries or by which any of their respective properties is bound or (b) any of the Company Permits, except for any such conflicts, defaults or violations



that would not have a Company Material Adverse Effect. As of the date hereof, neither the Company nor any of its subsidiaries has received from any Governmental Entity any written notification with respect to possible conflicts, defaults or violations of material Laws, except for written notices relating to possible conflicts, defaults or violations, which conflicts, defaults or violations would not have a Company Material Adverse Effect or have been resolved.

SECTION 3.07. Reports; Financial Statements. (a) Since March 31, 1992, (i) the Company and AMCLP have filed all forms, reports, statements and other documents required to be filed with (A) the Securities and Exchange Commission (the "SEC"), including, without limitation, (I) all Annual Reports on Form 10-K, (II) all Quarterly Reports on Form 10-Q, (III) all Current Reports on Form 8-K, (IV) all other reports or registration statements, and (V) all amendments and supplements to all such reports and registration

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statements (collectively referred to as the "Company SEC Reports") and (B) any other applicable state securities authorities and (ii) the Company and AMCLP and their respective subsidiaries have filed all forms, reports, statements and other documents required to be filed with any other applicable federal or state regulatory authorities, except where the failure to file any such forms, reports, statements or other documents would not have a Company Material Adverse Effect (all such forms, reports, statements and other documents in clauses (i) and (ii) of this Section 3.07(a) being referred to herein, collectively, as the "Company Reports"). The Company Reports, including all Company Reports filed after the date hereof and prior to the Effective Time, (i) were or will be prepared in all material respects in accordance with the requirements of applicable Law (including, with respect to the Company SEC Reports, the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act, and the rules and regulations of the SEC thereunder applicable to such Company SEC Reports), and (ii) did not at the time they were filed, or will not at the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Company SEC Reports filed prior to or after the date hereof (i) have been or will be prepared in accordance with the published rules and regulations of the SEC and generally accepted accounting principles applied on a consistent basis throughout the periods involved (except (A) to the extent required by changes in generally accepted accounting principles and (B) with respect to Company SEC Reports filed prior to the date hereof, as may be indicated in the notes thereto) and (ii) fairly present or will fairly present the consolidated financial position of the Company and its subsidiaries, as the case may be, as of the respective dates thereof and the consolidated results of operations and cash flows for the periods indicated, except that (x) any unaudited interim financial statements

were or will be subject to normal and recurring year-end adjustments and (y) any pro forma financial information contained in such consolidated financial statements is not necessarily indicative of the consolidated financial position of the Company and its subsidiaries, as the case may be, as of the respective dates thereof and the consolidated results of operations and cash flows for the periods indicated.

SECTION 3.08. Absence of Undisclosed Liabilities. As of the date hereof, neither the Company nor any of its subsidiaries has, to the knowledge of the Company, any material liability (whether accrued, absolute, contingent or otherwise) that is required to be reflected on the financial statements (or the notes thereto) of the Company in accordance with generally accepted accounting principles, other than liabilities (a) reflected or reserved against (to the extent of the reserves therefor) in the consolidated balance sheets included in the Company's Form 10-Q for the quarter ended June 30, 1994, and Form 10-K for the year ended December 31, 1993 (the "Balance Sheets") (or in the notes thereto), (b) with respect to matters disclosed in the Company Disclosure Schedule or excluded from the coverage of any of the representations, warranties or covenants herein, (c) that are covered by enforceable insurance, indemnification, contribution or comparable arrangements, (d) under the Laws of any jurisdiction, except for violation of any such Laws that would have a Company Material Adverse Effect, (e) under any contract or instrument, other than liabilities arising out of breaches of such contracts or instruments that would have a Company Material Adverse Effect, (f) under this Agreement or any agreement entered into in connection herewith, (g) that constitute consolidated current liabilities for purposes of Section 2.06, (h) with respect to matters addressed in Sections 3.11 and 3.16 (which shall be governed solely by the terms of such Sections), and (i) liabilities incurred or arising in the ordinary course of business of the Company or such subsidiary since June 30, 1994.

SECTION 3.09. Absence of Certain Changes or Events. Except as disclosed in the Company SEC Reports filed prior to the date hereof or as contemplated by this Agreement, during the period commencing January 1, 1994, and ending on the date hereof, the Company and its subsidiaries have conducted their respective businesses only in the ordinary course and in a manner consistent with past practice and there has not been: (a) any material damage, destruction or loss (not covered by insurance) with respect to any material assets of the Company or any of its subsidiaries that has resulted in a Company Material Adverse Effect; (b) any material change by the Company or its subsidiaries in their accounting methods, principles or practices; (c) except for dividends by a subsidiary of the Company to the Company or another subsidiary of the Company or repurchases of shares of Company Common Stock from terminated employees pursuant to the MEP, any declaration, setting aside or payment of any dividends or distributions in respect of shares of Company Common

Stock or the shares of stock of, or other equity interests in, any subsidiary of the Company or any redemption, repurchase or other reacquisition of any of the Company's equity securities or any of the equity securities of any subsidiary of



the Company; (d) any material increase in the benefits under, or the establishment or amendment of, any material bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, stock option (including, without limitation, the granting of stock options, stock appreciation rights, performance awards, or restricted stock awards), stock purchase or other employee benefit plan, or any material increase in the compensation payable or to become payable to directors, officers or employees of the Company or its subsidiaries, except for (i) increases in salaries or wages payable or to become payable in the ordinary course of business and consistent with past practice, (ii) the establishment of the employee plans set forth in Section 3.09 of the Company Disclosure Schedule or (iii) the granting of MEP Options to employees of the Company or its subsidiaries pursuant to the terms of the MEP, as in effect on the date hereof; or (e) a Company Material Adverse Effect.

SECTION 3.10. Absence of Litigation. As of the date hereof, except as disclosed in the Company SEC Reports filed prior to the date hereof, there is no claim, action, suit, litigation, proceeding, arbitration or, to the knowledge of the Company, investigation of any kind, at law or in equity (including actions or proceedings seeking injunctive relief), pending or, to the knowledge of the Company, threatened in writing against the Company or any of its subsidiaries or any properties or rights of the Company or any of its subsidiaries (except for claims, actions, suits, litigations, proceedings, arbitrations or investigations which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect), and neither the Company nor any of its subsidiaries is subject to any continuing order of, consent decree, settlement agreement or other similar written agreement with, or, to the knowledge of the Company, continuing investigation by, any Governmental Entity, or any judgment, order, writ, injunction, decree or award of any Governmental Entity or arbitrator, including, without limitation, cease-and-desist or other orders, except as disclosed in the Company SEC Reports filed prior to the date hereof and except for matters which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect.

SECTION 3.11. Employee Benefit Plans; Labor Matters. (a) Section 3.11 of the Company Disclosure Schedule sets forth a complete and accurate list of each employee benefit plan, program, arrangement and contract (including, without limitation, any "employee benefit plan", as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), employment agreements, personnel policies or fringe benefit plans, policies, programs and arrangements, stock bonus, deferred compensation, pension, severance, bonus, vacation, travel, incentive, and health, disability and other welfare plans), maintained or contributed to by the Company or any of its subsidiaries, or with respect to which the Company or any of its subsidiaries could incur liability under Section 4069, 4212(c) or 4204 of ERISA (the "Company Benefit Plans").

(b) Neither the Company nor any of its subsidiaries contributes to, has any material obligation to contribute to or otherwise has any material liability or potential material liability with respect to (i) any "multiemployer

plan" (as such term is defined in Section 3(37) of ERISA), (ii) any plan of the type described in Section 4063 and 4064 of ERISA or (iii) any plan which provides health, life insurance, accident or other "welfare-type" benefits to current or future retirees or current or future former employees, their spouses or dependents, other than in accordance with Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), or applicable state continuation law. Neither the Company nor any of its subsidiaries has any liability or potential liability with respect to any employee benefit plan subject to Title IV of ERISA or Section 412 of the Code that is currently or formerly maintained by any other current or former member of the controlled group of corporations, trades or businesses (within the meaning of Sections 414(b), (c), (m) and (o) of the Code) of which the Company or any of its subsidiaries is or was a member which would have a Company Material Adverse Effect.

(c) None of the Company Benefit Plans obligates the Company or any of its subsidiaries to pay material separation, severance, termination or similar-type benefits solely as a result of any transaction contemplated by this Agreement or solely as a result of a "change in control," as such term is contemplated by Section 280G of the Code (and the regulations promulgated thereunder).

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(d) Each Company Benefit Plan has been maintained, funded and administered in compliance in all material respects with applicable law, including, without limitation, ERISA and the Code. Neither the Company nor any of its subsidiaries has engaged in any prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) with respect to any Company Benefit Plan. No Company Benefit Plan that is subject to the funding requirements of Section 412 of the Code or Section 302 of ERISA has incurred any "accumulated funding deficiency" as such term is defined in such sections of ERISA and the Code, whether or not waived. No liability to the Pension Benefit Guaranty Corporation ("PBGC") (except for payment of premiums in the ordinary course) has been or is reasonably expected to be incurred with respect to any Company Benefit Plan that is subject to Title IV of ERISA; no reportable event (as such term is defined in Section 4043 of ERISA) has occurred with respect to any such Company Benefit Plan; and the PBGC has not commenced or threatened the termination of any such Company Benefit Plan. None of the assets of the Company or any of its subsidiaries is the subject of any lien arising under Section 302(f) of ERISA or Section 412(n) of the Code; neither the Company nor any of its subsidiaries has been required to post any security pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code; and neither the Company nor any of its subsidiaries has knowledge of any facts which could reasonably be expected to give rise to such lien or such posting of security.

(e) Each Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code, and each trust (if any) forming a part thereof, has received a favorable determination letter from the Internal Revenue Service as to the qualification under the Code of such Company Benefit Plan and the tax-exempt status of such related trust, and nothing has occurred since the date of

such determination letter that could reasonably be expected to adversely affect the qualification of such Company Benefit Plan or the tax-exempt status of such related trust.

(f) As of the date hereof, the fair market value of the assets of each Company Benefit Plan that is a defined benefit pension plan equals or exceeds the present value of all vested and nonvested liabilities thereunder determined on an "accumulated benefit obligation" ("ABO") basis (as defined in Financial Accounting Standards Board Statement 87), using the actuarial methods, assumptions and factors set forth in such Company Benefit Plan's actuarial valuation of ABO by Hewitt Associates for the most recent plan year ending immediately prior to the date hereof. With respect to each Company Benefit Plan that is subject to the funding requirements of Section 412 of the Code and Section 302 of ERISA, all material required contributions for all periods ending prior to or as of the Effective Time (including periods from the first day of the then-current plan year to the Effective Time) shall have been made or properly accrued.

(g) With respect to each Company Benefit Plan, the Company has provided Parent with true, complete and correct copies, to the extent applicable, of (i) all documents pursuant to which such Company Benefit Plan is maintained, funded and administered, (ii) the two most recent annual reports (Form 5500 series) filed with the Internal Revenue Service (with attachments), (iii) the two most recent actuarial reports, (iv) the two most recent financial statements and (v) all governmental rulings, determinations, and opinions (and pending requests for governmental rulings, determinations, and opinions).

(h) The Company and each of its subsidiaries is in compliance with all applicable laws relating to the employment of personnel and labor, except where a failure to be in compliance would not have a Company Material Adverse Effect.

(i) Neither the Company nor any of its subsidiaries is a party to any collective bargaining or other labor union contract applicable to persons employed by the Company or its subsidiaries nor to the knowledge of the Company is any unionization drive or election being conducted as to any of its employees or those of any of its subsidiaries, and no collective bargaining agreement is being negotiated by the Company or any of its subsidiaries. As of the date hereof, there is no labor dispute, strike or work stoppage against the Company or any of its subsidiaries pending or threatened in writing which may interfere with the respective business activities of the Company or its subsidiaries, except where such dispute, strike or work stoppage would not have a Company Material Adverse Effect. As of the date hereof, to the knowledge of the Company, none of the Company or any of its subsidiaries, or their respective representatives or employees, has committed any unfair labor practices in connection with the operation of the respective businesses of the Company or its

subsidiaries, and there is no charge or complaint against the Company or its

subsidiaries by the National Labor Relations Board or any comparable state agency pending or threatened in writing, except where such unfair labor practice, charge or complaint would not have a Company Material Adverse Effect.

(j) The Company has made available to Parent a list of each employee of the Company and its subsidiaries with each such employee's date(s) of hire, title, position, description of job duties, and compensation (including base salary, commissions, bonuses and other material incentive compensation), which list shall also indicate whether such employee is hourly or salaried. With respect to the list described in the preceding sentence, at the Effective Time, the Company shall provide Parent with such list accurately updated as of the Effective Time.

SECTION 3.12. Taxes. Except for such matters that would not have a Company Material Adverse Effect, (a) the Company and its subsidiaries have timely filed or will timely file all returns and reports required to be filed by them with any taxing authority with respect to Taxes (as hereinafter defined) for any period ending on or before the Effective Time, taking into account any extension of time to file granted to or obtained on behalf of the Company and its subsidiaries, (b) all Taxes shown to be payable on such returns or reports that are due prior to the Effective Time have been paid or will be paid, (c) the Company believes that all Taxes otherwise due prior to the Effective Time have been paid or will be paid, (d) as of the date hereof, no deficiency for any material amount of Tax has been asserted or assessed by a taxing authority against the Company or its subsidiaries, and (e) no consent under Section 341(f) of the Code has been filed with respect to the Company or any of its subsidiaries.

SECTION 3.13. Material Contracts. Section 3.13 of the Company Disclosure Schedule sets forth a list, as of the date hereof, of all (a) written employment, severance, termination, consulting (to the extent any thereof involve annual payments of at least \$25,000 or are not terminable on less than 366 days' notice without material penalty) and retirement agreements to which the Company or any of its subsidiaries is a party, (b) written collective bargaining agreements to which the Company or any of its subsidiaries is a party, (c) written agreements (excluding through-put agreements), including leases, that require aggregate future payments by or to the Company or any of its subsidiaries of more than \$250,000 that are not terminable by the Company or any of its subsidiaries on less than 366 days' notice without material penalty (other than purchase orders entered into in the ordinary course of business), (d) written agreements containing covenants limiting the freedom of the Company or any of its subsidiaries to compete with any person in any line of business or in any area or territory, (e) license agreements involving annual payments in excess of \$25,000, (f) indentures, mortgages and notes or other debt instruments evidencing indebtedness in excess of \$100,000, (g) material written agreements of the Company or any of its subsidiaries with any security holder or affiliate of the Company, (h) written agreements of the Company involving payments in excess of \$100,000 containing any provisions with respect to a "change in control" of the Company, and (i) agreements under which the Company or any of its subsidiaries has advanced or loaned any amount in excess of \$25,000 to any of its directors, officers or employees (collectively, the "Material

Contracts"). Except as would not have a Company Material Adverse Effect, (a) the Company and its subsidiaries are not in default under any of the Material Contracts, and (b) to the Company's knowledge, the other parties thereto are not in default and the Material Contracts are valid and binding obligations of the other parties thereto. The Company and its subsidiaries have no commitments to make charitable contributions in excess of \$10,000 per year, except for any contributions made to match employee contributions consistent with past practice.

SECTION 3.14. Properties. Each of the Company and its subsidiaries has good, valid and, in the case of real property, marketable fee simple, title to all the material assets and properties which it owns and which are reflected on the Balance Sheets (except for assets and properties sold, consumed or otherwise disposed of by them since the dates thereof), and such assets and properties are owned free and clear of all Encumbrances, except for (a) liens for taxes and assessments not yet due and payable or for taxes the validity of which is being contested in good faith, (b) Encumbrances to secure indebtedness reflected on the Balance Sheets or indebtedness incurred in the ordinary course of business and consistent with past practice after the date thereof, (c) mechanic's, materialmen's and other Encumbrances that have arisen in the ordinary course of business and (d) imperfections of title and Encumbrances the existence of which do not have a Company Material Adverse Effect. All the material buildings, equipment and other tangible assets of the Company and its

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subsidiaries (whether owned or leased) are in normal operating condition (normal wear and tear excepted) and are fit for use in the ordinary course of business.

SECTION 3.15. Insurance. All material insurance policies (the "Insurance Policies") with respect to the property, assets, operations and business of the Company and its subsidiaries are in full force and effect in all material respects. There are no pending material claims against the Insurance Policies by the Company or any of its subsidiaries as to which the insurers have denied liability.

SECTION 3.16. Environmental and Safety Matters. (a) As of the date hereof, to their knowledge, the Company and its subsidiaries have complied and are in compliance with all applicable Environmental and Safety Requirements (as hereinafter defined), except where such noncompliance would not have a Company Material Adverse Effect. "Environmental and Safety Requirements" means all federal, state, local and foreign statutes, regulations, ordinances and other provisions having the force or effect of law, all judicial and administrative orders and determinations, all contractual obligations and all common law concerning public health and safety, worker health and safety, chemical process safety, and pollution or protection of the environment, including, without limitation, all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, chemical substances or

mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation.

(b) Without limiting the generality of the foregoing, to their knowledge, except as would not have a Company Material Adverse Effect, as of the date hereof, the Company and its subsidiaries have obtained and complied with, and are in compliance with, all permits, licenses and other authorizations that may be required pursuant to Environmental and Safety Requirements for the occupation of their facilities and the operation of their business. A list of all such permits, licenses and other authorizations is set forth in Section 3.16(b) of the Company Disclosure Schedule.

(c) As of the date hereof, the Company and its subsidiaries have not received any material written or oral notice, report or, to their knowledge, other information regarding any liabilities or potential liabilities (whether accrued, absolute, contingent, unliquidated or otherwise), including any investigatory, remedial or corrective obligations, relating to the Company or its subsidiaries or their facilities and reasonably likely to arise under Environmental and Safety Requirements.

(d) To their knowledge, none of the following exists, as of the date hereof, at any property or facility owned or operated by the Company or its subsidiaries:

1. underground storage tanks or surface impoundments;
2. material amounts of asbestos-containing material in any form or condition; or
3. materials or equipment containing material amounts of polychlorinated biphenyls.

(e) To its knowledge, as of the date hereof, neither the Company nor its subsidiaries has disposed of waste from Company facilities during the period of the Company's control of such facilities, including, without limitation, any hazardous substance, or owned or operated any facility or property of the Company and its subsidiaries so as to give rise to liabilities for response cost, natural resource damages, or attorneys' fees pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended, or similar state environmental and safety requirement.

(f) To the knowledge of the Company and its subsidiaries, neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any material obligations for site investigation or cleanup, or notification to or consent of government agencies or third parties, pursuant to

any of the so-called "transaction-triggered" or "responsible property transfer"



## Environmental and Safety Requirements.

(g) To their knowledge, as of the date hereof, neither the Company nor its subsidiaries have, either expressly or by operation of law, assumed or undertaken any material liability, including, without limitation, any material obligation for corrective or remedial action, of any other person relating to Environmental and Safety Requirements.

(h) To the knowledge of the Company and its subsidiaries, as of the date hereof, no property or facility now owned or operated by the Company or its subsidiaries is presently operated in a manner which requires permitting as a hazardous waste treatment, storage or disposal facility for purposes of the Resource Conservation and Recovery Act or any analogous state law.

(i) To the knowledge of the Company and its subsidiaries, there have been no material environmental investigations, studies, audits, tests, reviews or other analyses of any property or facility now or previously owned or operated by the Company or any subsidiary which have not been provided or made available to Parent.

(j) To the knowledge of the Company and its subsidiaries, as of the date hereof, no material facts, events or conditions relating to past or present facilities, properties or operations of the Company or its subsidiaries will prevent continued compliance with Environmental and Safety Requirements in all material respects or give rise to any material investigatory, remedial or corrective obligations pursuant to Environmental and Safety Requirements, or give rise to any other material liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) pursuant to Environmental and Safety Requirements.

(k) To the knowledge of the Company and its subsidiaries, as of the date hereof, each of the Company and its subsidiaries has conducted its business and owned, operated or used its facilities and properties in such a manner as to preserve and maintain in all material respects any material rights relating to Environmental and Safety Requirements held by any of them pursuant to any agreement, as amended, by which such Company or subsidiary acquired such business, facilities or properties, except for such rights which have expired by virtue of the mere passage of time and could not have been perfected by timely notice or other action, and none of the Company or its subsidiary has acted or failed to act in such a manner as to materially impair any such material right to indemnification.

SECTION 3.17. Certain Information. To the Company's knowledge, the information set forth in the schedule referred to in Section 3.17 of the Company Disclosure Schedule, taken as a whole, was correct as of the date on which it was furnished to Parent in all material respects.

SECTION 3.18. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by any Basic Agreement based upon arrangements made by or on behalf of the Company.

## ARTICLE IV

### REPRESENTATIONS AND WARRANTIES OF PARENT AND PARENT SUB

Except as set forth in the disclosure schedule delivered by Parent and Parent Sub to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule"), which shall identify exceptions by specific section references, Parent and Parent Sub hereby jointly and severally represent and warrant to the Company that:

SECTION 4.01. Organization and Qualification; Subsidiaries. Each of Parent and Parent Sub is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has all requisite power and authority to own, lease and operate its properties

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and to carry on its business as it is now being conducted. The term "Parent Material Adverse Effect" as used in this Agreement means any change or effect (other than a change or effect relating to the industry of the Parent, the financial markets or the economy generally) that, individually or when taken together with all such other changes or effects, would be materially adverse to the financial condition, business, operations, earnings or prospects of Parent and its subsidiaries, taken as a whole.

SECTION 4.02. Certificate of Incorporation and By-Laws. Parent has heretofore furnished to the Company a complete and correct copy of the Articles or Certificate of Incorporation and the By-Laws, as amended or restated, of each of Parent and Parent Sub.

SECTION 4.03. Authority. (a) Parent has all requisite corporate power and authority to execute and deliver each Basic Agreement, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby to be consummated by Parent (other than approval of the issuance of Parent Common Shares (as hereinafter defined) pursuant to the MNO Stock Put Agreement (as hereinafter defined) pursuant to Section 312.03(b) of the New York Stock Exchange Inc. Listed Company Manual (the "NYSE Manual") by the holders of a majority of the outstanding Common Shares, without par value, of Parent ("Parent Common Shares")). The execution and delivery of each Basic Agreement and the consummation by Parent of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action and no other corporate proceedings on the part of Parent are necessary to authorize any Basic Agreement or to consummate the transactions contemplated hereby and thereby (other than, with respect to the approval of the issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement, by the holders of a majority of the outstanding Parent Common Shares). Each Basic Agreement has been duly executed and delivered by Parent and constitutes the legal, valid and



binding obligation of Parent.

(b) Parent Sub has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby to be consummated by Parent Sub. The execution and delivery of this Agreement by Parent Sub and the consummation by Parent Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action and no other corporate proceedings on the part of Parent Sub are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent Sub and constitutes a legal, valid and binding obligation of Parent Sub. Parent, as the sole stockholder of Parent Sub, has duly approved and adopted this Agreement in accordance with Delaware Law.

SECTION 4.04. No Conflict; Required Filings and Consents. (a) The execution and delivery of this Agreement by Parent and Parent Sub and of each other Basic Agreement by Parent do not, and the performance of this Agreement by Parent and Parent Sub and of each other Basic Agreement by Parent will not (i) conflict with or violate the Certificate of Incorporation or By-Laws, or the equivalent organizational documents, in each case as amended or restated, of Parent, Parent Sub or any of Parent's subsidiaries, (ii) conflict with or violate any Laws in effect as of the date hereof applicable to Parent, Parent Sub or any of Parent's subsidiaries or by which any of their respective properties is bound, or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or require payment under, or result in the creation of a lien or encumbrance on, any of the properties or assets of Parent, Parent Sub or any of Parent's subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent, Parent Sub or any of Parent's subsidiaries is a party or by which Parent, Parent Sub or any of Parent's subsidiaries or any of their respective properties is bound, except for any such conflicts or violations described in clause (ii) or breaches, defaults, events, rights of termination, amendment, acceleration or cancellation, payment requirements or liens or encumbrances described in clause (iii) that would not have a Parent Material Adverse Effect.

(b) The execution and delivery of this Agreement by Parent and Parent Sub and of each other Basic Agreement by Parent do not, and the performance of this Agreement by Parent and Parent Sub and of each other Basic Agreement by Parent will not, require Parent or Parent Sub to obtain any consent, approval, authorization or permit of, or to make any filing with or notification to, any Governmental Entities based on

laws, regulations or other requirements of any Governmental Entities, except (i) for applicable requirements, if any, of the Exchange Act and the HSR Act and the filing and recordation of the Certificate of Merger as required by Delaware Law

and (ii) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, either individually or in the aggregate, prevent Parent or Parent Sub from performing its obligations under this Agreement or Parent from performing its obligations under any other Basic Agreement and, in any such case, would not have a Parent Material Adverse Effect.

SECTION 4.05. Reports; Financial Statements. Since March 31, 1992, Parent and its subsidiaries have filed (i) all forms, reports, statements and other documents required to be filed with (A) the SEC, including, without limitation (I) all Annual Reports on Form 10-K, (II) all Quarterly Reports on Form 10-Q, (III) all proxy statements relating to meetings of stockholders (whether annual or special), (IV) all Current Reports on Form 8-K, (V) all other reports or registration statements and (VI) all amendments and supplements to all such reports and registration statements (collectively, the "Parent SEC Reports") and (B) any other applicable state securities authorities and (ii) all forms, reports, statements and other documents required to be filed with any other applicable federal or state regulatory authorities, except where the failure to file any such forms, reports, statements or other documents would not have a Parent Material Adverse Effect (all such forms, reports, statements and other documents in clauses (i) and (ii) of this Section 4.05(a) being referred to herein, collectively, as the "Parent Reports"). The Parent Reports, including all Parent Reports filed after the date hereof and prior to the Effective Time (a) were or will be prepared in all material respects in accordance with the requirements of applicable Law (including, with respect to the Parent SEC Reports, the Securities Act and the Exchange Act, and the rules and regulations of the SEC thereunder applicable to such Parent SEC Reports) and (b) did not at the time they were filed, or will not at the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

SECTION 4.06. Absence of Certain Changes or Events. Except as disclosed in the Parent SEC Reports filed prior to the date hereof or as contemplated by this Agreement, during the period commencing January 1, 1994, and ending on the date hereof, there has not been (a) a Parent Material Adverse Effect or (b) any change by Parent or its subsidiaries in their accounting methods, principles or practices.

SECTION 4.07. Ownership of Parent Sub; No Prior Activities. Parent Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement. As of the date hereof and the Effective Time, except for obligations or liabilities incurred in connection with its incorporation or organization and the transactions contemplated by this Agreement and the financing thereof and except for this Agreement and any other agreements or arrangements contemplated by this Agreement or related to the financing of the transactions contemplated hereby, Parent Sub has not and will not have incurred, directly or indirectly, through any subsidiary or affiliate, any obligations or liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreements or arrangements with any

person.

SECTION 4.08. Vote Required. The affirmative vote of the holders of a majority of the outstanding Parent Common Shares to approve the issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement pursuant to Section 312.03(b) of the NYSE Manual is the only vote of the holders of any class or series of Parent capital stock necessary to approve any of the transactions contemplated hereby. The affirmative vote of the holders of a majority of the Parent Sub Common Stock is the only vote of the holders of any class or series of Parent Sub capital stock necessary to approve the Merger.

SECTION 4.09. Financing. (a) Parent or Parent Sub has received and furnished copies to the Company of (i) a commitment letter (the "Commitment Letter") from Citibank, N.A. dated August 5, 1994, pursuant to which Citibank, N.A. has committed, subject to the terms and conditions thereof, to provide to Parent (or to Parent Sub or another subsidiary of Parent) \$597,000,000 in bank financing (the "Bank Financing"), and (ii) a Put Option Agreement dated as of August 8, 1994 (the "MNO Stock Put Agreement"), pursuant to which Minorco has agreed, subject to the terms and conditions stated therein, to purchase, at the option of Parent, 13,333,333 Parent Common Shares for \$100,000,000 in cash in connection with the Merger. The commitment and agreement referred to in clauses (i) and (ii) above are referred to herein as the "Financing

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Commitments", and the financing to be provided thereunder is referred to herein as the "Financing". The aggregate proceeds of the Financing (along with (i) cash held by the Company and its subsidiaries and available to it for such purpose and (ii) cash held by Parent and its subsidiaries) will be in an amount sufficient to consummate the Merger (and make all the payments contemplated by Article II), pay all related fees and expenses and provide adequate working capital for the operation of the Company as of the Effective Time.

(b) Parent acknowledges that the financing structure to be employed by Parent and Parent Sub in connection with the Financing for the transactions contemplated hereby has been and will continue to be devised by Parent and that the Company makes no representation or warranty with respect to such financing structure. As of the date hereof, (i) Parent knows of no facts or circumstances that are reasonably likely to result in any of the conditions set forth in the Financing Commitments (or reasonably likely to be set forth in the definitive documentation therefor) not being satisfied and (ii) the financing structure currently contemplated to be employed in connection with the Financing for the transactions contemplated hereby will permit all the payments contemplated by Article II and the Methanol Hedging Agreement (as hereinafter defined) to be paid in accordance with the terms of Article II and such Methanol Hedging Agreement.

SECTION 4.10. Brokers. Other than S.G. Warburg, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by any Basic

ARTICLE V

COVENANTS

SECTION 5.01. Affirmative Covenants of the Company. The Company hereby covenants and agrees that, prior to the Effective Time, unless otherwise expressly contemplated by any Basic Agreement or consented to in writing by Parent, the Company will and will cause its subsidiaries to (a) operate its business in the usual and ordinary course consistent with past practices; (b) use its reasonable efforts to preserve substantially intact its business organizations, maintain its rights and franchises, retain the services of its respective principal officers and key employees and maintain its relationships with its respective principal customers and suppliers; (c) use its reasonable efforts to maintain and keep its properties and assets in as good repair and condition as at present, ordinary wear and tear excepted, and maintain inventories in quantities consistent with its customary business practice; and (d) use its reasonable efforts to keep in full force and effect insurance and bonds comparable in amount and scope of coverage to that currently maintained; provided, however, that in the event the Company deems it necessary to take certain actions that would otherwise be proscribed by clauses (a) - (d) of this Section 5.01, the Company shall consult with Parent and Parent shall consider in good faith the Company's request to take such action and not unreasonably withhold its consent for such action.

SECTION 5.02. Negative Covenants of the Company. Except as expressly contemplated by any Basic Agreement and except as set forth in Section 5.02 of the Company Disclosure Schedule, or otherwise consented to in writing by Parent, from the date hereof until the Effective Time, the Company will not do, and will not permit any of its subsidiaries to do, any of the following:

(a) (i) increase the periodic compensation payable to or to become payable to any director or executive officer of the Company or any of its subsidiaries, except for increases in salary or wages payable or to become payable in the ordinary course of business and consistent with past practice; (ii) grant any severance or termination pay (other than pursuant to existing severance arrangements or policies as in effect on the date hereof) to, or enter into any employment or severance agreement with, any director, officer or employee of the Company or any of its subsidiaries (other than employment, severance or similar agreements entered into with the consent of Parent, which consent shall not be unreasonably withheld); or (iii) adopt any employee benefit plan or arrangement, except as may be required by applicable Law;

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(b) make any distribution on or in respect of the Senior Preference Units, except out of Available Cash (as defined in the AMCLP Agreement);

(c) (i) except as are described in Section 3.03(b) of the Company Disclosure Schedule, redeem, repurchase or otherwise reacquire any shares of its or any of its subsidiaries' capital stock or any securities or obligations convertible into or exchangeable for any shares of its or its subsidiaries' capital stock (other than any such acquisition directly from any wholly owned subsidiary of the Company in exchange for capital contributions or loans to such subsidiary or from terminated employees pursuant to the MEP), or any options, warrants or conversion or other rights to acquire any shares of its or its subsidiaries' capital stock or any such securities or obligations (except in connection with the exercise of outstanding Options referred to in Section 3.03(a) in accordance with their terms); (ii) effect any reorganization or recapitalization of the Company; or (iii) split, combine or reclassify any of the Company's capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock;

(d) (i) except as are described in Section 3.03(b) of the Company Disclosure Schedule, issue, deliver, award, grant or sell, or authorize or propose the issuance, delivery, award, grant or sale (including the grant of any Encumbrances) of, any shares of any class of its or its subsidiaries' capital stock (including shares held in treasury), any securities convertible into or exercisable or exchangeable for any such shares, or any rights, warrants or options to acquire, any such shares (except for the issuance of shares upon the exercise of outstanding Options and except for the issuance of options to employees with the consent of Parent, which consent shall not be unreasonably withheld); or (ii) amend or otherwise modify the terms of any such rights, warrants or options the effect of which shall be to make such terms more favorable to the holders thereof;

(e) acquire or agree to acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division (other than a wholly owned subsidiary) thereof, or otherwise acquire or agree to acquire any assets of any other person (other than the purchase of assets in the ordinary course of business and consistent with past practice) in the case of asset purchases which are material, individually or in the aggregate, to the Company and its subsidiaries, taken as a whole, or make or commit to make any capital expenditures other than capital expenditures in the ordinary course of business consistent with past practice;

(f) sell, lease, exchange, mortgage, pledge, transfer or otherwise dispose of, or agree to sell, lease, exchange, mortgage, pledge, transfer or otherwise dispose of, any of its material assets or any material assets of any of its subsidiaries or make any charitable contributions or commitments therefor except for dispositions or contributions in the ordinary course of business and consistent with past practice;

(g) propose or adopt any amendments to its Certificate of Incorporation or, as to its By-Laws, any amendments that would have an adverse impact on the consummation of the transactions contemplated by this Agreement or

would be adverse to Parent's interests;

(h) (A) change any of its methods of accounting in effect at March 31, 1994, or (B) make or rescind any express or deemed election relating to Taxes, settle or compromise any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes (except where the amount of such settlements or controversies, individually or in the aggregate, does not exceed \$1,000,000), or change any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of the federal income tax returns for the taxable year ending December 31, 1992, except, in the case of clause (A) or clause (B), as may be required by Law or generally accepted accounting principles;

(i) incur any obligation for borrowed money or purchase money indebtedness, whether or not evidenced by a note, bond, debenture or similar instrument, except in the ordinary course of business under existing loan agreements or capitalized leases, or prepay, before the scheduled maturity thereof, any of its long-term debt;

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(k) agree in writing or otherwise to do any of the foregoing; or

(l) initiate, solicit or encourage (including by way of furnishing information or assistance), or take any other action to facilitate, any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Competing Transaction (as hereinafter defined), or negotiate with any person or entity in furtherance of such inquiries or to obtain a Competing Transaction, or agree to or endorse any Competing Transaction, or authorize or permit any of the officers, directors or employees of the Company or any of its subsidiaries or any representative retained by the Company or any of the Company's subsidiaries to take any such action, and the Company shall promptly notify Parent of all relevant terms of any such inquiries and proposals received by the Company or any of its subsidiaries, or by any such officer, director or representative, relating to any of such matters and if such inquiry or proposal is in writing, the Company shall deliver or cause to be delivered to Parent a copy of such inquiry or proposal. For purposes of this Agreement, "Competing Transaction" shall mean any of the following involving the Company or any of its subsidiaries: (a) any merger, consolidation, share exchange, business combination, or other similar transaction (other than the transactions contemplated by this Agreement); (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 25% or more of the assets of the Company and its subsidiaries, taken as a whole, in a single transaction or series of transactions; (c) any tender offer or exchange offer for 25% or more of the outstanding shares of capital stock of the Company; (d) any person shall have acquired, after the date hereof, beneficial ownership or the right to acquire beneficial ownership of, or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) shall have been formed that beneficially owns or has the right to acquire beneficial ownership of, 25% or more of the then outstanding shares of



capital stock of the Company; or (e) any public announcement of a proposal, plan or intention to do any of the foregoing.

SECTION 5.03. Certain Covenants of Parent. (a) Except as expressly contemplated by any Basic Agreement or otherwise consented to in writing by the Company, from the date hereof until the Effective Time, Parent will not, and will not permit any of its subsidiaries to acquire or agree to acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division (other than a wholly owned subsidiary) thereof, or otherwise acquire or agree to acquire any assets of any other person, which, in each case, would materially delay or prevent the consummation of the transactions contemplated by this Agreement.

(b) In connection with the Financing for the transactions contemplated hereby, Parent will not, and will not permit Parent Sub or any of Parent's other subsidiaries (including, after the Effective Time, the Surviving Corporation) to enter into any agreement that will prohibit or otherwise interfere with the making of the payments contemplated by Article II and the Methanol Hedging Agreement in accordance with the terms of Article II and such Methanol Hedging Agreement.

(c) Parent agrees to exercise in full the option provided for in the MNO Stock Put Agreement not later than the last date on which it is permitted to do so thereunder. Parent agrees to give the Company prompt written notice of any proposed amendment to the MNO Stock Put Agreement. Parent agrees not to amend the MNO Stock Put Agreement in any manner that would adversely affect the ability of Parent to close on the put option set forth therein or on the Merger, without the prior written consent of the Company.

SECTION 5.04. Access and Information. Subject to confidentiality agreements to which the Company or any of its subsidiaries is a party, the Company shall, and shall cause its subsidiaries to (i) afford to Parent and its officers, directors, employees, accountants, consultants, legal counsel, agents, lenders (including representatives of any lenders) and other representatives (collectively, the "Parent Representatives") reasonable access at reasonable times upon reasonable prior notice to the officers, employees, agents, properties, offices and other facilities of the Company and its subsidiaries and to the books and records thereof and (ii) furnish promptly to Parent and the Parent Representatives such information concerning the business, properties, contracts, records and personnel of the Company and its subsidiaries (including, without limitation, financial, operating and other data and information) as may be reasonably requested, from time to time, by Parent. The parties hereto acknowledge and agree that, anything herein to the contrary notwithstanding, neither Parent nor

any Parent Representative shall be permitted to conduct any environmental investigation or diligence on the properties or facilities of the Company

without the prior written consent of the Company; provided however, that (i) Parent's lenders (including representatives of lenders) shall be permitted to perform a reasonable "Phase I" analysis (which shall not include any environmental testing) of the type customarily performed by lenders for financings such as the Financing at reasonable times upon reasonable prior notice and (ii) employees of Parent with ongoing responsibilities for environmental matters shall be permitted to perform additional environmental diligence with respect to the Company (which shall not include any environmental testing) at reasonable times upon reasonable prior notice.

SECTION 5.05. Confidentiality. The parties will comply with all their respective obligations under the Confidentiality Agreement dated May 19, 1994, between the Company and Parent (the "Confidentiality Agreement"). The Company agrees to not use, and to keep confidential, any information provided to it by Parent or its subsidiaries (and cause its employees, lenders and advisors to do the same) to the same extent and under the same covenants as provided in the Confidentiality Agreement with respect to Parent's treatment of the Company's confidential information.

## ARTICLE VI

### ADDITIONAL AGREEMENTS

SECTION 6.01. Stockholder Approval. Parent shall, promptly after the date hereof, take all action necessary in accordance with Maryland Law and its Certificate of Incorporation and By-Laws to convene a meeting of Parent's stockholders (the "Parent Stockholders' Meeting"), to approve the issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement. Parent shall use its reasonable best efforts to solicit from stockholders of Parent proxies in favor of the approval of the issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement and to secure the vote or consent of stockholders required to approve the issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement.

SECTION 6.02. Proxy Statement. (a) As promptly as practicable after the execution of this Agreement, Parent shall prepare and file with the SEC a proxy statement in connection with the matters to be considered at the Parent Stockholders' Meeting (the "Parent Proxy Statement"). Parent shall use all reasonable best efforts to cause the Parent Proxy Statement to be "cleared" by the SEC for mailing to the stockholders of Parent as promptly as practicable and shall mail the Parent Proxy Statement to its stockholders as promptly as practicable thereafter. The Company shall furnish all information concerning it and the holders of its capital stock as Parent may reasonably request in connection with such actions.

(b) The information supplied by the Company for inclusion in the Parent Proxy Statement shall not, at the date the Parent Proxy Statement (or any supplement thereto) is first mailed to stockholders, at the time of the Parent Stockholders' Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein



or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event or circumstance relating to the Company or any of its affiliates, or its or their respective officers or directors, should be discovered by the Company that should be set forth in a supplement to the Parent Proxy Statement, the Company shall promptly inform Parent.

(c) The information supplied by Parent for inclusion in the Parent Proxy Statement shall not, at the date the Parent Proxy Statement (or any supplement thereto) is first mailed to stockholders, at the time of the Parent Stockholders' Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event or circumstance relating to Parent or any of its affiliates, or to its or their respective officers or directors, should be discovered by Parent that should be set forth in a supplement to the Parent Proxy Statement, Parent shall promptly inform the Company. All documents that Parent is responsible for filing with the SEC in connection with the transactions contemplated herein will comply as to form and

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substance in all material respects with the applicable requirements of the Exchange Act and the rules and regulations thereunder.

SECTION 6.03. Appropriate Action; Consents; Filings. (a) The Company and Parent shall each use their reasonable best efforts to (i) take, or cause to be taken, all appropriate action, and do, or cause to be done, all things necessary, proper or advisable under applicable Law or otherwise (including, in the case of Parent, consummating the Financing) to consummate and make effective the transactions contemplated by this Agreement, (ii) obtain any consents or approvals with respect to the Merger the absence of which would result in a Company Material Adverse Effect (it being understood that obtaining (i) any thereof that are listed on Exhibit 7.02(c) shall be a condition to Parent's obligation to consummate the Merger, and (ii) any thereof that are not listed on Exhibit 7.02(c) shall not be a condition to Parent's obligation to consummate the Merger), (iii) make all necessary filings, and thereafter make any other required submissions, with respect to this Agreement and the Merger required under (A) the Exchange Act and the rules and regulations thereunder, and any other applicable federal or state securities laws, (B) the HSR Act, and (C) any other applicable Law; provided that Parent and the Company shall cooperate with each other in connection with the making of all such filings, including providing copies of all such documents (except those filed in connection with the HSR Act) to the nonfiling party and its advisors prior to filing and, if requested, to accept all reasonable additions, deletions or changes suggested in connection therewith. The Company and Parent shall furnish all information required for any application or other filing to be made pursuant to the rules and regulations of any applicable Law (including all information required to be included in the Parent Proxy Statement) in connection with the

transactions contemplated by this Agreement.

(b) Each of the Company and Parent agree to cooperate and use their reasonable best efforts to contest and resist any action, including legislative, administrative or judicial action, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) (an "Order") that is in effect and that restricts, prevents or prohibits the consummation of the Merger or any other transactions contemplated by this Agreement, including, without limitation, by pursuing any necessary administrative or judicial appeal or legislative action.

SECTION 6.04. Certifications. The Company shall use its reasonable best efforts to obtain the certifications described in Section 7.02(f).

SECTION 6.05. Public Announcements. Unless otherwise required by applicable Law or stock exchange requirements, Parent and the Company shall consult with each other before issuing any press release or otherwise making any public statements with respect to the Merger and shall not issue any such press release or make any such public statement prior to such consultation.

SECTION 6.06. Indemnification. (a) The Certificate of Incorporation and By-Laws of the Surviving Corporation shall contain the provisions with respect to indemnification set forth in the Certificate of Incorporation and By-Laws of the Company on the date of this Agreement, which provisions shall not be amended, repealed or otherwise modified for a period of six years after the Effective Time in any manner that would adversely affect the rights thereunder of persons who at any time prior to the Effective Time were identified as prospective indemnitees under the Certificate of Incorporation or By-laws of the Company in respect of actions or omissions occurring at or prior to the Effective Time (including, without limitation, the transactions contemplated by this Agreement), unless such modification is required by Law.

Parent will not permit the provisions with respect to indemnification set forth in the Certificate of Incorporation and By-laws of each of AMC, BMCH and BMC on the date of this Agreement to be amended, repealed or otherwise modified for a period of six years after the Effective Time in any manner that would adversely affect the rights thereunder of persons who at any time prior to the Effective Time were identified as prospective indemnitees under any such Certificate of Incorporation or By-laws in respect of actions or omissions occurring at or prior to the Effective Time (including, without limitation, the transactions contemplated by this Agreement), unless such modification is required by Law. Parent will not permit the provisions of Sections 6.07 and 6.08 of each Partnership Agreement to be amended, repealed or otherwise modified for a period of six years after the Effective Time in any manner that would adversely affect the rights

thereunder of persons who at any time prior to the Effective Time were prospective indemnitees under either such Partnership Agreement in respect of

actions or omissions occurring at or prior to the Effective Time (including, without limitation, the transactions contemplated by this Agreement), unless such modification is required by Law.

(b) From and after the Effective Time, the Surviving Corporation shall indemnify, defend and hold harmless the present and former officers, directors and employees of the Company (collectively, the "Indemnified Parties") against all losses, expenses, claims, damages, liabilities or amounts that are paid in settlement of, with the approval of Parent and the Surviving Corporation (which approval shall not be unreasonably withheld), or otherwise in connection with any claim, action, suit, proceeding or investigation (a "Claim"), based in whole or in part on the fact that such person is or was such a director, officer or employee and arising out of actions or omissions occurring at or prior to the Effective Time (including, without limitation, the transactions contemplated by this Agreement), in each case to the fullest extent permitted under Delaware Law (and shall pay expenses in advance of the final disposition of any such action or proceeding to each Indemnified Party to the fullest extent permitted under Delaware Law, upon receipt from the Indemnified Party to whom expenses are advanced of the undertaking to repay such advances contemplated by Section 145(e) of Delaware Law). Parent hereby guarantees the Surviving Corporation's obligations pursuant to this Section 6.06(b).

(c) Without limiting the foregoing, in the event any Claim is brought against any Indemnified Party (whether arising before or after the Effective Time) after the Effective Time (i) the Indemnified Parties may retain the Company's regularly engaged independent legal counsel as of the date hereof, or other independent legal counsel satisfactory to them provided that such other counsel shall be reasonably acceptable to Parent and the Surviving Corporation, (ii) the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received and (iii) the Surviving Corporation will use its reasonable best efforts to assist in the vigorous defense of any such matter, provided that the Surviving Corporation shall not be liable for any settlement of any Claim effected without its written consent, which consent shall not be unreasonably withheld. Any Indemnified Party wishing to claim indemnification under this Section 6.06, upon learning of any such Claim, shall notify the Surviving Corporation (although the failure so to notify the Surviving Corporation shall not relieve the Surviving Corporation from any liability which the Surviving Corporation may have under this Section 6.06, except to the extent such failure prejudices the Surviving Corporation), and shall deliver to the Surviving Corporation the undertaking contemplated by Section 145(e) of Delaware Law. The Indemnified Parties as a group may retain one law firm (in addition to local counsel) to represent them with respect to each such matter unless there is, under applicable standards of professional conduct (as determined by counsel to such Indemnified Parties), a conflict on any significant issue between the positions of any two or more of such Indemnified Parties, in which event, an additional counsel as may be required may be retained by such Indemnified Parties.

(d) This Section 6.06 is intended to be for the benefit of, and shall be enforceable by, the indemnified parties referred to herein, their heirs and

personal representatives and shall be binding on Parent and Parent Sub and the Surviving Corporation and their respective successors and assigns.

SECTION 6.07. Obligations of Parent Sub. Parent shall take all action necessary to cause Parent Sub to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

SECTION 6.08. Investigation. Parent acknowledges and agrees that it will not assert any

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claim against any of the Company's officers, directors, employees, agents, stockholders, affiliates, advisors or other representatives, or hold any of such persons liable, for any inaccuracies, misstatements or omissions with respect to information furnished by the Company or such persons concerning the Company. Parent acknowledges and agrees that none of the Company's stockholders, officers, directors, employees, agents, affiliates, advisors or other representatives have made, or are making, any representations or warranties with respect to the Company, this Agreement, or any of the transactions contemplated hereby, other than as expressly set forth in the MSLEF II Certificate (as hereinafter defined).

SECTION 6.09. Certain Notifications. (a) The Company will provide Parent with prompt notice of all litigation initiated against the Company or any of its subsidiaries after the date hereof.

(b) The Company will promptly notify Parent of the occurrence, after the date hereof, of any material event that could reasonably be expected to result in any of the conditions set forth in 7.01(b), 7.02(g) or 7.02(h) failing to be satisfied at the Effective Time.

## ARTICLE VII

### CLOSING CONDITIONS

SECTION 7.01. Conditions to Obligations of Each Party Under This Agreement. The respective obligations of each party to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived, in whole or in part, to the extent permitted by applicable Law:

(a) Antitrust. (i) The applicable waiting period under the HSR Act shall have expired or been terminated.

(ii) After the date hereof, no antitrust action or proceeding by or before any governmental authority of competent jurisdiction shall have been instituted and be pending against any of the parties hereto to restrain,

prohibit or invalidate the Merger that could reasonably be expected, if adversely determined, to materially adversely affect the ability of the Company or Parent to own or operate any of the three principal facilities of the Company or the three principal facilities of Parent after the Closing.

(b) Litigation, etc. No Governmental Entity or federal or state court of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger. Since the date hereof, there shall not have been instituted and be pending against the Company or any of its subsidiaries any lawsuits or other litigation or proceedings that, individually or in the aggregate, could reasonably be expected, if adversely determined, to have a Company Material Adverse Effect.

(c) Section 280(G). Any payment that would otherwise constitute "an excess parachute payment" (within the meaning of Section 280G of the Code) that will be made to any "disqualified individual" (within the meaning of Section 280G(c) of the Code) as a result of this Agreement and the transactions contemplated hereby shall have been approved by a vote of the stockholders of the Company satisfying the requirements of Section 280G(b)(5) of the Code. The right of any such disqualified individual to receive any such payments shall be subject to the approval of the Company's stockholders described in the preceding sentence.

(d) Methanol Hedging Agreement. BMC and the counterparty named therein shall have executed and delivered a Methanol Hedging Agreement (the "Methanol Hedging Agreement") dated as of the Effective Time, in the form attached hereto as Exhibit 7.01(d).

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SECTION 7.02. Additional Conditions to Obligation of Parent. The obligation of Parent to effect the Merger is also subject to the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of the Company contained in this Agreement (i) in the case of any thereof that are expressly qualified by any materiality qualification, shall be true and correct, subject to such materiality qualification, and (ii) in the case of all other representations and warranties, shall be true and correct in all material respects, in each case as of the Effective Time as though made on and as of the Effective Time, and except that those representations and warranties that address matters only as of a particular date shall remain true and correct, subject to such materiality qualifications or in all material respects, as the case may be, as of such date. Parent shall have received a certificate of the Chief Financial Officer of the Company to such effect.

(b) Agreements and Covenants. The Company shall have performed or

complied with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time, except where the failure to so comply would not have a Company Material Adverse Effect. Parent shall have received a certificate of the Chief Financial Officer of the Company to that effect.

(c) Consents and Approvals. All consents, approvals and authorizations that are described on Exhibit 7.02(c) shall have been obtained.

(d) Dissenting Shares. Not more than 5% of the outstanding shares of Company Common Stock shall be Dissenting Shares.

(e) Options and Related Matters. Parent shall have received satisfactory evidence that all necessary actions shall have been taken so as to conform the rights of option holders with their rights under this Agreement.

(f) Certain Certifications. Each holder of Company Common Stock or Options as of immediately prior to the Effective Time shall have delivered to Parent a certification pursuant to Treasury Regulation Section 1.1445-2 (b) (2) that such holder is not a "foreign person".

(g) Damage. Since the date hereof, there shall not have occurred any physical damage (including damage or erasure to or of software), destruction or catastrophic loss to any of the physical assets (including software) used or owned by the Company or any of its subsidiaries that could, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(h) Environmental. Since the date hereof (i) there shall not have been any emissions, discharges, spills or releases, or any use, treatment, storage, disposal, handling, manufacture, transportation or shipment, of any substance by the Company or any of its subsidiaries which could reasonably be expected to give rise to liabilities, claims or costs pursuant to Environmental and Safety Requirements that, individually or in the aggregate, could reasonably be expected to have a Company Material Adverse Effect and (ii) neither the Company nor any of its subsidiaries shall have received any written notice from any federal, state or local environmental regulatory agency asserting any claim or requiring any investigatory, remedial or corrective action under applicable Environmental and Safety Requirements that, individually or in the aggregate, could reasonably be expected to have a Company Material Adverse Effect.

(i) Certain Agreements. Robert B. Gwyn and Harvey E. O'Neill shall have executed and delivered Agreements dated as of the Effective Time, in the form attached hereto as Exhibit 7.02(i).

(j) MSLEF II Certificate. The Morgan Stanley Leveraged Equity Fund II, L.P. shall have executed and delivered a certificate (the "MSLEF II Certificate") dated as of the Effective Time, in the form attached hereto as Exhibit 7.02(j).

(k) Stockholder Approval. The issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement shall have been approved by the



requisite vote of the stockholders of Parent.

(1) Minimum Cash. The aggregate amount of cash and cash equivalents of the Company and its subsidiaries (other than AMCLP and AMLP) shall be at least \$36 million).

SECTION 7.03. Additional Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is also subject to the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of Parent and Parent Sub contained in this Agreement (i) in the case of any thereof that are expressly qualified by any materiality qualification, shall be true and correct, subject to such materiality qualification, and (ii) in the case of all other representations and warranties, shall be true and correct in all material respects, in each case as of the Effective Time as though made on and as of the Effective Time, and except that those representations and warranties that address matters only as of a particular date shall remain true and correct, subject to such materiality qualifications or in all material respects, as the case may be, as of such date. The Company shall have received a certificate of the Chief Financial Officer of Parent to such effect.

(b) Agreements and Covenants. Parent shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time, except where the failure to comply would not have a Parent Material Adverse Effect. The Company shall have received a certificate of the Chief Financial Officer of Parent to that effect.

## ARTICLE VIII

### TERMINATION, AMENDMENT AND WAIVER

SECTION 8.01. Termination. This Agreement may be terminated at any time prior to the Effective Time:

(a) by mutual consent of Parent and the Company;

(b) by Parent, upon a material breach of any representation, warranty, covenant or agreement on the part of the Company set forth in this Agreement, or if any representation or warranty of the Company shall have become untrue in any material respect, in either case such that the conditions set forth in Section 7.02(a) or Section 7.02(b) would not be satisfied (a "Terminating Company Breach"), provided that, if such Terminating Company Breach is curable by the Company through the exercise of its reasonable best efforts and for so long as the Company continues to

exercise such reasonable best efforts, Parent may not terminate this Agreement under this Section 8.01(b);

(c) by the Company, upon a material breach of any representation, warranty, covenant or agreement on the part of Parent set forth in this Agreement, or if any representation or warranty of Parent shall have become untrue in any material respect, in either case such that the conditions set forth in Section 7.03(a) or Section 7.03(b) would not be satisfied (a "Terminating Parent Breach"), provided that, if such Terminating Parent Breach is curable by Parent through the exercise of its reasonable best efforts and for so long as Parent continues to exercise such reasonable best efforts, the Company may not terminate this Agreement under this Section 8.01(c);

(d) by either Parent or the Company, if there shall be any Order that is final and nonappealable preventing the consummation of the Merger or requiring the divestiture of any of the three principal facilities of the Company, except if the party relying on such Order has not complied with its obligations under Section 6.03(b);

(e) by either Parent or the Company, if the Merger shall not have been consummated before March 31, 1995, except if the party seeking to terminate the Agreement shall be in breach hereof; and

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(f) by the Company, if the issuance of Parent Common Shares pursuant to the MNO Stock Put Agreement shall fail to receive the requisite vote for approval by the stockholders of Parent at the Parent Stockholders' Meeting.

The right of any party hereto to terminate this Agreement pursuant to this Section 8.01 shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any party hereto, any person controlling any such party or any of their respective officers or directors, whether prior to or after the execution of this Agreement.

SECTION 8.02. Effect of Termination. Except as provided in Section 8.05 or Section 9.01, in the event of the termination of this Agreement pursuant to Section 8.01, this Agreement shall forthwith become void, there shall be no liability on the part of Parent, Parent Sub or the Company or any of their respective officers or directors to the other and all rights and obligations of any party hereto shall cease, except that nothing herein shall relieve any party for any breach of this Agreement.

SECTION 8.03. Amendment. This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

SECTION 8.04. Waiver. At any time prior to the Effective Time, any



party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered pursuant hereto and (c) waive compliance by the other party with any of the agreements or conditions contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party or parties to be bound thereby.

SECTION 8.05. Expenses. All expenses incurred by the parties hereto shall be borne solely by the party that has incurred such expenses.

## ARTICLE IX

### GENERAL PROVISIONS

SECTION 9.01. Effectiveness of Representations, Warranties and Agreements. (a) Except as set forth in Section 9.01(b), the representations, warranties and agreements of each party hereto shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any other party hereto, any person controlling any such party or any of their officers or directors, whether prior to or after the execution of this Agreement.

(b) The representations, warranties and agreements in this Agreement (and in any certificate (other than the MSLEF II Certificate) delivered in connection with the Closing) shall terminate at the Effective Time or upon the termination of this Agreement pursuant to Article VIII, except that the agreements set forth in Articles I and II and Sections 6.06 and 6.08 shall survive the Effective Time and those set forth in Sections 5.05, 6.08, 8.02, 8.05 and Article IX hereof shall survive termination.

SECTION 9.02. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered, mailed or transmitted, and shall be effective upon receipt, if delivered personally, mailed by registered or certified mail (postage prepaid, return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like changes of address) or sent by electronic transmission to the telecopier number specified below:

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(a) If to Parent or Parent Sub:

Terra Centre  
600 Fourth Street  
Sioux City, Iowa 51101  
Attention: Chief Executive Officer  
Telecopier: (712) 277-5429

(b) If to the Company:

5100 E. Skelly Drive  
Suite 800  
Meridian Building  
Tulsa, Oklahoma 74135  
Attention: Chief Executive Officer  
Telecopier: (918) 660-6294

SECTION 9.03. Certain Definitions. For purposes of this Agreement, the term:

(a) "affiliate" means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned person;

(b) "AMC" means Agricultural Minerals Corporation, a Delaware corporation;

(c) "AMCLP" means Agricultural Minerals Company, L.P., a Delaware limited partnership;

(d) "AML" means Agricultural Minerals, Limited Partnership, a Delaware limited partnership;

(e) "BMC" means Beaumont Methanol Corporation, a Delaware corporation;

(f) "BMCH" means BMC Holdings Inc., a Delaware corporation;

(g) "business day" means any day other than a day on which banks in the State of New York are authorized or obligated to be closed;

(h) "control" (including the terms "controlled", "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of stock or as trustee or executor, by contract or credit arrangement or otherwise;

(i) "knowledge" or "known" shall mean, with respect to any matter in question, if an executive officer of the Company or Parent, as the case may be, has actual knowledge of such matter;

(j) "Oklahoma CO\2\ Partnership" means Oklahoma CO\2\ Partnership, an Oklahoma general partnership.

(k) "person" means an individual, corporation, partnership, association, trust, unincorporated organization, other entity or group (as defined in Section 13(d) of the Exchange Act);

(l) "Sellers' Representative" means The Morgan Stanley Leveraged Equity Fund II, L.P., acting as agent for the holders of Company Common Stock and holders of Options pursuant to an agency agreement to be dated as of the Effective Time.

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(m) "Significant Subsidiary" or "Significant Subsidiaries" means any subsidiary of the Company or Parent, as the case may be, that would constitute a Significant Subsidiary of such party within the meaning of Rule 1-02 of Regulation S-X of the SEC and, in the case of the Company, includes, without limitation, AMC, AMCLP, AMLP, BMCH and BMC;

(n) "subsidiary" or "subsidiaries" of the Company, Parent, the Surviving Corporation or any other person, means any corporation, partnership, joint venture or other legal entity of which the Company, Parent, the Surviving Corporation or such other person, as the case may be (either alone or through or together with any other subsidiary), owns, directly or indirectly, 50% or more of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity; and

(o) "Tax" or "Taxes" shall mean any and all taxes, charges, fees, levies, payable to any federal, state, local or foreign taxing authority or agency, including, without limitation, (i) income, franchise, profits, gross receipts, minimum, alternative minimum, estimated, ad valorem, value added, sales, use, service, real or personal property, capital stock, license, payroll, withholding, disability, employment, social security, workers compensation, unemployment compensation, utility, severance, excise, stamp, windfall profits, transfer and gains taxes, highway transportation taxes, (ii) customs duties, imposts, charges, levies or other similar assessments of any kind, and (iii) interest, penalties and additions to tax imposed with respect thereto.

SECTION 9.04. Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 9.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

SECTION 9.06. Entire Agreement. This Agreement (together with the Exhibits hereto), and the Confidentiality Agreement constitute the entire agreement of the parties and supersede all prior agreements and undertakings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof.

SECTION 9.07. Assignment. This Agreement shall not be assigned by operation of law or otherwise.

SECTION 9.08. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied (other than the provisions of Sections 6.06 and 6.08), is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

SECTION 9.09. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 9.10. Governing Law; Submission to Jurisdiction. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of law, and each party hereto hereby submits to

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the exclusive jurisdiction of the Delaware courts sitting in chancery for the resolution of all disputes under the Basic Agreements.

SECTION 9.11. Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

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IN WITNESS WHEREOF, Parent, Parent Sub and the Company have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

TERRA INDUSTRIES INC.

By: /s/ Burton M. Joyce

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Name: Burton M. Joyce  
Title: President and Chief  
Executive Officer

AMCI ACQUISITION  
CORPORATION

By: /s/ Burton M. Joyce

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Name: Burton M. Joyce  
Title: President

AGRICULTURAL MINERALS  
AND CHEMICALS INC.

By: /s/ Robert B. Gwyn

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Name: Robert B. Gwyn  
Title: Chief Executive Officer

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS  
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We consent to the incorporation by reference in this Amendment No. 2 to Registration Statement No. 33-52493 of Terra Industries Inc. on Form S-3 of our reports dated February 1, 1994, appearing in and incorporated by reference in the Annual Report on Form 10-K of Terra Industries Inc. for the year ended December 31, 1993, and to the use of our report dated February 1, 1994, appearing in the Prospectus, which is part of this Registration Statement. We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP  
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DELOITTE & TOUCHE LLP  
Omaha, Nebraska  
September 21, 1994

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS  
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We hereby consent to the incorporation by reference in the Prospectus constituting part of this Amendment No. 2 to the Registration Statement on Form S-3 of our report dated February 13, 1992 appearing on page S-3 of Terra Industries, Inc. Annual Report on Form 10-K for the year ended December 31, 1993. We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ PRICE WATERHOUSE LLP  
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PRICE WATERHOUSE LLP

New York, New York  
September 22, 1994

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS  
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We consent to the reference to our firm under the caption "Experts" and to the use of our report dated February 11, 1994, in Amendment No. 2 to the Registration Statement (Form S-3 No. 33-52493) and the related Prospectus of Terra Industries Inc. for the registration of 10,350,000 shares of its common stock.

/s/ Ernst & Young LLP

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Ernst & Young LLP

Tulsa, Oklahoma  
September 22, 1994



POWER OF ATTORNEY

WHEREAS, the Board of Directors of Terra Industries Inc. (the "Company") has approved the issuance and sale of shares of the Company's Common Stock in a public offering (the "Offering");

WHEREAS, the Company, in connection with the Offering, has filed a Registration Statement on Form S-3 (the "Registration Statement") under the Securities Act of 1933 (the "Act") with the Securities and Exchange Commission (the "Commission"); and

NOW, THEREFORE:

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints George H. Valentine, Francis G. Meyer and Burton M. Joyce and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Registration Statement and any or all amendments thereto (including post-effective amendments thereto) or supplements thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This power of attorney has been signed on September 19, 1994 by the following persons:

Signature

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Title

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/s/ REUBEN F. RICHARDS

Chairman of the Board

\_\_\_\_\_  
Reuben F. Richards

/s/ BURTON M. JOYCE

Chief Executive Officer, President and  
Director (Principal Executive Officer)

\_\_\_\_\_  
Burton M. Joyce

Signature

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Title

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<u>/s/ FRANCIS G. MEYER</u> Francis G. Meyer	Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ EDWARD G. BEIMFOHR</u> Edward G. Beimfohr	Director
<u>/s/ CAROL L. BROOKINS</u> Carol L. Brookins	Director
<u>/s/ EDWARD M. CARSON</u> Edward M. Carson	Director
<u>/s/ DAVID E. FISHER</u> David E. Fisher	Director
<u>/s /BASIL T. A. HONE</u> Basil T. A. Hone	Director
<u>/s/ ANTONY W. LEA</u> Antony W. Lea	Director
<u>/s/ JOHN R. NORTON III</u> John R. Norton III	Director
<u>/s/ HENRY R. SLACK</u> Henry R. Slack	Director