



SHERRITT

ANNUAL REPORT 1969



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1969 AT A GLANCE

	1969	1968
Ore milled — tons	1,258,000	<i>1,277,000</i>
Ore reserve — tons	12,600,000	<i>12,600,000</i>
Nickel sales — pounds	22,785,000	<i>25,133,000</i>
Fertilizer sales — tons	263,000	<i>340,000</i>
Revenue from sales	\$66,292,000	<i>\$56,754,000</i>
Operating profit	\$25,364,000	<i>\$14,076,000</i>
Net earnings	\$10,927,000	<i>\$ 4,148,000</i>
Shares outstanding	11,363,000	<i>11,363,000</i>
Earnings per share	96¢	<i>37¢</i>
Dividends per share	40¢	<i>25¢</i>
Working capital	\$15,387,000	<i>\$12,352,000</i>

ANNUAL MEETING

2:30 P.M., Thursday, April 23, 1970
 The Royal York Hotel, (Territories Room)
 Toronto, Ontario

SHERRITT GORDON MINES LIMITED

Directors

W. E. P. DEROCHE,	<i>Chairman of the Board, Partner, Blake, Cassels & Graydon</i>
EDWARD L. DONEGAN,	<i>Solicitor, Blake, Cassels & Graydon</i>
JOHN DRYBROUGH,	<i>Chairman of the Board, Newmont Mining Corporation of Canada Limited</i>
ALAN E. GALLIE,	<i>Vice-President, Marketing</i>
V. N. MACKIW,	<i>Vice-President, Technology and Corporate Development</i>
PLATO MALOZEMOFF,	<i>President and Chairman of the Board, Newmont Mining Corporation</i>
DAVID O. PEARCE,	<i>Vice-President, Newmont Mining Corporation</i>
DAVID D. THOMAS,	<i>President and Chief Executive Officer</i>
J. E. THOMPSON,	<i>Vice-President, Newmont Mining Corporation</i>

Officers

W. E. P. DEROCHE,	<i>Chairman of the Board</i>
DAVID D. THOMAS,	<i>President and Chief Executive Officer</i>
PETER A. CAIN,	<i>Vice-President, Mining</i>
ALAN E. GALLIE,	<i>Vice-President, Marketing</i>
R. G. MACKAY,	<i>Vice-President and Secretary</i>
V. N. MACKIW,	<i>Vice-President, Technology and Corporate Development</i>
WM. H. YOUNG,	<i>Vice-President, Metals & Chemicals</i>
D. J. I. EVANS,	<i>Director of Research</i>
BRUCE I. WATSON,	<i>Treasurer</i>
KENNETH J. HARVEY,	<i>Controller</i>
KENNETH H. BATES,	<i>Assistant Vice-President</i>

Auditors

DELOITTE, PLENDER, HASKINS & SELLS, TORONTO

Solicitors

BLAKE, CASSELS & GRAYDON, TORONTO

Transfer Agents

CANADA PERMANENT TRUST COMPANY, CANADA
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

REPORT OF THE DIRECTORS

To the Shareholders,
Sherritt Gordon Mines Limited.

Your Directors are pleased to submit this report of your Company's operations for the year 1969, including the audited financial statements.

A review of the major events of 1969 shows that it was a most eventful and, on balance, successful year for the Company.

Sharply increased prices for both nickel and copper sold largely on export markets resulted in record levels being established for both sales and net earnings. Sales amounted to \$66,292,000 and net earnings, after full provision for deferred income taxes, amounted to \$10,927,000 or 96¢ per share. Dividend payments in the year were increased to 40¢ per share. At a time when governments, business and labour are concerned with inflationary pressures in Canada, it is significant to note that the overall net profit margin derived from the sale of the Company's products in the Canadian market was less in 1969 than in 1968.

Metal production at both the mine and the refinery, and also Lynn Lake ore reserves, were maintained at about the same level as in the previous year. On the other hand, the amount of Sherritt primary nickel available for sale continued to decline so that, by the end of 1969, the Company no longer could be considered a nickel "producer" supplying a normal list of regular customers. Your Directors, therefore, have decided that, apart from Canadian customers, all nickel sales will be made on a "spot" basis, that is, at the best price obtainable on the date of sale.

Although the production of nitrogenous fertilizers was at a record rate, the

extremely depressed market conditions in western Canada forced the phosphate fertilizer facilities to be shut down for the last two thirds of the year. Both export and domestic fertilizer prices continued to deteriorate and there was a sharp decline in our fertilizer profits.

Preparation of the Fox Mine for production was on schedule and the mine should be ready for start-up during the second quarter of 1970.

The Company discovered a new copper-zinc deposit at Ruttan Lake, some 65 miles southeast of Lynn Lake. Extensive detailed drilling was carried out on the complex ore structure and is continuing. Although no definitive production plans have been made, the indicated ore reserves are considerably larger than the reserves at the Fox Mine but are of lower grade.

The demonstration plant run on nickel laterite ore from the Philippines was successfully completed. Marinduque Mining & Industrial Corporation has since announced its decision to proceed with the construction of a commercial plant in the Philippines with an annual capacity of 75,000,000 pounds of nickel, using our nickel laterite process.

SALES

	1969	1968
Nickel pounds	22,785,000	25,133,000
Copper pounds	13,356,000	11,815,000
Cobalt pounds	725,000	985,000
Fertilizers tons	263,000	340,000

Nickel was in short supply throughout 1969 and this shortage was intensified by the lengthy Sudbury labour strikes. For a number of years

the Company has struggled to service a list of regular customers in the face of an ever-decreasing quantity of primary nickel. This decrease has been brought about by the increased production of fabricated nickel products from the rolling mill and the obligations relating to processing the metal from various outside feed materials which keep the refinery operating at capacity. Accordingly, starting in 1970, the Company will sell what little primary nickel it has available for export on a spot pricing basis. For the past few years the Company has been selling its by-product nickel scrap from the rolling mill on a spot basis and, during 1969, this material was sold at favourable prices.

Our standard nickel powder and briquette prices had been 4¢ U.S. per pound above the prices of the Sudbury producers. On November 24, following the settlement of its labour strike at Sudbury, the major Sudbury producer increased its price from \$1.03 U.S. per pound to \$1.28 U.S. per pound. In adopting this increase we adjusted the prices to our Canadian customers to eliminate the 4¢ premium.

The increase in the volume of copper sales reflected the record production of this metal. Copper prices continued to be very strong throughout 1969. In Canada the copper price increased from 45¢ per pound to 57¢ per pound, and on the London Metal Exchange the price increased in terms of Canadian funds from about 61¢ per pound to about 81¢ per pound at the year end. Almost all copper sales in 1969, except those made to Canadian customers, were based on London Metal Exchange prices. It is interesting to note that the average price of copper sold in Canada was lower than in any other country in the free world.

Although the volume of cobalt available for sale was low, the strongly increased demand for this metal, in part as a substitute for nickel, caused prices to increase world-wide; our price for cobalt powder rose from \$1.85 U.S. per pound to \$2.35 U.S. per pound.

The decline in fertilizer sales in Western Canada which became evident in the last half of

1968 continued through 1969. Despite the sharp reduction in the domestic market and increased pressure from new competitive production facilities, our share of the Western Canadian market remained essentially unchanged. Sales in the northwest United States were maintained at about the same level as in 1968. Shipments to off-shore markets were curtailed because of the unsettled labour conditions at the British Columbia ports. It now appears that deliveries on 1969 sales contracts will be made in 1970 but this labour strife was costly to the Company in terms of increased storage, handling, demurrage and interest charges. Prices which were at a low level at the beginning of the year continued to deteriorate throughout the year. By-product ammonium sulphate production in the United States has depressed the price of this product to record low levels with no relief in sight.

PRODUCTION

	1969	1968
Nickel pounds	23,074,000	25,678,000
Custom nickel pounds	6,954,000	3,920,000
Total nickel pounds	30,028,000	29,598,000
Copper pounds	13,238,000	12,336,000
Cobalt pounds	668,000	894,000
Fertilizers tons	281,000	345,000

Total nickel production for the year was slightly above that of the previous year. Copper production was at a record high because of the treatment of custom materials. Production of cobalt was disappointingly low but process modifications at the refinery should permit the treatment of more cobalt-containing materials in 1970. More nitrogenous fertilizers were produced than ever before but there was a sharp decline in the production of ammonium phosphates with the phosphate plant shut down from May to December due to the lack of markets.

EARNINGS AND DIVIDENDS

	1969	1968
Revenue from sales	\$66,292,000	\$56,754,000
Operating profit	25,364,000	14,076,000
Net earnings	10,927,000	4,148,000
Earnings per share	96¢	37¢
Dividends per share	40¢	25¢

The increase in earnings was entirely attributable to the increased prices received for nickel and copper. We sold a greater quantity of finished nickel products from our rolling mill and mint this year than ever before, and a larger quantity of by-product nickel scrap from the rolling mill operation was sold at spot prices. All deliveries of primary nickel to regular customers were made at producer prices but some primary nickel sold in 1969 for delivery in 1970 is included in the inventory of finished products at spot prices and, therefore, is reflected in 1969 earnings. The average sale price of copper also increased sharply, partly because of the increased Canadian price, but mainly because of the impact of the high London Metal Exchange prices on export sales.

Earnings from the fertilizer operations were reduced to less than half of the previous year not only because of the severe drop in phosphate sales but also due to the continued weakness in the off-shore prices for nitrogenous fertilizers.

As noted in the financial statements, the Company has now adopted the "tax allocation" method of reporting income taxes. Under this method of reporting, earnings are reduced by the amount of the "deferred income taxes" shown in the Statement of Earnings. Deferred income taxes applicable to prior years have been recorded as a charge against Retained Earnings on the Balance Sheet.

LYNN LAKE OPERATION

A total of 1,258,193 tons of ore was mined and milled in 1969 compared with 1,276,517 tons in 1968. The production of nickel and copper in concentrate was at approximately the same level as in the previous year.

Development work, while less than last year, was sufficient to maintain our developed ore position.

Production was started from the N zone above the 3,000' level and exploratory drilling

of selected areas below the 3,000' level intersected low-grade mineralization. Drilling on the 3,000' level also intersected ore-grade mineralization midway between the A and Farley shafts, and 600 feet north of the O zone. An exploration drift was commenced on the 800' level from the Farley shaft to permit exploration of the possible upward extension of the N and O orebodies. Production from the A shaft came to an end when mining of the Upper D orebody was completed in May and all underground ore is now coming from the Farley shaft.

The Manitoba Government continued the construction of their highway to the south and completed a 30-mile section from Leaf Rapids south to the Suwannee River. Apart from the bridge across the Churchill River, this road is now up to pioneer standard for a distance of about 90 miles south and east from Lynn Lake.

The Laurie River power plants supplied 61,703,000 kwh of electric energy during the year. This was less than last year because of the shortage of water until August, when precipitation improved and raised the level of the water reservoirs. In addition, 7,951,000 kwh were generated by diesel power, of which 5,905,000 kwh were supplied to the Fox Mine.

LYNN LAKE ORE RESERVES

Date of calculation	Tons	% Nickel	% Copper
December 31, 1968	12,600,000	0.81	0.43
December 31, 1969	12,600,000	0.77	0.40

The new ore added to the ore reserves was below the average grade of the reserves and was mainly in the O orebody above the 3,000' level. An additional block of about 2,500,000 tons of low-grade ore assaying 0.60% nickel and 0.32% copper has been outlined in the N zone below the 3,000' level, but has not been included in the ore reserves. An extensive study is now under way to determine whether or not the substantial capital expenditures required for the treatment of this and other low-grade material in the mine would be justified.

FOX MINE

At the Fox Mine, good progress was made on both the development of the mine and the construction of facilities.

Underground development at the mine included 11,320 feet of drifting, 6,695 feet of raising and 41,499 feet of diamond drilling. Crosscuts were driven to the orebody on the 400' and 800' levels. Preparation of stopes for mining was under way between the 1,200' level and the 2,000' level. The excavation for the underground crusher was finished and the erection of the crusher was begun.

The installation of the boilers, compressors and rock hoist was completed and the change-over was made from the sinking to the permanent headframe. The "A" rock hoist from Lynn Lake was moved to the Fox Mine and erected for use as the man hoist. The changehouse, garage and warehouse buildings were all completed. The mill building was essentially completed and all major mill equipment and machinery were in place. The mill should be ready early in the second quarter of 1970.

The Fox Mine will start up as soon as the Manitoba Hydro completes its transmission line from Thompson to Laurie River, which will supply the additional power required for the mining and milling load. At the year end 50 miles of this 130-mile transmission line had been constructed and it is expected that the line will be commissioned before the end of the second quarter of 1970.

FOX MINE ORE RESERVES

	Tons	% Copper	% Zinc
As previously calculated	12,269,000	1.74	2.35
As at Dec. 31, 1969	11,300,000	1.96	2.74

The Fox Mine ore reserves were recalculated as at the year end using additional results from underground drilling in the main zone, which is almost complete from 1,200 feet to 2,000 feet in depth and partially complete from 600 feet to 1,200 feet. Previous ore reserve calculations were based entirely on drilling from surface. The west zone of the orebody was found to be separated from the main zone on the lower levels and, for the present, is not included in the new calculation as it has not yet been drilled from underground. No further drilling



FOX MINE — HEADFRAME AND CONCENTRATOR

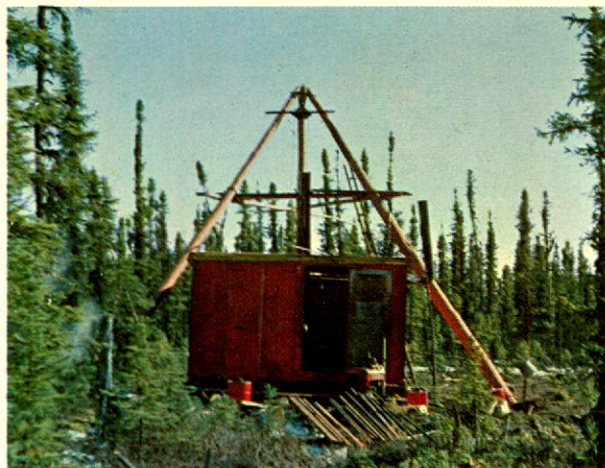
was done below the 2,000' level and no ore is included below this level. No allowance has been included for dilution. Although there has been a drop in tonnage, the overall metal content of the ore reserves has been increased.

RUTTAN LAKE

The highlight of our exploration program for the year was the discovery of a new copper-zinc deposit at Ruttan Lake, approximately 65 miles southeast of Lynn Lake. An anomaly, located by an airborne survey flown by the Company in the spring of 1968, was staked in August of that year and drilling commenced in late March, 1969. The first hole showed important amounts of copper and zinc sulphide mineralization and a program of additional staking and diamond drilling was immediately instituted. By the year end a total of 69,000 feet had been drilled and intensive drilling is continuing.

From the drilling done to date, there appears to be a structure in which mineralization occurs over a length of about 2,800 feet, covered with about 20 feet of overburden. The structure is quite wide (about 450 feet) in the centre section but narrows toward each end. Within this broad structure are at least two large ore lenses which overlap for part of their length. At the overlap the lenses widen, creating a "bulge" in the ore across almost the entire width of the structure. This bulge has been traced downward on an easterly plunge as far as the 700' level. Elsewhere the ore lenses are narrower, and are present as separate, parallel bodies.

Much of the drilling to date has been to shallow depths to provide open-pit information for an early decision on production plans. On the basis of this drilling and using a copper-zinc cut-off equivalent to 0.70% copper, ore reserves have been calculated down to the 400' horizon at 12,900,000 tons averaging 1.44% copper and 2.61% zinc. A detailed study of mining by open-pit methods is now under way. The open pit would probably be deeper than 400 feet in the wide centre section but not as deep at the narrow ends of the ore lenses. In an open-pit operation it is likely that a greater tonnage of somewhat lower grade ore would be mined.



FIRST HEAVY DIAMOND DRILL AT RUTTAN LAKE

The drilling below the 400' level to the east and west of the centre does not yet confirm that the ore lenses extend over the 2,800' length. Two deep holes below the 1,000' horizon failed to intersect any ore. On the other hand, the other two deep holes which have been drilled below this horizon intersected good widths of copper ore grading over 4%. These holes were only about 200 feet apart but they confirm that at least part of the ore extends to a depth of 1,600 feet. The complex nature of the structure demonstrated by the drilling to date makes it clear that much more drilling must be done before a reasonably firm estimate of ore reserves below the 400' level can be calculated.

Two additional heavy drills are being moved to the property and should be in operation before the end of February, 1970, making a total number of nine. A 14-mile tote road from the Manitoba Government highway to the property was completed in December.

OUTSIDE EXPLORATION

Extensive airborne geophysical surveys were flown in Northern Manitoba and in a small area in Northern Ontario during the year. Ground geophysical surveys were conducted on anomalies in Manitoba. A total of 26,364 feet of exploration diamond drilling was done to check selected anomalies in Manitoba and Saskatchewan, but Ruttan Lake was the only success. An option agreement has been arranged with two prospectors for the exploration of a molybdenite prospect in Saskatchewan.

The original drilling program on the joint Sherritt-Western Mining nickel laterite prospect in Western Australia was completed in June, 1969. The 568 holes which were completed on the project did not establish a tonnage of laterite ore of sufficient size to support a hydrometallurgical treatment plant. A review of alternative metallurgical treatment methods is under way to establish the feasibility of mining smaller, higher grade zones in the laterite.

Late in the year an agreement was reached with Klöckner & Co. of Duisburg, Germany, to explore a low-grade nickel prospect in Africa. Under the terms of the agreement Sherritt can acquire a 50% interest in the prospect. A program of geophysical surveys and drilling got under way early in 1970.

FORT SASKATCHEWAN OPERATIONS

Once again an adequate supply of various feed materials allowed the metals plant to operate close to capacity. The plant was shut down for two weeks in the second quarter of the year to permit the replacement of a critical piece of equipment in the ammonia plant. A steady increase in the rate of nickel production was achieved subsequent to the shut-down, with more nickel being produced in December than in any previous month of the refinery's operation. More than half the production was derived from the treatment of material supplied by others, including concentrate, matte, nickel sulphate, nickel-cobalt grindings and nickel-alloy shot produced from a variety of complex scrap materials.

As we had an excess supply of nickel concentrates, arrangements were made with another company, on a temporary basis, to have some of the Lynn Lake concentrates converted to nickel matte, which permits a greater output of nickel from the refinery.

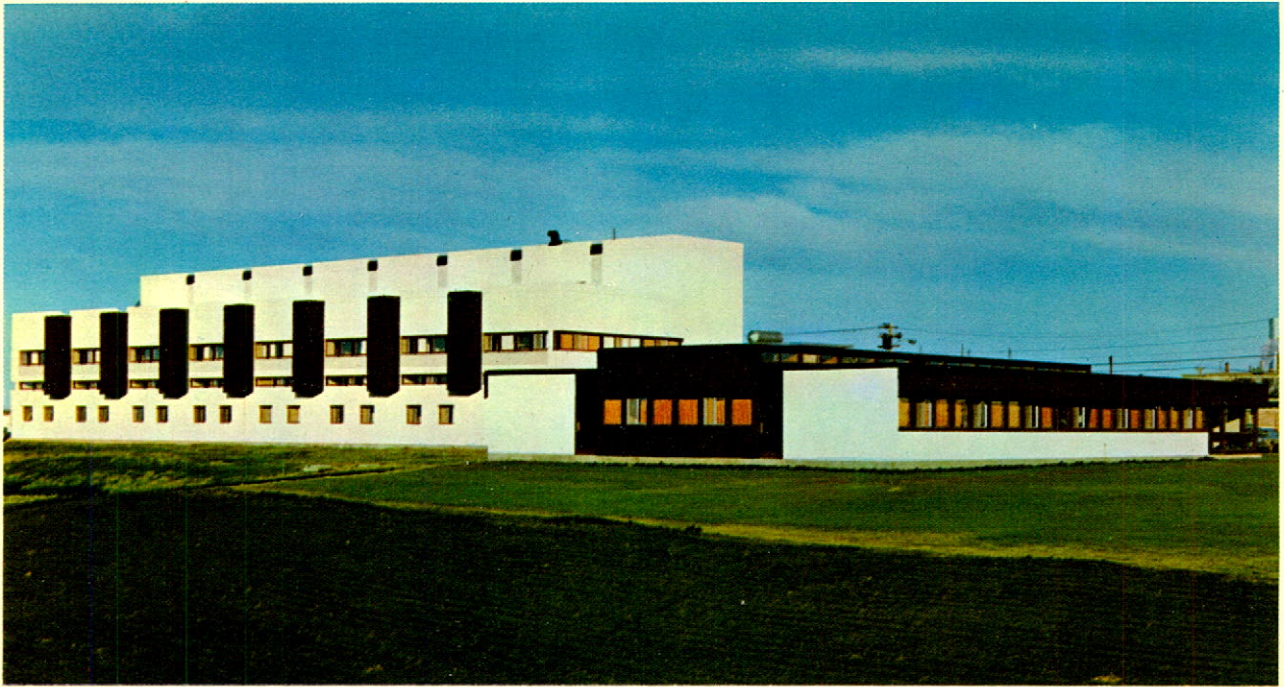
Copper production established a record high but cobalt production decreased by about 25%. Equipment and process changes are now under way, which should result in increased cobalt production in 1970.

An extension of the arrangements with Western Mining Corporation Limited of Australia assures a continued supply of nickel concentrates for the refinery to the end of 1971. However, no supply of nickel matte is assured beyond 1970 and the supply and treatment of alternate, high-grade feed material is being pursued actively.

Production of finished nickel strip and coinage blanks from the rolling mill increased over the previous year by approximately 27%. As a result there was also a substantial increase in by-product scrap material. Nickel coin blanks were supplied to the National Mints of Canada, The Netherlands, Brazil, South Africa and the United Kingdom. Coins ready for issue were struck in The Sherritt Mint for the Central Banks of Syria and Trinidad & Tobago. As the demand for new coinage in Canada has dropped substantially from the high levels of recent years we are forecasting decreased production from the rolling mill in 1970. Some small orders have been obtained for The Sherritt Mint but production from this unit also will probably be at a lower level in 1970.

Both urea and ammonium sulphate production established new highs and ammonia production was only slightly below the record set in 1968. Plant modifications to improve the quality of our ammonium sulphate were substantially completed and this should permit us to obtain an increased share of the domestic and United States markets. The phosphate plant, which was shut down in May, 1969, was started again in January, 1970 to meet the limited market requirements in Western Canada.

Shipment of urea and ammonium sulphate to off-shore markets was completely disrupted by the labour disputes on the British Columbia waterfront which upset shipping schedules from August, 1969 through to February, 1970. At the end of the year, our storage facilities were almost full while we had outstanding export orders for approximately 55,000 tons which could not be shipped. Had these disruptions continued for another two days it would have



RESEARCH AND DEVELOPMENT BUILDING AT FORT SASKATCHEWAN

been necessary to shut down most of our fertilizer complex because of a lack of storage space. Fortunately this 55,000 tons of export business is not lost and will be shipped in the first half of 1970.

RESEARCH AND DEVELOPMENT

The major efforts, again this year, were directed toward metallurgical processes for the recovery of nickel and cobalt from laterite ores. Construction of the demonstration plant, for treatment of 25 tons per day of laterite ore, was completed in January. The plant operated from February to early December treating the ore supplied by Marinduque Mining & Industrial Corporation from their nickel property on Nonoc Island, Surigao, Philippines. By the year end the Sherritt laterite process had been successfully piloted and was ready for commercial application. The plant was then prepared for the second pilot run on laterite ore from New Caledonia, supplied by Société Le Nickel of France. This run started early in February, 1970.

A number of metallurgical and economic evaluations of other laterite nickel ores were conducted throughout the year, which may result

in other licensing or participation ventures for the Company.

A program to develop production methods and new applications for cobalt metal and cobalt alloys was instituted, partially financed by a grant from the National Research Council.

Our research program on the development of dispersion-strengthened, nickel-base alloys for high-temperature applications made good progress during the year. This work is being supported by the Canadian Defence Research Board and the United States Air Force.

A great deal of technical assistance was provided to the refinery, particularly on the development of processes and techniques for the treatment of various feed materials.

Agronomic research work on field plots and new fertilizer products continued, and a new agronomy building was added to our research facilities.

CAPITAL EXPENDITURES

Capital expenditures for the year amounted to \$14,715,000, details of which are shown in

the Statement of Source and Use of Funds in the financial statement section. Capital expenditures increased sharply over the previous year with the construction and development program at the Fox Mine. It is anticipated that substantial expenditures will be required in 1970, particularly if an early decision can be reached on production plans for Ruttan Lake.

PERSONNEL

At the year end the Company had 1,947 employees as compared with 1,776 employees at the end of 1968, distributed as follows:

	1969	1968
Lynn Lake	690	682
Fox Mine	98	24
Fort Saskatchewan:		
Metal and Chemical	782	845
Rolling mill and coinage	52	72
Research and Development	97	73
Demonstration plant and custom projects	172	18
Executive office — Toronto	28	28
Marketing Division:		
Metals — Toronto	9	14
Fertilizers — Edmonton	19	20

A start toward staffing the Fox Mine and the activity resulting from the Ruttan Lake discovery accounted for the increase in the number of employees in the Lynn Lake area. Under the contract with Local 5757, United Steelworkers of America, which is due to expire on May 31, 1970, a general wage increase of 5% became effective on June 1, 1969.

The number of employees at Fort Saskatchewan continued to increase due to our expanding activities in overseas projects. Employment in fertilizer production decreased temporarily because of the shut-down of the ammonium phosphate plant. Under the two-year contract concluded with Local 530, International Chemical Workers' Union on May 1, 1969, a general wage increase of 7.9% became effective on May 1, 1969.

OVERSEAS INTERESTS

Marinduque Mining & Industrial Corporation of the Philippines has announced its formal decision to proceed with the development of a nickel mine and refinery on Nonoc Island, Surigao, Philippines at a cost estimated by Marinduque of \$160,000,000 U.S. Marinduque's exploration program within the Surigao Reservation developed sufficient ore to justify the building of a commercial plant having an annual capacity of 75,000,000 pounds of nickel rather than the 50,000,000 pounds originally contemplated. The refinery will use, under license, the Sherritt laterite refining process which was piloted at Fort Saskatchewan during 1969. In addition to the extensive piloting work performed during the year, Sherritt worked closely with Marinduque's contractor, providing the basic design parameters for the nickel refinery and will continue to act as process consultants throughout the construction period.

In Australia, Western Mining Corporation Limited made good progress with the construction of its nickel refinery at Kwinana, Western Australia. This refinery, which has a designed capacity of 33,600,000 pounds of nickel per year, should start up during the second quarter of 1970. The refinery will use Sherritt's ammonia leach process which has been licensed to Western. Plans have already started for increasing the capacity of this refinery to 40,000,000 pounds per year. Sherritt engineers assisted throughout the year as process consultants in the construction stage and nine senior staff members of Western visited the Fort Saskatchewan refinery for periods of up to six months to familiarize themselves with the process. Early in 1970 thirteen Sherritt employees and their families will move to Australia to assist in the start-up of Western's refinery.

In South Africa, Union Corporation Limited completed the construction of the nickel recovery section of the platinum refinery of its subsidiary, Impala Platinum Limited, Springs, Transvaal. The nickel recovery section utilizes an acid leach process for the recovery of pure nickel powder, which has been licensed by Sherritt to Union.



NICKEL REFINERY (FOREGROUND) OF WESTERN MINING CORPORATION LIMITED AT KWINANNA, WESTERN AUSTRALIA

Five staff members of Union received training at Fort Saskatchewan early in the year and Sherritt provided extensive technical assistance during construction. In addition, six Sherritt engineers and operators assisted in start-up. The total project was completed in July and it is a pleasure to report that the nickel recovery section has been operating continuously and reached capacity three months after start-up. The first nickel powder was produced only eighteen months after the first technical meeting between the personnel of the two corporations — a remarkable achievement!

P. T. Pacific Nikkel Indonesia, a company in which Sherritt holds a 10% interest, carried on a program of exploration to develop nickel laterite deposits in the Waigeo area of Irian Barat (formerly Dutch New Guinea). Initial work has not outlined any single orebody in the Waigeo area large enough to support a commercial refinery and the exploration program has been shifted to the deposits in the Cyclops area. The Cyclops area is on the mainland and a nickel refinery in this area would be more accessible

than on Waigeo. The logistics of working in this part of the world are extremely difficult and some delays appear to be inevitable.

OUTLOOK FOR 1970

The outlook for any Canadian mining company for 1970 and beyond is disturbing. Continued inflationary pressures on domestic production costs will probably be more severe in 1970 than in any previous year. High labour wage settlements and excessive government spending must be brought under control if Canada is to remain competitive in the international marketplace. In the not too distant future, large open-pit nickel laterite deposits in tropical countries will be more than competitive with Canadian nickel sulphide deposits of average grade.

In addition to the problems of inflation, the mining companies are faced with the Government's White Paper on income tax reform. The suggested taxation of the extractive industries contained in the White Paper will

seriously impair the development of the natural resources of Canada. The White Paper includes proposals which severely reduce existing depletion allowances and virtually eliminate the three-year tax-exempt period for new mines. Few people realize that, under this proposed legislation, profits from existing mines, such as our Lynn Lake operation, would be taxed at rates higher than those of other Canadian industries due to the added burden of existing provincial mining royalty taxes.

Because the present mining incentives in the Canadian Income Tax Act have been generous, they have fostered the development of the Canadian North during the past twenty-five years. Railways and roads, power plants and transmission lines, together with complete townsites, have all been built as a direct result of mining operations. These development costs have commonly been borne entirely by the mining companies with little or no support from governments other than the incentives contained in the Income Tax Act. Many levels of government talk of the necessity of developing the North if Canada is to have a prosperous future, but the Federal Government is now proposing a severe limitation on its growth under the guise of equitable tax reform.

* * *

The outlook for the metals side of our business in 1970 is quite promising. We anticipate the demand for nickel will continue to be strong and that some nickel shortage will continue at least through 1970. The current spot price for nickel is less than half the peak price reached in the latter part of 1969 and it is difficult to forecast its future. The outlook for copper is also strong, although we expect some weakening from the current high prices reflected on the London Metal Exchange. The copper price will become increasingly important to the Company with the production from the Fox Mine in the latter half of 1970. The earnings of the Company in 1970 will be dependent to a large extent on our export sales of both nickel and copper. We must emphasize that the extra

earnings presently being derived from spot nickel sales will disappear when supplies come closer to a balance with demand.

It now appears that the fertilizer side of our business will show even less profit in 1970 than it did in 1969. Selling fertilizers to the Prairie farmers to produce more grain which they cannot sell is indeed a difficult task. We hope to maintain our volume of export sales but further price deterioration, particularly in ammonium sulphate, can be expected. However, due to the integrated nature of our metals and fertilizer plants we enjoy unique advantages over other fertilizer producers which should permit us to maintain a modest profit margin even in 1970. As western agriculture diversifies into a sounder economic position our fertilizer profits should gradually improve.

At Ruttan Lake there are many questions still unanswered before production plans can be made. In addition to the program of further exploratory drilling, we are faced with the problems of transportation, power, townsite, financing, marketing and taxation. Many of these problems will require the co-operation of both the Provincial and Federal Governments.

* * *

Your Company's activities are continuing to expand and the work load of employees at all levels continues to increase. The Directors welcome this opportunity of expressing their appreciation of the services of employees in all divisions, many of whom have contributed a great deal of extra time and effort toward the success of your Company during the past year.

On behalf of the Board,



President.

Toronto, Ontario, February 25, 1970.

TEN - YEAR RECORD 1960 - 1969

PRODUCTION

Year	Metal Production — Pounds —				Fertilizer Production Tons
	Total Nickel	Toll Nickel Included	Copper	Cobalt	
1960	30,969,000	7,711,000	10,990,000	310,000	140,000
1961	26,480,000	4,475,000	11,252,000	191,000	138,000
1962	27,204,000	2,890,000	10,531,000	609,000	130,000
1963	23,931,000	2,959,000	11,978,000	608,000	167,000
1964	28,208,000	241,000	13,035,000	594,000	178,000
1965	25,790,000		12,392,000	530,000	214,000
1966	29,522,000	49,000	11,384,000	791,000	303,000
1967	25,080,000	2,855,000	10,716,000	764,000	331,000
1968	29,598,000	3,920,000	12,336,000	894,000	345,000
1969	30,028,000	6,955,000	13,238,000	668,000	281,000

PROFITS AND DIVIDENDS

Year	Revenue from Sales \$	Operating Profit \$	Earnings \$	Earnings Per Share ¢	Dividends \$	Dividends Per Share ¢
1960	24,988,000	7,807,000	2,352,000	21	2,833,000	25
1961	23,947,000	8,026,000	2,507,000	22	3,400,000	30
1962	23,647,000	5,723,000	1,348,000	12	1,700,000	15
1963	30,382,000	7,908,000	1,811,000	16	2,267,000	20
1964	35,361,000	9,567,000	3,102,000	27	2,267,000	20
1965	39,311,000	10,345,000	3,347,000	29	2,270,000	20
1966	44,307,000	9,655,000	2,560,000	23	2,273,000	20
1967	49,375,000	11,832,000	2,992,000	26	2,273,000	20
1968	56,754,000	14,076,000	4,148,000	37	2,841,000	25
1969	66,292,000	25,364,000	10,927,000	96	4,545,000	40

Commencing with 1969 the Company adopted the tax allocation method of calculating income tax. The figures for Earnings and for Earnings Per Share for prior years have been adjusted to the same basis for purposes of comparison.

ORE PRODUCTION AND RESERVES

Year	LYNN LAKE				FOX LAKE		
	Tons Ore Milled	Tons	Ore Reserve % Nickel	% Copper	Tons	Ore Reserve % Copper	% Zinc
1960	1,151,000	14,300,000	0.92	0.53			
1961	1,219,000	14,000,000	0.92	0.54	4,600,000	1.78	2.82
1962	1,263,000	14,000,000	0.94	0.55	4,600,000	1.78	2.82
1963	1,346,000	11,916,000	0.96	0.58	4,600,000	1.78	2.82
1964	1,363,000	11,012,000	0.98	0.59	12,100,000	1.72	2.28
1965	1,364,000	12,600,000	0.84	0.49	12,269,000	1.74	2.35
1966	1,205,000	11,400,000	0.84	0.47	12,269,000	1.74	2.35
1967	1,071,000	11,900,000	0.83	0.46	12,269,000	1.74	2.35
1968	1,277,000	12,600,000	0.81	0.43	12,269,000	1.74	2.35
1969	1,258,000	12,600,000	0.77	0.40	11,300,000	1.96	2.74

Commencing with the year 1965 the Lynn Lake ore reserve includes an allowance for dilution.

SHERRITT GORDON

Incorporated under The

BALANCE SHEET -

(with comparative

ASSETS

CURRENT	1969	1968
Cash	\$ 128,288	\$ 3,172,301
Accounts receivable		
Trade, including due from subsidiary company \$424,754	11,692,292	8,730,693
Other	382,962	696,418
Inventory of raw materials, materials in process and finished products — finished metals sold under contract valued at net realizable value, other materials and products valued at lower of average cost and net realizable value	17,624,822	10,954,787
Operating supplies, spare parts and other materials valued at average cost	3,248,320	3,354,047
Insurance and other prepaid items	115,008	108,310
	33,191,692	27,016,556
FIXED (note 2)		
Property, plant and equipment, at cost	109,682,463	99,300,143
Less accumulated depreciation	49,315,263	44,230,240
	60,367,200	55,069,903
Unamortized mine development and metallurgical research expenditures	14,545,374	11,283,988
	74,912,574	66,353,891
OTHER		
Housing loans due from employees	598,257	660,787
Investment in subsidiary and other companies at cost less amounts written off (note 3)	180,495	170,906
Patents at cost less amounts written off	582,858	659,921
	1,361,610	1,491,614
	\$109,465,876	\$94,862,061

The accompanying notes are an

MINES LIMITED

Corporations Act, Ontario

DECEMBER 31, 1969

figures for 1968)

LIABILITIES

CURRENT	1969	1968
Accounts payable and accrued	\$ 9,291,557	\$ 9,403,936
Income and mining royalty taxes payable (note 4)	4,729,143	1,478,153
First Mortgage Bonds (note 5)		
5½% Sinking Fund Bonds —		
payment due December 31, 1970 (3,525,000 U.S.)	3,783,867	3,782,766
	<u>17,804,567</u>	<u>14,664,855</u>
FIRST MORTGAGE BONDS (note 5)		
5½% Sinking Fund Bonds		
due December 31, 1972 (7,050,000 U.S.)	7,586,727	11,380,091
7¼% Fox Mine Bonds		
due 1970 to 1975	(11,590,000 U.S.)	6,175,800
	<u>20,038,699</u>	<u>17,555,891</u>
DEFERRED INCOME TAXES (note 4)	15,600,000	13,000,000

SHAREHOLDERS' EQUITY

CAPITAL

Capital Stock

Authorized

12,000,000 shares par value \$1 per share

Issued and fully paid

11,363,318 shares 11,363,318

Contributed surplus

Net premium on sale of shares 10,538,927

21,902,245

RETAINED EARNINGS 27,739,070

56,022,610

\$109,465,876

\$94,862,061

Approved by the Board:

W. E. P. DeROCHE, Director.

DAVID D. THOMAS, Director.

integral part of the financial statements.

Sherritt Gordon Mines Limited

STATEMENT OF EARNINGS

for the year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
REVENUE FROM SALES	\$66,291,953	\$56,754,393
Cost of sales	38,031,337	40,171,261
GROSS PROFIT FROM SALES	28,260,616	16,583,132
Research expense	597,112	578,223
Outside exploration expense	722,681	590,137
Administrative and selling expense	1,576,908	1,338,914
	2,896,701	2,507,274
OPERATING PROFIT	25,363,915	14,075,858
Patent licensing revenue	5,605	62,670
Share of profits less losses of subsidiary companies	109,377	100,012
Rentals and other non-operating revenue — net	490,084	26,334
	25,968,981	14,264,874
Interest expense less interest income of \$327,025 (1968 — \$211,379)	510,239	810,142
EARNINGS BEFORE WRITE-OFFS AND TAXES	25,458,742	13,454,732
Depreciation and other write-offs including amortization of intangibles of \$110,928 (1968 — \$109,893)	6,032,120	5,807,019
EARNINGS BEFORE TAXES	19,426,622	7,647,713
Income and mining royalty taxes (note 4) — current	5,900,000	1,500,000
— deferred	2,600,000	2,000,000
	8,500,000	3,500,000
NET EARNINGS FOR THE YEAR	\$10,926,622	\$ 4,147,713
EARNINGS PER SHARE	96¢	37¢

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
BALANCE AT BEGINNING OF THE YEAR	\$27,739,070	\$37,432,187
Deferred income tax adjustment for prior years (note 4)	—	11,000,000
	27,739,070	26,432,187
Net earnings for the year	10,926,622	4,147,713
	38,665,692	30,579,900
Dividends paid — 40¢ per share (1968 — 25¢)	4,545,327	2,840,830
BALANCE AT END OF THE YEAR	\$34,120,365	\$27,739,070

The accompanying notes are an integral part of the financial statements.

STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended December 31, 1969 (with comparative figures for 1968)

FUNDS WERE OBTAINED FROM	1969	1968
Operations for the year		
Net earnings	\$10,926,622	\$ 4,147,713
Amounts deducted in arriving at net earnings which did not involve an outlay of funds		
Deferred income taxes	2,600,000	2,000,000
Depreciation and other write-offs	6,286,735	5,863,874
	19,813,357	12,011,587
Issue of 7¼ % Fox Mine Bonds due 1970 to 1975	6,276,172	6,175,800
Capital research grants	—	21,532
Special refundable tax	—	137,251
	\$26,089,529	\$18,346,170

FUNDS WERE USED FOR

Expenditures on capital and deferred assets		
Lynn Lake mine plant and development costs including townsite facilities and employee housing	\$ 360,344	\$ 586,971
Fox Mine plant and development costs	10,923,283	5,891,391
Ruttan Lake development costs	756,537	—
Fort Saskatchewan		
Metal and chemical plants	1,396,868	1,371,233
Research facilities including laterite demonstration plant and patents	1,046,623	1,685,532
Fertilizer marketing warehouses and equipment	231,357	296,013
	14,715,012	9,831,140
Reduction in long-term indebtedness	3,786,070	3,759,566
Dividends paid	4,545,327	2,840,830
Investment in subsidiary and other companies	7,696	30,556
	23,054,105	16,462,092
Increase in working capital	3,035,424	1,884,078
	\$26,089,529	\$18,346,170

WORKING CAPITAL

Balance at beginning of the year	\$12,351,701	\$10,467,623
Increase during the year	3,035,424	1,884,078
Balance at end of the year	\$15,387,125	\$12,351,701

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Conversion of Foreign Currencies. Transactions in foreign currencies have been converted into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities have been converted at the quoted rate of exchange at December 31, 1969.

2. Fixed Assets.

(A) LAURIE RIVER POWER PLANTS. Under an Agreement entered into in 1967 with the Manitoba Hydro-Electric Board, for the future supply of electric power to the Company for its mining operations at or near Fox Lake and Lynn Lake, Manitoba, the Company will relinquish the ownership of its Laurie River power generation, transmission and distribution facilities not later than June 30, 1970. Thereafter Manitoba Hydro will be responsible for supplying power to the Company for a period of 30 years at a fixed price. During the first ten years of the Agreement the Company is committed to purchase a fixed minimum amount of power.

The Agreement requires the construction by the Company and by Manitoba Hydro of certain transmission lines by June 30, 1970 after which Manitoba Hydro will purchase the present Laurie River facilities for \$1 and the transmission line constructed by the Company at its cost. The undepreciated cost of the Laurie River facilities at June 30, 1970 will be approximately \$2,500,000. The Company will benefit by an adequate supply of electric power at reasonable cost for the Lynn Lake and Fox Mines and for any other development by the Company in the area.

(B) FOX MINE. The Company is obligated under the Fox Mine Bond financing agreement (see note 5) to develop the Fox Mine to production by the end of

1970 at an estimated cost of \$25,000,000 excluding working capital. An amount of \$19,673,949 was expended to December 31, 1969, of which \$11,602,550 is included under property, plant and equipment and \$8,071,399 under unamortized mine development expenditures.

3. Subsidiary Companies. It is the policy of the Company not to consolidate the accounts of subsidiary companies because such companies are inactive or are of relative insignificance. All profits and losses of subsidiary companies have been reflected in the financial statements.

4. Income Taxes. The Company has followed the practice of claiming for tax purposes depreciation and deferred development expenditures to the maximum extent permitted under the Income Tax Act whereas for accounting purposes these items are written off having regard to the estimated useful life of the assets to which they relate. It is the Company's intention to continue this practice.

Commencing with 1969 the Company has adopted the tax allocation method of calculating income taxes as recommended by the Canadian Institute of Chartered Accountants. The figures for the year 1968 have been adjusted to the same basis for purposes of comparison. Under the tax allocation method now used, the provision for income tax is based on accounting income as shown in the Statement of Earnings, whereas previously the provision was based on taxable income and represented the estimated amount of taxes actually payable for the year. The amount of additional tax resulting from this change in method has been reflected in the Statement of Earnings and on the Balance Sheet as

“Deferred Income Taxes”. The estimated amount of income tax deferred for years prior to 1968 amounting to \$11,000,000 has been reflected in the accounts by a deduction on the Statement of Retained Earnings.

If the Company had followed the tax payable method used previously, income taxes for the year 1969 would have been lower by \$2,600,000 (1968 — \$2,000,000) and net earnings would have been shown as \$1.19 per share (1968 — 54¢).

5. First Mortgage Bonds. At December 31, 1969 details of outstanding First Mortgage Bonds were as follows:

1972 5½% Sinking Fund Bonds	
Sinking Fund payments	
Due December 31, 1970	\$ 3,525,000 U.S.
Due December 31, 1971 and 1972	
at \$3,525,000 U.S. each year	<u>7,050,000 U.S.</u>
Total 1972 Bonds outstanding	
December 31, 1969	10,575,000 U.S.

7¼% Fox Mine Bonds

The Loan Agreement provides for the discharge of the Bonds from Fox Mine production but otherwise, the Bonds are repayable by the Company at a minimum rate of 20% per year during the first five years of Fox Mine production.

Authorized for
issue by December
31, 1970

\$16,380,000 U.S.

Issued and outstanding December 31,
1969

11,590,000 U.S.

First Mortgage Bonds outstanding
December 31, 1969

\$22,165,000 U.S.

Under the indenture securing the 1972 Bonds the Company may not make a dividend distribution which would reduce working capital below \$9,000,000.

6. Remuneration of Directors and Officers. In 1969 the direct remuneration of directors and senior officers of the Company was \$295,233 (1968 — \$287,850).

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SHERRITT GORDON MINES LIMITED:

We have examined the balance sheet of Sherritt Gordon Mines Limited as at December 31, 1969 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1969 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving effect to the change in accounting for income taxes as disclosed in note 4 to the financial statements.

Toronto, Ontario, February 13, 1970.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants.

SHERRITT GORDON MINES LIMITED

MINING AND MILLING DIVISION

LYNN LAKE, MANITOBA

PETER A. CAIN, *Vice-President, Mining — Manager*
J. C. FOLINSBEE, *Manager of Mines*
J. A. MACLELLAN, *Manager of Mills and Metallurgy*
L. H. SMITH, *Superintendent of Mechanical and Electrical Services*
G. D. RUTTAN, *Manager of Geology and Exploration*
H. N. BOWERS, *Manager — Administration*
W. F. CLARKE, *Manager of Personnel and Industrial Relations*

METAL AND CHEMICAL DIVISION

FORT SASKATCHEWAN, ALBERTA

WM. H. YOUNG, *Vice-President, Metals and Chemicals — Manager*
H. M. BILKEY, *Manager, Production Group*
B. BENSON, *Manager, Chemicals*
J. R. MUTER, *Manager, Production Services*
A. H. LEE, *Manager, Rolling Mill and Mint*
W. R. MIDDAGH, *Manager, Metals Plant*
R. G. WALFORD, *Manager, Products Distribution*
C. A. HAMES, *Manager, Services Group*
F. B. ARRIS, *Manager, Administration*
J. FERGUSON, *Manager, Employee and Industrial Relations*
A. C. OLIVER, *Manager, Engineering*
M. A. SCHOENING, *Manager, Systems and Economics*
T. W. BENZ, *Manager, Projects Group*
R. J. LOREE, *Manager, Western Mining Project*
P. T. O'KANE, *Manager, Marinduque Project*

RESEARCH AND DEVELOPMENT DIVISION

FORT SASKATCHEWAN, ALBERTA

D. J. I. EVANS, *Director*
H. VELTMAN, *Assistant Director*
K. O. COCKBURN, *Manager, Le Nickel Laterite Project*
S. ROMANCHUK, *Manager, Development*
W. KUNDA, *Manager, Chemical Metallurgical Research*
R. W. FRASER, *Manager, New Products*
P. KAWULKA, *Manager, Technology Research*
M. A. CLEGG, *Manager, Physical Metallurgical Research*
W. E. JANKE, *Agronomist*

MARKETING DIVISION

25 KING STREET WEST, TORONTO 1, ONTARIO

ALAN E. GALLIE, *Vice-President, Marketing*
REX F. PEARCE, *Manager, Metallurgical Sales*

1 THORNTON COURT, EDMONTON, ALBERTA

J. A. FRASER, *Manager, Fertilizer Marketing*
J. M. NICHOLS, *Manager, Western Canadian Sales*

SHERRITT FERTILIZERS INC.

2828 S.W. CORBETT AVENUE, PORTLAND, OREGON 97201

W. R. CHORLTON, *General Manager*

EXECUTIVE OFFICE

25 KING STREET WEST, TORONTO 1, ONTARIO

