SHERRITT INC.

1993
Annual Report

Corporate Profile

SHERRITT INC. IS A CANADIAN PUBLIC COMPANY BASED IN ALBERTA. SHERRITT'S INTEGRATED OPERATIONS INCLUDE THE PRODUCTION AND MARKETING OF FERTILIZERS AND CHEMICALS, THE PRODUCTION AND SALE OF OIL AND NATURAL GAS, THE REFINING AND SALE OF NICKEL AND COBALT, AND THE DEVELOPMENT, PRODUCTION AND MARKETING OF ADVANCED INDUSTRIAL MATERIALS AND METALLURGICAL TECHNOLOGIES. THE COMPANY'S SHARES AND WARRANTS ARE TRADED ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOLS SE AND SE.W RESPECTIVELY.

ANNUAL MEETING OF SHAREHOLDERS

The 1994 annual meeting of shareholders of Sherritt Inc. will be held in the auditorium of the Mackiw Materials Centre, at the Company's plant site in Fort Saskatchewan, Alberta on Thursday, June 9 at 10:30 a.m.

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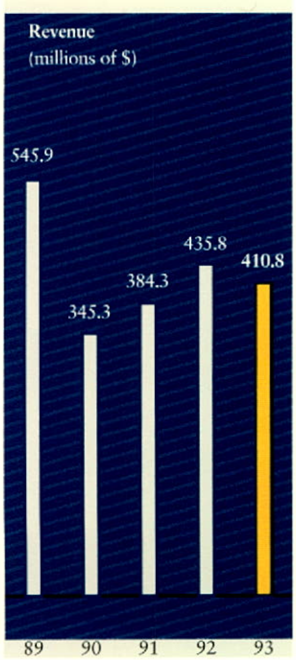
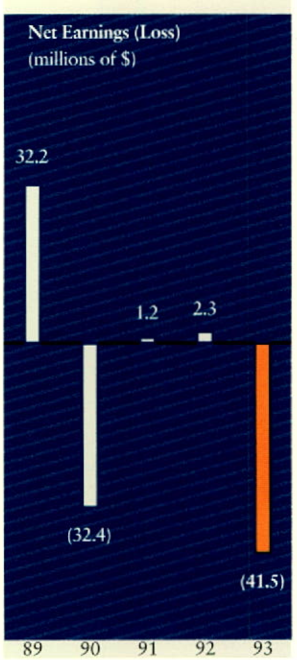
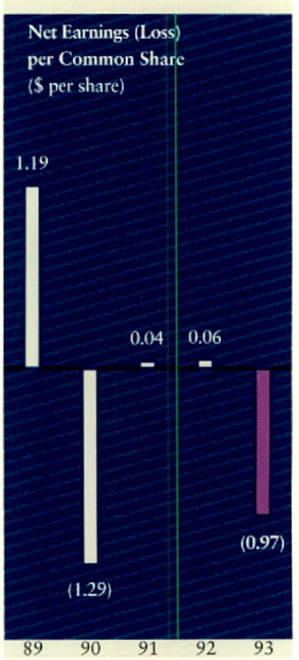
Financial Highlights

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	1993	1992
FINANCIAL RESULTS		
Revenue	**$410,796**	$435,755
Operating earnings (loss)	**(8,774)**	35,733
Net earnings (loss)	**(41,461)**	2,274
Cash provided before working capital changes	**51,778**	63,965
Capital expenditures	**93,670**	85,342
FINANCIAL POSITION		
Total assets	**$885,194**	$866,036
Working capital	**150,394**	61,202
Net bank indebtedness	**6,181**	44,423
Long-term debt (including current portion)	**257,106**	141,884
Convertible subordinated notes	**55,311**	50,657
Shareholders' equity	**296,064**	333,272
PER SHARE		
Earnings (loss)	**$ (0.97)**	$ 0.06
OPERATIONS		
PRODUCTION		
Fertilizers (thousands of tonnes)	**898**	878
Oil (thousands of barrels)	**3,050**	2,767
Natural gas (Bcf)	**18**	18
Nickel (millions of pounds)	**40.4**	36.7
Cobalt (millions of pounds)	**2.7**	1.5







Report to Shareholders

Ian W. Delaney,

Chairman and

Chief Executive Officer,

Sherritt Inc.

Your Company concluded 1993 in a much stronger financial position, with greatly expanded capability in all its product areas. By year-end, your Company had expanded metals plants, renewed manufacturing processes, several new products, and a major fertilizer expansion underway by acquisition. These developments were undertaken in an environment of continuing poor commodity prices for many of our basic businesses which resulted in lower earnings. Today, your Company is better positioned to produce more of its products, at lower costs with a larger market share in most of our key business areas.

Sherritt incurred a net loss of $41.5 million, or $0.97 per common share, in 1993, compared with net earnings of $2.3 million, or $0.06 per common share, in the previous year. The most significant contributing factors related to further weakening of key commodity prices during 1993. This had a dampening effect on revenues and necessitated nickel and cobalt inventory write downs of $13.1 million ($7.3 million after tax) and the ceiling test write down of $15.7 million to oil properties. Nickel and cobalt prices improved in the early part of 1994 from 1993 lows. Oil prices remain low. The Company also incurred a foreign exchange charge of $8.1 million ($6.4 million after tax) in connection with its decision to refinance its long-term debt in the first quarter of 1993. This refinancing left your Company with much improved liquidity and increased cash reserves.

During the year, the management of your Company decided conditions in the fertilizer business were such that the business could be expanded most effectively at this time by acquisition. The outlook for North American fertilizer manufacturers remains positive. World reserves of cereal crops are unusually low. The depletion of nitrogen from soils in North America in the past few years means that there is a growing need for increased levels of fertilizer application. On March 31, 1994, Sherritt completed the acquisition of most of the fertilizer assets of Imperial Oil Limited, making your Company the largest producer of nitrogen and phosphate fertilizers in Canada and one of the largest nitrogen fertilizer producers in North America. Sherritt's combined production facilities will be among the lowest cost producers of nitrogen fertilizer on this continent.

In February 1994, Sherritt completed an offering of 18,500,000 common shares for $11 per share, with net proceeds of approximately $194 million being added to the Company's working capital to be used for general corporate purposes and for potential future acquisitions. In April 1993, Sherritt had issued U.S. $200 million of long-term notes. An additional $135 million of long-term notes and U.S $100 million of debentures were issued coincidentally with the closing of the fertilizer assets acquisition in March 1994.

During 1993, the major expansion and refurbishment of the metals plants were substantially completed. At the end of 1993, the new cobalt plant was operating at an annual rate of 3.5 million pounds. This compares with previous capacity of approximately 2 million pounds. The improved nickel refinery was operating at a rate of 48 million pounds at year-end, which compares with 1993 production of 40.4 million pounds and 1992 production of 36.7 million pounds. During the first quarter of 1994, annual production rates of 4.5 million pounds of cobalt and 56 million pounds of nickel were demonstrated in a plant performance run. We are developing new international markets for this increased cobalt production. We are also expanding the production of our ultra-fine cobalt, based on the successful customer reception to these value-added products. Metals operations returned to operating profitability in late 1993 and the first quarter of 1994.

During 1993, our Westaim research program made some significant advances. This program, a partnership among Sherritt and several Federal government departments and the Province of Alberta continued building on our core strength of technological innovation and process engineering. Our ambitious research and development programs in materials science were well advanced in the year. A number of new patent applications were filed in relation to key Westaim programs and preliminary business development plans were adopted. Four of the major Westaim programs – ceramics, anti-coking coatings, composites and electronics materials – are at the trial manufacturing stage. Management believes that the results of this division of your Company will assume much greater importance in our corporate development in the next few years.

Sherritt's oil and gas subsidiary, Canada Northwest Energy Limited (CNW), suffered from sharply lower oil prices in the second half of 1993. Your Company had acquired CNW in 1991 primarily for its natural gas assets as a strategic complement to its own core fertilizer business at a time when natural gas prices were at historic lows. During 1992 and 1993 the CNW acquisition acted to dampen the effect of rapidly rising natural gas costs. CNW also brought to Sherritt experience in the field of international oil development. Your Company has entered into agreements with Cuba to assist that country in increasing its domestic oil production, and in the fourth quarter of 1993 a new exploration program was undertaken there. This opportunity followed an earlier business relationship which had been established with Cuba through a metals feed supply agreement.

Your management team was strengthened in 1993 by the addition of Michael G. Weedon as Executive Vice President and Chief Operating Officer and Michael G. McKibbin as Senior Vice President, Finance and Chief Financial Officer.

On behalf of shareholders, I would like to thank Eric Sprott, who stepped down from the Board of Directors in 1993. Mr. Sprott played a key role in redirecting the strategy of the Company in recent years.

I would also like to thank all of our employees for their dedication in pursuit of our Company's objectives in 1993.

The outlook for your Company today is better than it has been for many years. The North American economy is expanding, our firm is much larger in most of its divisions, our production facilities have been renewed, prices for our key commodities are improving, and our production costs are falling. All of your management team would like to thank the shareholders for the support required in recent tough economic times to "stay the course". That support has resulted in a secure company which now has the capacity to grow and prosper in the years ahead.

I. W. D

Ian W. Delaney
Chairman and
Chief Executive Officer

On March 31, 1994, Sherritt completed the acquisition of most of the fertilizer assets of Imperial Oil Limited, making your Company the largest producer of nitrogen and phosphate fertilizers in Canada and one of the largest nitrogen fertilizer producers in North America.

Report on Operations

Sherritt Fertilizers

This report discusses the operations of Sherritt Fertilizers for 1993. The Feature which follows on pages 6 and 7 provides more information regarding Sherritt's expanded fertilizer business, resulting from its March 1994 acquisition of the fertilizer assets of Imperial Oil Limited.

Overall results for Fertilizers (including Chemicals) in 1993 were characterized by slightly higher sales revenue but somewhat lower operating earnings than in 1992. Sales revenue was $159.6 million in 1993, up from $158.6 million in 1992.

Operating earnings for Fertilizers (including Chemicals) were $9.9 million in 1993, compared to $14.8 million the previous year. Higher production costs and less tonnage sold more than offset the positive effects of higher fertilizer prices, an increase to earnings from Chemicals and a gain from the decrease of the interest of Unocal Canada Limited in Sherritt's fertilizer business. Fertilizer sales volume for 1993 was 913,000 tonnes – the fourth highest level in Sherritt's history, but below 1992's record sales of 990,000 tonnes, when more inventory had been available for sale. Higher production costs were primarily related to higher natural gas prices and costs associated with the Company's refurbishment of its Fertilizer II plant.

The 1994 market outlook for Sherritt's fertilizer business in western Canada and northwestern U.S. is very positive.

The retrofitting of Fertilizer II was one of the major accomplishments of the division in 1993. It was implemented according to plan in order to make the modernizations and improvements which were necessary after ten years of operation. Although plant outages had occurred during the first half of the year, production targets were consistently exceeded following completion of the retrofit in July. Total nitrogen fertilizer production of 807,000 tonnes in 1993 compared favourably to 800,000 tonnes in 1992. Additional improvements are scheduled for the plant in 1994 to further enhance performance.

Strong demand and a short but intensive application season characterized the 1993 domestic spring fertilizer market with consumption in western Canada up by 6% from 1992. The greatest gain was in nitrogen fertilizers with a 9% increase, while phosphates decreased 4% from the previous year. As a result of weather conditions, over 75% of the spring season's fertilizer volume was sold during the first two weeks of May. Sherritt responded to the needs of its customers, but some nitrogen products were in short supply due to the burden on the distribution system. Late plantings and a cool damp summer resulted in a late harvest which in turn was responsible for a late fall fertilizer application season. However, good weather in November salvaged some of the fall season and helped Sherritt's sales to improve over the previous fall.

Prices for nitrogen products were significantly higher in both the spring and fall compared to 1992 levels. Phosphate prices were lower in the spring but started to improve in the fall and showed a strong upward trend in late 1993.

Prices for urea on the international market were depressed during 1993 as a result of low purchase levels in China. Sherritt did not participate in the offshore market with the exception of its traditional Australian business.

Sales volumes in U.S. markets were slightly higher than the previous year while prices were significantly higher. Revenues benefited from a stronger U.S. dollar relative to the Canadian dollar in 1993.

The market outlook for Sherritt's fertilizer business in 1994 is very positive. The overall economic condition of North American farmers is much improved from the difficult times of the mid-1980s. Farm income is up, farm debt levels are down, and total farm equity is improving as farmland real estate values recover from mid-1980s lows. Farm debt to equity ratios have been good for the past five years and are expected to remain at favourable levels. Prices received by farmers for major crops should be higher, and net farm income should show further gains in 1994.

Improved fertilizer sales are also expected. Heavy crop growth during the last two years has seriously depleted soil nutrient levels in most parts of western Canada. Fall soil tests in Saskatchewan showed the lowest residual nitrogen levels ever noted since records were first kept in the late 1960s. In addition, while some areas of the west were dry during the fall, the overall moisture situation on the prairies was better than average and should provide incentives both to increase fertilizer application rates and to reduce summerfallow area for 1994.

Nitrogen supplies for western Canada are again expected to be tight this spring due to recent production problems at western Canadian fertilizer plants and product movement to U.S. markets where prices continue to be firm. Production costs are expected to rise again in 1994, due to higher natural gas prices. Natural gas prices have dramatically risen since 1991 and are expected to remain high in the near-term. However, the rate of increase is expected to be moderate in 1994.

Sherritt's excellent western Canadian retail distribution system is comprised of approximately 90 independent dealers, United Grain Growers Limited, and Pioneer Grain Company, Limited. This network markets in all four western provinces and is serviced by the Company's sales and marketing organization which provides agronomic and business support services.

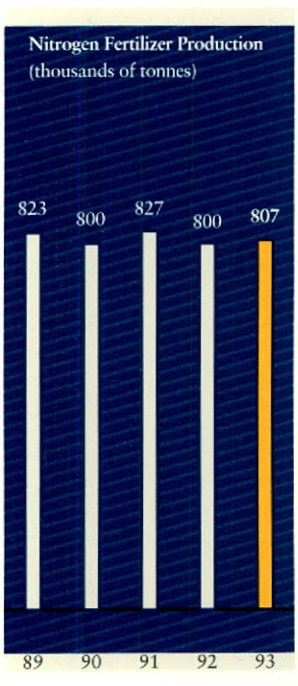
Sherritt's U.S. sales are transacted through a wholly-owned subsidiary, Sherritt Fertilizers, Inc., which concentrates on servicing customers primarily in the Pacific Northwest.

SHERRITT CHEMICALS

Sherritt Chemicals' sales of $15.5 million were almost unchanged from last year's $15.4 million on similar volumes. Profits increased as a result of both productivity gains and somewhat lower operating costs.

Sherritt manufactures a broad range of nitrogen and phosphate fertilizers for markets in western Canada and the northwestern United States, as well as for international markets. Sherritt's Fort Saskatchewan operations, combined with those recently acquired from Imperial Oil Limited, have production capacity in excess of 2.5 million tonnes of nitrogen and phosphate fertilizer products annually. The fertilizer assets purchased by Sherritt consist of a production plant in Redwater, Alberta; distribution terminals in Bloom, Manitoba and Clavet, Saskatchewan; a 10% equity interest in Neptune Terminals in Vancouver, British Columbia; and the manufacturing facilities of Cascade Fertilizers (1990) Limited.

Sherritt's Redwater and Fertilizer II ammonia and urea plants utilize highly energy-efficient processes. This fact, combined with Redwater's and Fort Saskatchewan's access to relatively lower cost natural gas, make these two facilities among the lowest cost producers in North America.



Sherritt Fertilizers: Canada's largest nitrogen and phosphate producer

The newly retrofitted Fort Saskatchewan Fertilizer II plant will contribute to Sherritt's 2.5 million tonnes of annual fertilizer production.

Sherritt's recent fertilizer acquisition is one of the most significant developments in our Company's history, making Sherritt a world leader in the fertilizer business. The fertilizer operations acquired from Imperial Oil Limited, which are principally located in Redwater, Alberta, are among the best in the world. Sherritt is now the largest and lowest cost manufacturer of nitrogen and phosphate fertilizers in Canada and one of the largest producers of nitrogen fertilizers in North America. Operational improvements in production, product mix, distribution and marketing will increase Sherritt's competitiveness and strategically position Sherritt to benefit from strengthening world fertilizer markets. Sherritt's strong market presence in western Canada and the northwestern United States will be further enhanced by this acquisition.

Sherritt first entered the agricultural fertilizer market in 1954 by selling ammonium sulphate, a major by-product of our nickel and cobalt refining process. As the agricultural demand for farm fertilizers increased, Sherritt expanded its fertilizer product line with the addition of a urea plant in 1962 and a phosphate plant in 1965. Fertilizer production capacities increased dramatically in 1983 with the addition of world scale ammonia and urea plants. These plants, which employ a more efficient technology, produce more than 575,000 metric tonnes per year, making Sherritt one of the largest producers in Canada.

The newly acquired anhydrous ammonia and urea production facilities are among the lowest operating cost plants in North America. They employ an efficient conversion technology, similar to Sherritt's Fertilizer II facility, and have economy of scale advantages over many other fertilizer plants in North America, particularly in the United States. This reinforces Sherritt's market position as a low cost nitrogen producer. The addition of ammonium nitrate and ammonium phosphate production greatly improves Sherritt's range of products.

Our combined facilities will produce 2.5 million tonnes of fertilizer annually for customers located throughout the world. The acquisition of additional fertilizer distribution systems greatly enhances the Company's ability to distribute this product efficiently and cost effectively. This results in significant savings opportunities and improved service to our customers.

As part of the purchase arrangements, Sherritt has agreed to supply the Engro retail system on a long-term contract basis. Other Esso wholesale sales will be integrated into Sherritt's existing distribution system. The balance of domestic sales is made through Sherritt's independent dealer network, United Grain Growers Limited and Pioneer Grain Company, Limited.

This acquisition positions Sherritt to benefit from an anticipated increase in United States fertilizer consumption. Higher corn and wheat acreage, due to the elimination of 1994 acreage set aside programs and reduced soil fertility levels, are expected to drive this demand. Sherritt's

United States sales are expected to more than double, compared to its pre-acquisition sales.

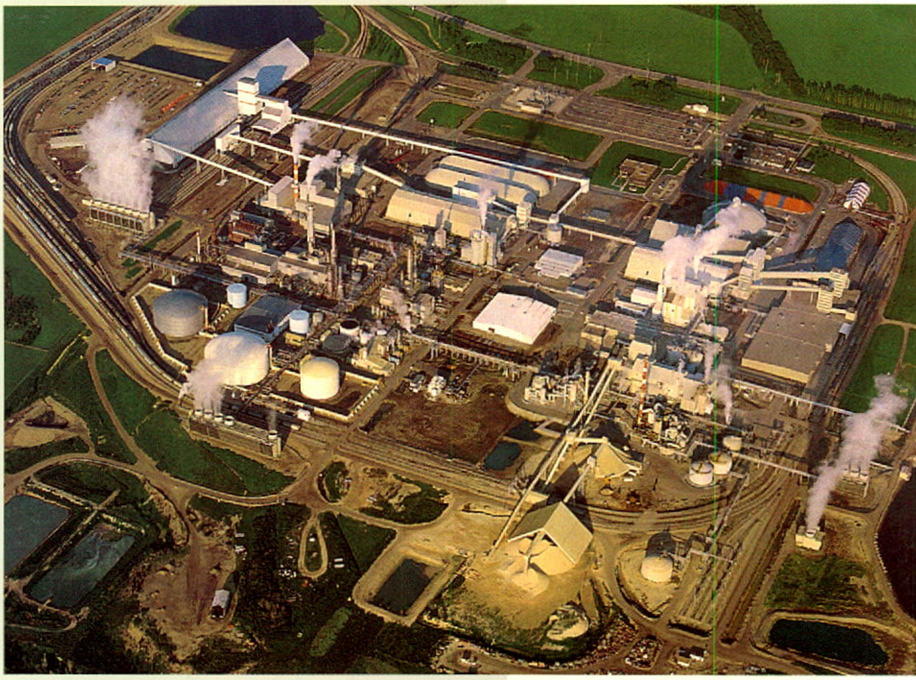
Total sales in all markets are expected to generate annual revenues in excess of $400 million.

Sherritt's marketing efforts are customer focused, with a strong emphasis on service. These efforts have positioned our company as a leader in service and agronomic information. This has resulted in the development of strong customer ties that continue to build and evolve.

As world populations continue to grow, food production and fertilizer demand must increase to meet this growth. Food supply and demand was in a remarkably close balance in 1992, with total grain production only 1.9 per cent greater than consumption. With the world population projected to increase to six billion by the year 2000, production must increase from 1.7 billion to 2.0 billion tonnes of grain. This increase will come primarily from greater yields. World grain acreage peaked in 1981 at approximately 730 million hectares. Since then, harvest acreage has fallen approximately 50 million hectares. Fertilizer demand must grow to achieve the yield increases required and to maintain the productivity of agricultural land.

On the supply side, the rate of increase in new nitrogen capacity has slowed significantly since 1988. Urea exports from Eastern Europe and the former Soviet Union have been dropping since 1989 due to plant closures, load out constraints and logistical problems. North American fertilizer production is running at capacity. Projected increases in nitrogen demand will have to be met by new capacity or additional imports from an increasingly tight world market.

There is a strong historical correlation between producer realized prices for nitrogen and the cost of natural gas. This cost represents the single largest component of the cash cost of nitrogen fertilizer.



The recent escalation of gas prices suggests the end of North American gas surpluses. United States nitrogen producers use almost all spot gas or have contracts tied directly to spot gas prices.

Our newly acquired fertilizer assets have generated average annual revenues of approximately $260 million for the five years ending December 31, 1993. Sherritt's fertilizer and chemicals segment has generated average annual revenues of approximately $150 million over that period. These businesses have a demonstrated record of reliable cash flows. This fertilizer business cash flow is expected to add stability to the Company's overall financial profile.

With Sherritt's new fertilizer operations in Redwater, Alberta, the Company is the largest and lowest cost manufacturer of nitrogen and phosphate fertilizers in Canada.

Sherritt Oil & Gas

Sherritt acquired Canada Northwest Energy Limited (CNW) in 1991 at a time of low natural gas prices. The Company consumes significant amounts of natural gas in the production of nitrogen fertilizer and the CNW acquisition helped to reduce Sherritt's exposure to dramatic increases in the price of natural gas. The investment in CNW continues to provide strong cash flow.

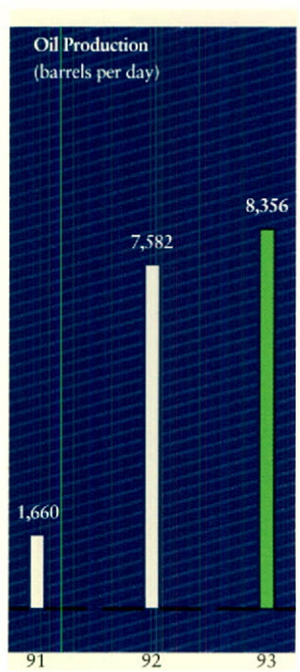
With the acquisition of CNW, the Company also gained experience in foreign oil exploration and production. Following the establishment of a business relationship with Cuba for metal refinery feed, the Company had an opportunity to assist that country to increase its domestic oil production. Sherritt established agreements with Cuba for incremental production sharing covering producing fields and production sharing contracts for some unexplored regions of Cuba.

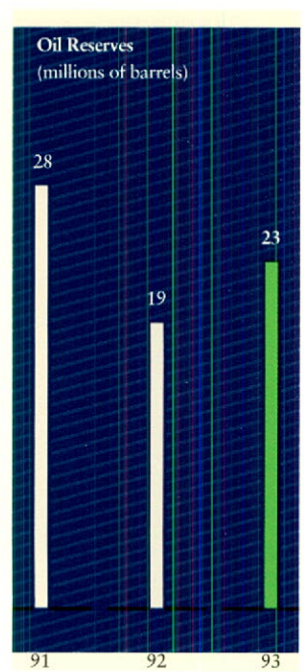
Production of natural gas and oil increased to rates averaging 50 million cubic feet of natural gas per day and 8,356 barrels of oil per day in 1993, from 1992 rates of 49 million cubic feet of natural gas per day and 7,582 barrels of oil per day.

The average price realized for the Company's natural gas improved significantly in 1993. Increased pipeline capacity to export markets improved the ability of Canadian suppliers to deliver to U.S. markets, reducing the supply of natural gas available for Canadian markets. As a result, Sherritt sold spot gas at higher prices and received improved returns for that sold under longer-term contracts. The Company expects to benefit further from these changing natural gas marketplace conditions in 1994.

The increase in oil production reflected the contribution of activity in Cuba, which more than offset production declines in the other countries where Sherritt is located. Canadian fields accounted for 35% of the 1993 production, with 29% from the Casablanca field in Spain, 18% from the Vega field in Italy

Sherritt increased its foreign oil exploration and production activities in 1993.





and the remaining 18% from various fields in Cuba.

Sherritt's average realized price from oil sales was significantly reduced in 1993. Lower prices for benchmark West Texas Intermediate combined with a lower average quality of the Company's oil production contributed to the price decrease.

Sherritt Oil & Gas revenue was $61.6 million in 1993 (after eliminating interdivisional sales of $9.8 million), down from $65.5 million in 1992 (after eliminating interdivisional sales of $4.3 million). Increased internal sales and a decrease in the price received for oil offset the Company's production increases and the improved price for natural gas to yield lower revenue.

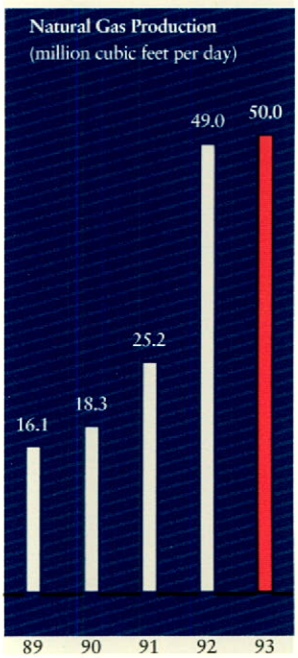
Sherritt Oil & Gas incurred an operating loss of $5.5 million in 1993, compared to operating earnings of $16.3 million for 1992. A ceiling test write down of $15.7 million and increased depletion charges were the major factors contributing to the year-over-year change.

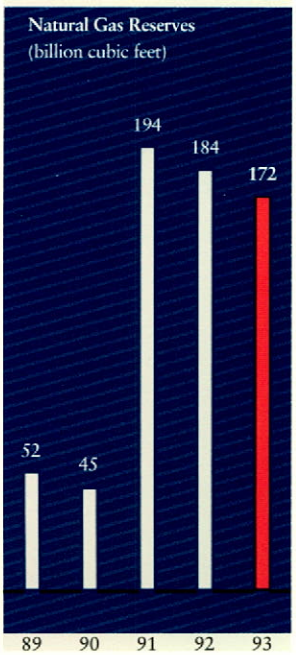
OIL & GAS RESERVES (1) (2)

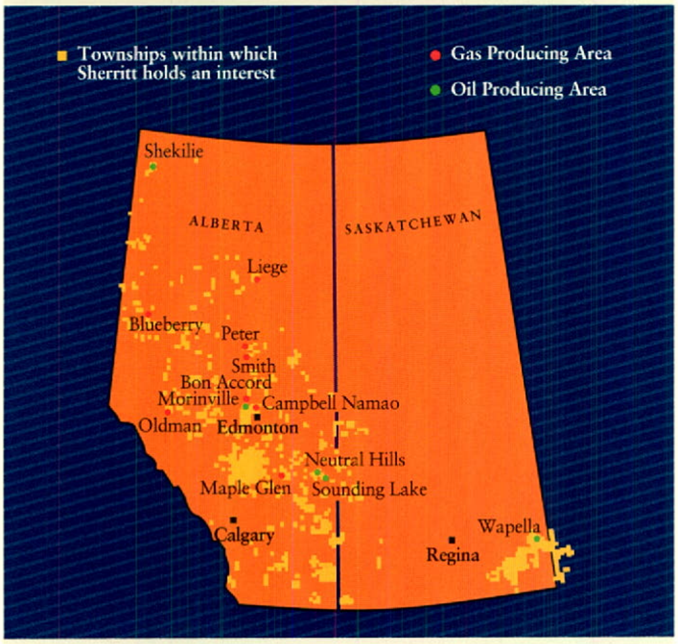
Oil (million barrels)	Canada	Spain	Italy	Cuba	Total
Proved	6.3	1.6	3.6	5.2	16.7
Probable	3.2	1.6	1.3	–	6.1
Proved and Probable	9.5	3.2	4.9	5.2	22.8
Gas (billion cubic feet)					
Proved	115.1	–	2.9	–	118.0
Probable	49.5	–	4.3	–	53.8
Proved and Probable	164.6	–	7.2	–	171.8

(1) The above tables represent the Company's gross reserves before the deduction of royalties.

(2) Oil & Gas reserve estimates were prepared by the Company's engineering staff. In arriving at these estimates, the Company updated estimates of Coles Gilbert Associates Ltd. ("Coles Gilbert"), independent petroleum consultants, used in the 1992 Annual Report. For Cuba, where the Company had no previous reserve reports, the reserves were estimated from the Company's future production profile for these properties; Coles Gilbert reviewed the production profile and concluded that it was reasonable.







Sherritt expects to benefit from changing natural gas marketplace conditions in 1994.

As at December 31, 1993, Sherritt Oil & Gas had proved and probable reserves of 22.8 million barrels of oil and 171.8 billion cubic feet of natural gas.

CANADA

At December 31, 1993, Sherritt's total undeveloped land holdings in Canada were 403,071 net acres, with the majority of this acreage in Alberta. During 1993, natural gas production averaged 48 million cubic feet per day while oil production averaged 2,954 barrels per day. Sherritt participated in the drilling of 92 wells in 1993. This resulted in 47 oil wells, 15 natural gas wells and 30 dry holes. Proved and probable reserves totaled 9.5 million barrels of oil and 164.6 billion cubic feet of natural gas.

SPAIN

Sherritt has a 14.5% interest in the Casablanca oil field, in the Gulf of Valencia. Production from the Casablanca field averaged 16,598 barrels of oil per day (2,405 net to the Company) in 1993, compared to 19,867 barrels of oil per day for the field during 1992.

As at December 31, 1993, the Company's proved and probable reserves in Spain were 3.2 million barrels of oil.

ITALY

Sherritt has a 20% interest in the Vega oil field, 20 kilometers off the southern coast of Sicily. During 1993, production from the Vega field averaged 7,684 barrels of oil per day (1,490 net to the Company), compared to 8,615 barrels of oil per day for the field during 1992. Natural gas production, from other fields in Italy, averaged 2 million cubic feet per day in 1993, relatively unchanged from 1992.

Sherritt's proved and probable reserves in Italy were 4.9 million barrels of oil and 7.2 billion cubic feet of natural gas as at December 31, 1993.

CUBA

Sherritt has an interest in three exploration blocks in Cuba; Block 10, covering the Bay of Cardenas, Block 9, to the south of the Bay of Cardenas and Block 23 in central Cuba. A well, Cupey-1, began drilling on Block 10 late in 1993.

Under the terms of an agreement for enhanced crude petroleum production, the Company produces oil from the Varadero fields, the Boca de Jaruco field and the Pina field. The Company's share of production is sold in Cuba at international market prices. During 1993, Sherritt's portion of the production averaged 1,507 barrels of oil per day. Incremental production is expected to increase during 1994 as Sherritt improves its technology and works on more wells.

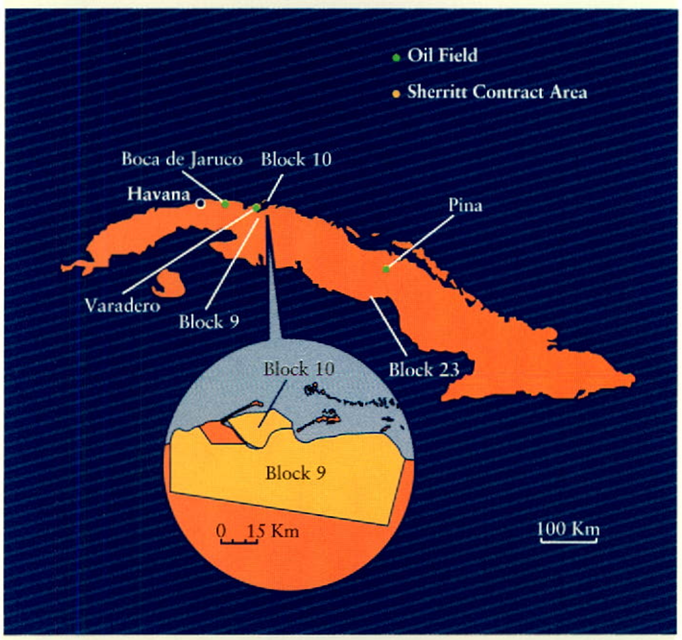
Sherritt's proved and probable reserves in Cuba were 5.2 million barrels of oil as at December 31, 1993.

OTHER AREAS

In Indonesia, the Company has a 5% interest in a 1.9 million acre Production Sharing Contract Area covering the eastern part of Seram Island. A well was drilled on this property during late 1993 and early 1994. Future activity on the block will be determined after evaluation of the results of this well.

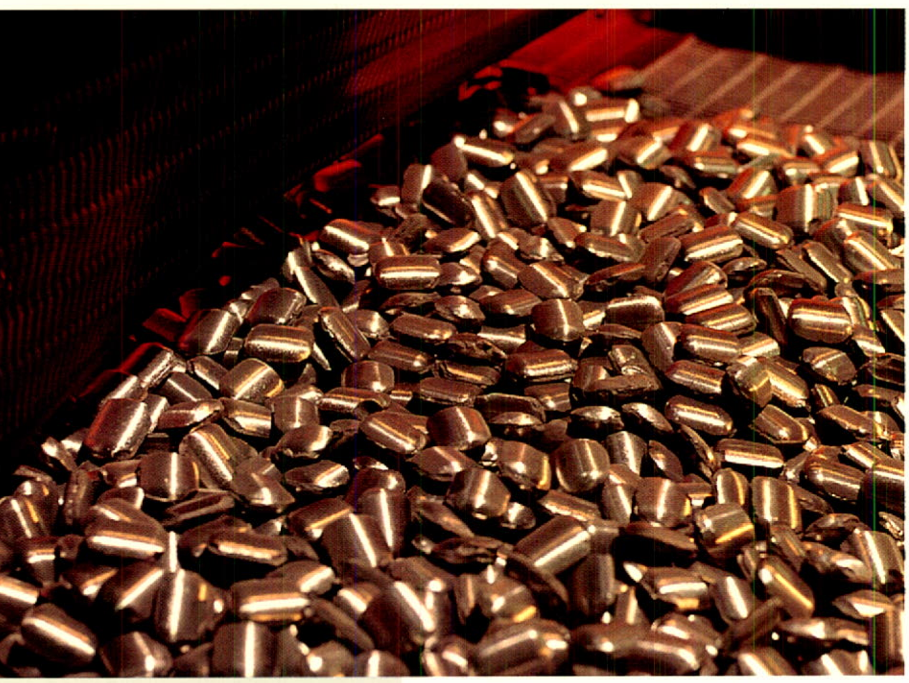
In Pakistan, Sherritt farmed out a portion of its interest in the Ghauspur Block to retain a 30% interest in the Block. The drilling of a well was completed on this block in 1994. Evaluation of the results of the well will determine further activity on the Ghauspur Block. Sherritt has relinquished its interest in two other permits in the central part of Pakistan.

The Company has a 12.5% interest in the United Kingdom Block 47/2 which is located in the southern portion of the North Sea. During 1993, a natural gas discovery was made on the Block. The company's 12.5% share of the costs for the well were paid by a partner. The commercial potential of the accumulation is under evaluation.



Sherritt Oil & Gas operates under the name of Canada Northwest Energy Limited (CNW), a wholly owned subsidiary of Sherritt Inc. Its business is to explore for, develop and produce natural gas and oil reserves. Sherritt Oil & Gas was established in late 1991 when Sherritt combined previously owned gas properties with the newly acquired operations of CNW. As a result of the CNW acquisition, Sherritt was able to produce the equivalent of more than 60% of its annual consumption of 28 billion cubic feet of natural gas. Production of natural gas is concentrated in Canada while oil is produced from several fields in Canada, the Casablanca field in Spain, the Vega field in Italy and several fields in Cuba. In addition to its operations in these regions, Sherritt is actively involved in exploration for hydrocarbons in Indonesia, Pakistan and the North Sea. Sherritt has proved and probable reserves of 171.8 billion cubic feet of natural gas and 22.8 million barrels of oil.

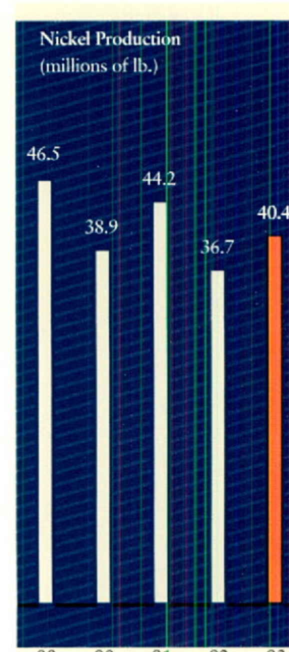
Sherritt Metals



Sherritt's metals operations returned to profitability following the completion of the major expansion and refurbishment of the refinery.

Sherritt Metals substantially completed the expansion of its nickel and cobalt refining facilities in 1993. The metals refinery consistently met its production targets for the last 11 months of 1993 and early 1994, reflecting the successful scale-up and completion of the project. Cobalt production reached an all-time record of 2.7 million pounds – a 78% increase over 1992 production levels, and a 35% improvement over the previous record of 2 million pounds in 1988. Nickel production in 1993 increased by 10% to 40.4 million pounds from the 1992 level of 36.7 million pounds.

The Metals Division, including Coinage, incurred an operating loss of $19.6 million in 1993, compared to a loss of $3.3 million in 1992. The main factors contributing to the loss were the effect of sharply lower nickel and cobalt commodity prices; production levels which, although higher than the previous year, were below plant capacity; and costs associated with the plant start-up. The first fact necessitated write downs by the Company of its metals inventory by $13.1 million ($7.3 million after taxes) for the year. The write downs equated to carrying



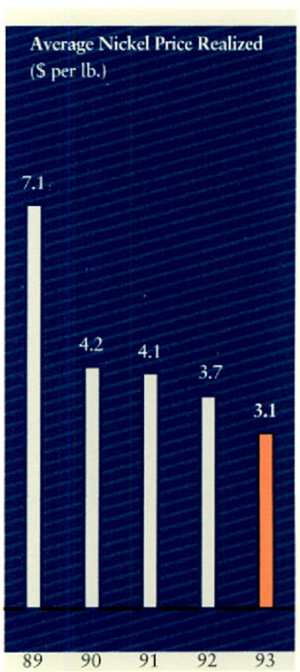
costs of U.S. $2.08 per pound for nickel inventory and U.S. $10.50 per pound for cobalt inventory.

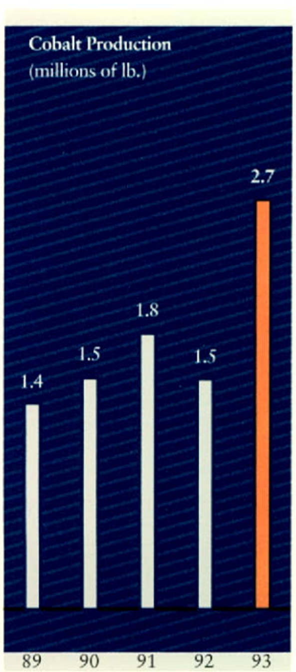
The Company had undertaken the metals refinery expansion at a time when nickel prices were declining. Nickel production during this period was below historical levels, as the Company increased cobalt production in order to gain the most benefit from comparatively higher cobalt prices. With the completion of the expansion, Sherritt has now significantly increased both its cobalt and nickel production for a wider range of feed materials and is well positioned to benefit from any increase in either commodity price.

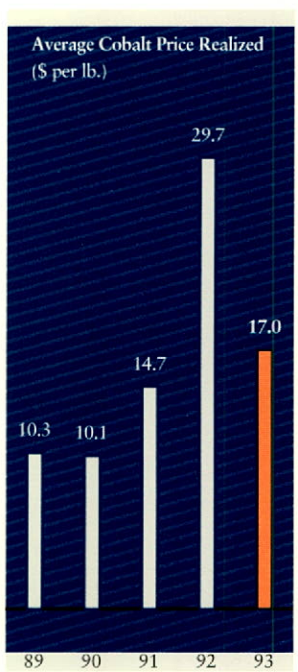
Nickel prices declined for the fifth consecutive year on the London Metal Exchange (LME) in 1993. The LME average nickel price in 1993 was U.S. $2.40 per pound, a 25% decline from the 1992 average price of U.S. $3.18 per pound. Continued low demand was reflected in higher LME nickel inventory levels. Russian nickel exports, although down from 1992 levels, remained high in 1993. Following announcements of cutbacks by nickel producers in late 1993 and early 1994, however, the LME nickel price rose to U.S. $2.70 in the first quarter of 1994. Although it appears that nickel prices reached a low point in 1993, a strong recovery by the major world economies is needed to sustain a significant improvement in nickel prices.

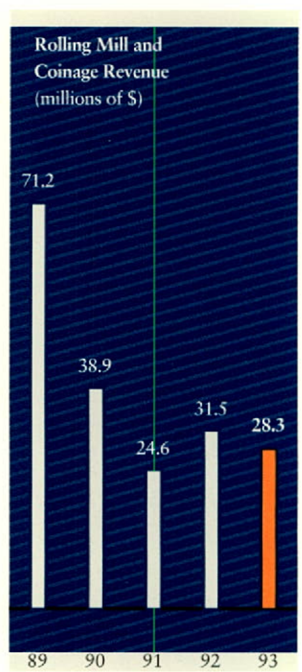
Cobalt prices also declined in 1993 from 1992 levels. The average free market price for high-grade 99.8% cobalt was U.S. $13.66 per pound in 1993, a decline of 41% from the 1992 average of U.S. $23.01 per pound. Contributing to the price decline were high levels of Russian cobalt exports and large internal stockpiles among industrial users in Europe and Japan, as economies in those regions remained in recession during 1993. However, near-term cobalt prices rebounded to over US$20.00 per pound in early 1994, as Russian export levels declined, and serious production problems in Zaire, a major cobalt producing country, remained unresolved.

Metals operations returned to operating profitability in the last quarter of 1993, with further improvements being registered in the early part of 1994. As a result of the capital investments since 1991 in the refinery expansion, Sherritt









Sherritt Metals includes nickel and cobalt refining, and value-added coinage production facilities. With the completion of its metals refinery expansion project, the Company now has new or upgraded cobalt and nickel refining facilities with rated annual production capacities of 4.5 million pounds of cobalt and 55 million pounds of nickel. Approximately half of the nickel produced by Sherritt is marketed to the stainless steel industry, while a portion of the material is used for coinage production. The balance of sales is to the chemical market, welding rod industry, for powder metallurgy and to foundries world wide. Sherritt sells its refined cobalt to the chemical, magnet, specialty steel superalloys and powder metallurgical industries around the world. An increasing portion is further refined at Sherritt into a new ultrafine product for the hardmetals industry. The Coinage unit manufactures nickel strip and a broad range of coinage blanks and medallions for domestic and international markets.

now has facilities that will be capable of producing 4.5 million pounds of high grade cobalt powders and briquettes on an annual basis – a significant share of the world cobalt market. The refinery demonstrated a capacity production rate of 4.5 million pounds of cobalt in a plant performance run during the first quarter of 1994, having scaled up production according to plan. Efforts will now be directed towards maximizing the refinery's full potential and further reducing operating costs.

The increase in cobalt production will also permit the refinery to increase its nickel output over 1993 levels. Production for 1994 has been budgeted at 4 million pounds of cobalt and 51 million pounds of nickel, which takes into account the production scale-up in early 1994 and the nature of the feed that is being refined. An additional nickel feed supply was obtained during the year that will enable the Company to run the refinery at high operating levels through 1996.

Sherritt's expanded cobalt refining capacity together with its long-term source of cobalt rich feedstock have enabled the Company to become a major participant in world cobalt markets. To support this role, Sherritt has expanded its marketing presence in Asia in addition to its European sales coverage and office in Amsterdam, and has increased its commitment to understanding and to satisfying the needs of its customers.

The installation of efficient mechanical sorting and blank lubrication equipment contributed to significant productivity and product quality gains in Sherritt's Coinage operations during the year. As a result of these improvements, Sherritt remained competitive in markets where a world wide recession has reduced demand for coinage products. Shipments of coinage products increased 7% to 4,927 tonnes in 1993 from 4,601 tonnes in 1992. However, revenue and operating earnings decreased, reflecting the impact that the recession has had on coinage prices. New equipment scheduled to be installed in 1994 should further increase productivity and enable Sherritt to remain competitive in the coinage products market.

Once the new design capacity for cobalt has been consistently sustained, the focus of the metals operations for 1994 will be on improving Sherritt's cost position in order to remain competitive for a wide range of feed material. The upgraded refining facilities will enable the Company to reduce its unit production costs by approximately one-third for nickel and for cobalt by year end, based on increased volume and feed mix. Sherritt will continue to seek additional sources of feed as well as to explore other potential long-term arrangements with feed producers to ensure the ongoing economic viability of the metals refinery. Work is also underway to enable the refinery to process a wider range of feedstock in the future and to lay the foundation for incremental expansions at low additional capital cost.

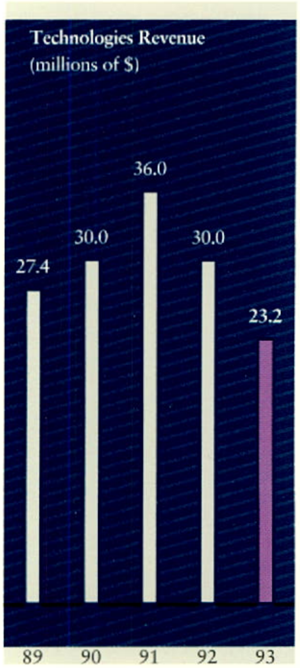
Anticipated higher levels of production of both nickel and cobalt in 1994, along with ongoing cost reduction measures will position Sherritt to operate its metal facilities efficiently and to achieve its goal of becoming a low cost producer. The recent improvements in output and cost reduction, combined with strengthening commodity prices should result in higher earnings in the future.

Sherritt Technologies

Sherritt Technologies recorded operating earnings of $6.4 million in 1993 compared to $7.8 million earned in the previous year. Increased investment in product development, marketing and sales activity in Specialty Materials combined with decreased revenue for S.I. Consultants (formerly External Technology) contributed to the lower return. Sherritt completed the sale of Rescan Environmental Services Ltd. late in 1993.

During the year, Technologies continued world wide marketing and licensing of selected extractive hydrometallurgical technologies developed by Sherritt. The Hudson Bay Mining and Smelting Ltd. Environmental Improvement project in Manitoba was successfully commissioned in 1993. This plant represents the first commercial application of Sherritt's Two Stage Zinc Pressure Leach Process. The Sherritt process completely replaces the need for roasting, thereby eliminating the emission of sulphur dioxide into the atmosphere. Considerable interest is being shown by the zinc industry in this technology. Sherritt's hydrogen reduction technology is being applied by Outokumpu Oy for its nickel plant expansion in Finland. A base metal refinery for Anglo American Corporation in Zimbabwe is also under construction utilizing Sherritt's technology to upgrade a platinum containing concentrate. Further commercial applications of Sherritt's hydrometallurgical technologies will be developed in 1994.

Specialty Materials maintained profitability in 1993 during continued weak market conditions. Sales increased 8% to $17.5 million from $16.2 million in 1992. Ultrafine cobalt powder, a proprietary product introduced in 1992, was the main contributor to increased revenue. Operating earnings declined slightly due to an increased investment in developing and marketing new products. However, these measures will position Sherritt to capitalize on new product and market opportunities.



Sherritt is actively pursuing markets for its proprietary advanced materials and technologies.

Sherritt is a world leader in extractive metallurgy and related areas of metallurgical science as well as advanced industrial materials research and development. More than 250 scientists, engineers and technicians research and develop innovative and cost effective processes and products for the Company's core businesses and external customers. In addition to continually improving Sherritt's proprietary nickel and cobalt refining processes, these experts produce and market advanced materials and license and sell extractive metallurgical technology.

Sherritt Technologies provides technical and analytical support to the Company's core businesses and undertakes advanced industrial materials research and development through Westaim for marketing through the Specialty Materials business.

Westaim is Sherritt's five-year $140 million research program commenced in 1989 with the province of Alberta and the Federal government. Projects undertaken by Westaim are jointly funded with partners interested in new advanced materials products and processes.

A new ultrafine cobalt production circuit was successfully commissioned during 1993. The product has been well received in the tungsten carbide tool industry, leading to a planned doubling of capacity in 1994. A new family of premium nickel powder products ranging from ultrafine to coarse powders will be introduced in 1994. Markets for other products to expand Sherritt's range of powders and powder products are being aggressively pursued. Sherritt's market position for the mature Specialty Materials product line, used primarily in aerogas turbine engines, has been maintained.

As mentioned in Sherritt Metals' Operations Review, the expansion of Sherritt's nickel and cobalt refinery capacity was completed in 1993. The plant incorporates a novel cobalt-nickel separation process which places Sherritt in a favorable position to treat a wide range of nickel-cobalt bearing feed materials, and has further advanced the level of Sherritt's hydrometallurgical expertise.

Several Westaim projects are in advanced stages and will enter the trial manufacturing or pre-commercialization phase next year. Project management techniques including gating systems ensure that projects which are continued beyond preliminary studies are technically viable and demonstrate extensive market and profit potential. To date, this system of project management has yielded significant results for the Westaim Initiative.

All Westaim projects fall within seven major program areas of research and development: Powders, Electronics Materials, Ceramics, Biomedical, Coatings, Composite Materials, and Applied Research (where preliminary development is done). Within these programs several encouraging highlights occurred in 1993. Commercialization of ultrafine cobalt powders has created new opportunities for Sherritt Metals to expand its Alberta operations. In the Electronics Materials Program, full colour capability was demonstrated in its proprietary flat panel display technology. A trial manufacturing facility for aluminum nitride substrates was commissioned in 1993 for the Ceramics Program, and trial manufacturing facilities are planned in 1994 for the Biomedical, Coatings and Composites programs.

All of the major industrialized countries have targeted advanced materials as a crucial enabling technology, and indications are that the current emphasis on materials will increase. Sherritt's long involvement in materials development resulted in the Westaim Initiative which is completing its fourth year. Investments in innovation are traditionally associated with a great deal of risk due to the long lead time between the initial research stage and final distribution of a new product or process. Therefore, it is extremely difficult for industries to undertake major R&D projects, such as Westaim, in isolation. Sherritt has chosen to undertake the Westaim Initiative with the Province of Alberta and the Government of Canada, who as stakeholders are contributing $70 million towards the first five-year phase of development work.

Environmental Protection and Occupational Health and Safety Programs

Sherritt continued to meet all established environmental standards in 1993. A total of $4.8 million was spent on environmental projects, $2.2 million of which was charged to the provision for site restoration. Sherritt personnel remained up-to-date on legislation and regulations and maintained an excellent working relationship with Alberta Environmental Protection.

ENVIRONMENTAL PROTECTION PROGRAMS

During 1993, the Company participated in a joint industry-municipality study on the impact of effluents released into the North Saskatchewan River. The Company continues to develop and implement effluent treatment methods which will ensure compliance with increasingly stringent water quality standards.

An Environmental Education Committee comprising a cross section of employees has been established to increase environmental awareness at all levels in the organization. As an environmental public education pilot project, guided tours of Sherritt's operations for interested visitors were conducted in spring and fall of 1993.

OCCUPATIONAL HEALTH AND SAFETY

Sherritt employees are to be commended for improved occupational health and safety performance as measured by two industry accepted standards. Person days lost per 200,000 hours worked improved by over 85% to 7.4 in 1993 from 49.5 in 1992, the best record achieved in the last 15 years. Lost time injuries per 200,000 person hours worked improved by 25% to 0.9 in 1993 from 1.2 in 1992.

Sherritt's management team (from left): Bob Weir, Sam Ingram, Dennis Maschmeyer, Mike McKibbin, Werner Bink, Ian Delaney, Lee Doty, Michael Weedon, Bud Kushnir, Amar Amarnath, Fred Wellhauser.

Management's Discussion and Analysis

CONSOLIDATED RESULTS

For the year ended December 31, 1993, Sherritt recorded a net loss of $41.5 million, or $0.97 per common share, compared to net earnings of $2.3 million, or $0.06 per common share, for the previous year. The 1993 loss was mainly attributable to lower commodity prices which resulted in write downs of $15.7 million (which is the same before and after tax) for oil and gas properties under the ceiling test for carrying costs of producing properties and a $13.1 million ($7.3 million after tax) for nickel and cobalt inventory. The Company also incurred a foreign exchange charge of $8.1 million ($6.4 million after tax), in connection with the refinancing of its long-term debt early in 1993.

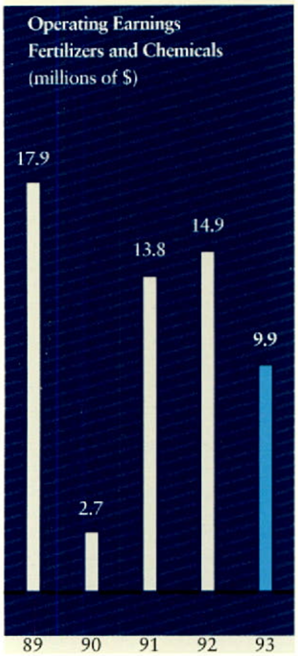
Total revenue in 1993 decreased 5.7% to $410.8 million from $435.8 million in 1992. Revenue from Fertilizers increased slightly with lower sales volumes being more than offset by significantly higher prices for nitrogen products. Oil & Gas revenue declined slightly as the impact of lower oil prices during the second half of the year was partially offset by improved natural gas prices. Revenue in the Metals business declined significantly despite increased sales volumes as a result of lower nickel and cobalt prices. Technologies revenue decreased with the divestiture of the Company's interests in Bacon Donaldson & Associates Limited and Rescan Environmental Services Ltd.

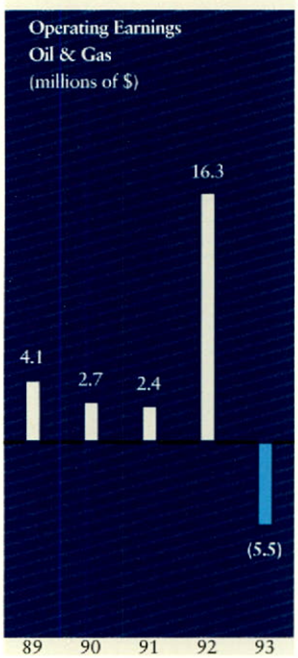
Operating and selling costs in 1993 decreased 2% to $335.5 million from $342.6 million in 1992. This resulted from reduced feed costs associated with the lower nickel and cobalt prices, partially offset by increased natural gas costs for Fertilizers. Depreciation and depletion charges increased to $84.1 million in 1993 from $57.5 million in 1992, reflecting the impact of the ceiling test write down of oil and gas properties combined with increased depreciation and depletion due to increased levels of oil production.

Research and development costs, net of government funding and other credits, increased to $5.8 million in 1993 from $4.3 million in 1992 as a result of increased research activity in the Westaim Initiative.

Corporate costs in 1993 declined to $8.8 million from $9.4 million in 1992, reflecting decreased spending on acquisition studies during the year. Financing costs increased to $33.6 million in 1993 from $19.5 million in 1992 due to a one-time foreign exchange loss of $8.1 million incurred on repayment of U.S. denominated long-term debt plus the higher interest costs on the U.S. $200 million of 9 ¾% Notes, due 2003, issued in April 1993.

Income taxes in 1993 showed a net recovery of $15.5 million, an effective rate of 27.3% of the pre-tax loss. Income taxes in 1992 amounted to $0.3 million, an effective rate of 11% of pre-tax earnings for that year. The low effective tax rates reflected the use of unrecognized tax losses and tax pools acquired with Canada Northwest Energy Limited (CNW).





OPERATIONS

Sherritt Inc. is organized into four principal business segments:

- Fertilizers – Fertilizers and Chemicals
- Oil & Gas
- Metals – Metals Refining and Rolling Mill and Coinage
- Technologies – Specialty Materials and External Technology and Engineering

FERTILIZERS

Operating earnings of the Fertilizers business declined 33% to $9.9 million in 1993, from $14.8 million in 1992.

Nitrogen sales volumes in 1993 totalled 775,000 tonnes, down 9% from the record 854,000 tonnes of 1992. Sales volumes to domestic markets were comparable to the previous year but the Company was unwilling to sell its surplus fertilizer inventories in the second half of 1993 at depressed international pricing levels. The Company conserved the inventory to meet seasonal domestic demand. Although the average product price was higher in 1993 than in 1992, this improvement was insufficient to offset the adverse effects of lower sales volumes, higher gas costs and an extended shut down required for a major overhaul of the Company's world-scale Fertilizer II operations. Improved reliability and higher levels of production from this major overhaul were realized during the fourth quarter of 1993.

Chemicals revenue in 1993 increased slightly to $15.5 million from $15.4 million in 1992. As a result of increased sales margins and aggressive cost control, earnings improved significantly from this unit.

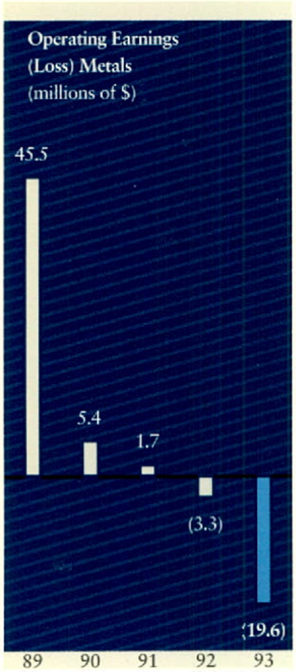
The Company is currently engaged in discussions with Imperial Oil Limited ("Imperial") concerning the possible purchase of most of Imperial's fertilizer assets for a proposed base purchase price of $365 million, which would be subject to adjustment under certain circumstances. With the acquisition, Sherritt would become the largest nitrogen and phosphate fertilizer producer in Canada and one of the largest fertilizer producers in North America, with combined annual production capacity in excess of 2.5 million tonnes of nitrogen and phosphate.

OIL & GAS

The Oil & Gas business recorded an operating loss of $5.5 million in 1993 compared with earnings of $16.3 million in 1992. Results for 1993 were adversely affected by the $15.7 million ceiling test write down to carrying costs of producing oil and gas properties, as well as lower oil prices.

In 1993, the Company's oil production in Canada, Spain, Italy and Cuba totalled an average of 8,356 barrels of oil per day while production of natural gas, essentially all in Canada, totalled approximately 50 million cubic feet per day.

Oil & Gas revenue in 1993 amounted to $61.6 million compared to $65.5 million in 1992.



METALS

The Metals business recorded an operating loss of $19.6 million in 1993, compared with an operating loss of $3.3 million in 1992. Inventory write downs of $13.1 million were recorded during the year as a result of significantly lower nickel and cobalt prices. Metals inventories remaining at December 31, 1993 included $8.9 million of these write downs.

Nickel production in 1993 increased 10% to 40.4 million pounds from 36.7 million pounds in 1992. Production levels and unit production costs benefitted from the upgraded metals refining facility. During the year, the Company obtained an additional source of nickel feed that will enable higher levels of plant capacity utilization through 1996.

The average nickel price realization in 1993 was $3.06 per pound compared to $3.73 per pound in 1992. The cost of nickel feed which is proportional to the selling price of finished nickel, was lower than in the previous year. The costs of operating the refinery, other than feed, are largely fixed so improved production volumes and the impact of the upgraded refining process resulted in lower refining costs in 1993 than in 1992.

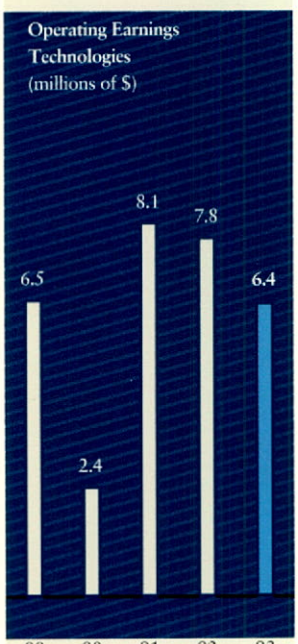
Cobalt production in 1993 increased 80% to a record 2.7 million pounds from 1.5 million pounds in 1992. The average price realized from customer sales of cobalt in 1993 fell to $16.98 per pound from $29.68 in 1992. This resulted in a proportional decrease in the costs of cobalt feed.

Lower prices due to increased competition in products containing nickel resulted in decreased operating earnings in the Rolling Mill and Coinage business in 1993. Revenue from the Rolling Mill and Coinage business declined 10% to $28.3 million in 1993, from $31.5 million in 1992.

TECHNOLOGIES

Operating earnings of the Technologies business decreased to $6.4 million in 1993, from $7.8 million in 1992.

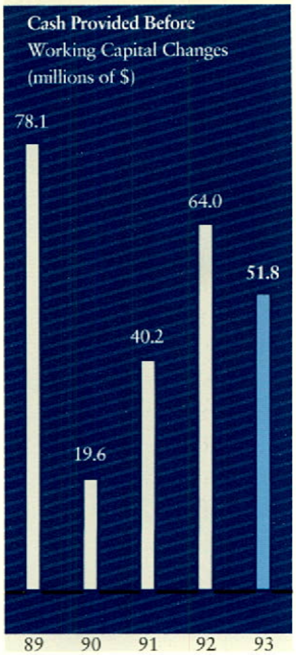
Sales revenue of the Specialty Materials unit increased by 8% in 1993 to $17.5 million, from $16.2 million in 1992. This business benefitted from increased sales of ultra-fine cobalt from a new production circuit that was commissioned late in the second quarter of 1993. External Technology and Engineering revenue in 1993 declined by 35% to $11.5 million from $17.8 million in 1992. Revenues in this business were impacted negatively as a result of the divestiture of the Company's interest in Bacon Donaldson & Associates Ltd. and Rescan Environmental Services Ltd.



LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1993, the Company had cash and short-term investments of $67.8 million and short-term borrowings of $74.0 million, for net borrowings of $6.2 million, compared to net borrowings of $44.4 million at December 31, 1992 – a net improvement of $38.2 million.

Cash provided from operations before working capital changes amounted to $51.8 million in 1993, compared to $64.0 million in 1992.



Capital expenditures in 1993 were $93.7 million, compared to $85.3 million in 1992. Expenditures in 1993 included $53.9 million on oil and gas property and equipment, $23.0 million on the upgraded nickel and cobalt refinery, $8.9 million on the major overhaul of the Fertilizer II facilities and $7.9 million for equipment required to maintain the effective operation of the Company's facilities.

Investments and deferred charges in 1993 amounted to $4.0 million, compared to $10.7 million in 1992.

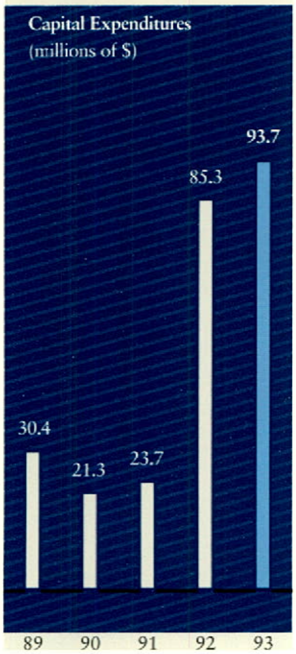
During the year, 647,000 common shares were issued for a total consideration of $4.3 million. The Zero Coupon Convertible Subordinated Notes outstanding at December 31, 1993, had a face value of $264.7 million, a book value of $55.3 million, and were convertible into 5.1 million common shares of the Company. In February 1994, 18.5 million common shares were issued for a total consideration of $194.3 million net of commission but before expenses.

In April 1993, the Company issued U.S. $200 million of 9 ¾% Notes, due 2003, with the proceeds being used to repay long-term debt and to strengthen the Company's cash position. Long-term debt repayments in 1993 amounted to $145.2 million compared to $59.8 million in 1992. Total long-term debt outstanding at December 31, 1993, amounted to $257.1 million, compared to $141.9 million at the end of 1992.

The Company believes that cash generated by operations, current cash balances and short-term investments together with existing working capital credit facilities will be sufficient to finance its operations.

DIVIDENDS

After paying dividends each year since 1986, the Company decided to suspend dividends for 1993 and 1992 in order to conserve its financial resources.



RISKS AND UNCERTAINTIES

The Company's core businesses are the production and marketing of fertilizers, oil and natural gas and metals. These commodity products are sold in world markets, and are subject to changes in market prices over which the Company has little or no control. The Company's earnings performance is therefore highly sensitive to fluctuations in these commodity prices. Optimum operating costs and efficiencies require that production facilities operate at capacity, necessitating a strong focus on feedstock and working capital management and cost control.

A significant part of the Company's business is transacted in U.S. currency. Therefore earnings are subject to changes in U.S./Canadian exchange rates. The Company hedges its foreign exchange risks by borrowing both short and long-term funds in U.S. currency, and using other appropriate financial and derivative instruments from time to time.

Management Report

Management is responsible for the preparation of the accompanying consolidated financial statements of the Company in accordance with generally accepted accounting principles, and for other financial and operating information, which information is consistent with the financial statements presented in this annual report. Systems of internal control are maintained by the Company to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The board of directors appoints an audit committee which meets at least twice a year with representatives of the Company's financial department and the Company's independent auditors. The committee reviews the Company's accounting policies and the scope and the results of the independent auditors' examination of the Company's financial statements. The independent auditors, who are appointed by the shareholders, examine and report on the financial statements of the Company in accordance with generally accepted auditing standards. The auditors' report to the shareholders of the Company is set out below. The consolidated financial statements in the annual report have been reviewed and approved by the board of directors and the audit committee.

M.G. McKibbin

Michael G. McKibbin
Senior Vice President, Finance, and Chief Financial Officer
February 14, 1994

Auditors' Report

TO THE SHAREHOLDERS OF SHERRITT INC.

We have examined the consolidated balance sheets of SHERRITT INC. as at December 31, 1993 and 1992 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. 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 an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and 1992 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
February 14, 1994

Sherritt Inc. Consolidated Balance Sheets

DECEMBER 31 (THOUSANDS OF DOLLARS)	1993	1992
ASSETS		
Current		
Cash and short-term investments	$ 67,834	$ 62,595
Accounts receivable	98,666	96,242
Inventories *(note 3)*	135,836	135,519
Prepaid expenses	8,403	6,635
	310,739	300,991
Fixed assets *(note 4)*	545,574	540,203
Investments and deferred charges *(note 5)*	28,881	24,842
	$885,194	$866,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *(note 6)*	$ 74,015	$107,018
Accounts payable	84,637	100,289
Current portion of long-term debt *(note 7)*	1,693	32,482
	160,345	239,789
Long-term debt *(note 7)*	255,413	109,402
Provision for site restoration and abandonment *(note 8)*	33,388	34,393
Deferred income taxes *(note 9)*	70,528	84,563
Convertible subordinated notes *(note 10)*	55,311	50,657
Minority interest in partnership *(note 2)*	14,145	13,960
	589,130	532,764
Shareholders' equity		
Capital stock *(note 11)*	214,962	210,709
Contributed surplus	71,168	71,168
Retained earnings	9,934	51,395
	296,064	333,272
	$885,194	$866,036

Approved on behalf of the Board

I. W. Delaney

Ian W. Delaney
Director

B. Walter

Bruce V. Walter
Director

Consolidated Statements of Earnings

YEAR ENDED DECEMBER 31 (THOUSANDS OF DOLLARS)	1993	1992
Revenue	$410,796	$435,755
Costs		
Operating	324,243	333,018
Depreciation and depletion	84,056	57,465
Selling	11,271	9,539
Operating earnings (loss)	(8,774)	35,733
Expenses		
Research and development	5,775	4,324
Corporate	8,848	9,369
Financing *(note 7)*	33,604	19,490
Earnings (loss) before income taxes	(57,001)	2,550
Income taxes (recovered) *(note 9)*	(15,540)	276
Net earnings (loss)	$ (41,461)	$ 2,274
Earnings (loss) per common share	$ (0.97)	$ 0.06
Weighted average number of shares outstanding (thousands)	42,765	36,776

Consolidated Statements of Retained Earnings

YEAR ENDED DECEMBER 31 (THOUSANDS OF DOLLARS)	1993	1992
Balance at beginning of year	$ 51,395	$ 49,121
Net earnings (loss)	(41,461)	2,274
Balance at end of year	$ 9,934	$ 51,395

Consolidated Statements of Changes in Financial Position

YEAR ENDED DECEMBER 31 (THOUSANDS OF DOLLARS)	1993	1992
Cash provided from operations		
Net earnings (loss)	$ (41,461)	$ 2,274
Items not affecting cash		
Depreciation and depletion	84,056	57,465
Deferred income taxes	(14,035)	(1,543)
Provision for site restoration and abandonment	1,150	(1,037)
Interest on convertible subordinated notes	4,663	4,268
Foreign exchange charges on lump sum repayment and provision for inventory write down	17,120	–
Other items	285	2,538
Cash provided before working capital changes	51,778	63,965
(Increase) decrease in non-cash working capital items		
Accounts receivable	(2,424)	11,023
Inventories	(9,297)	(20,066)
Prepaid expenses	(1,768)	3,669
Accounts payable	(15,652)	1,792
	(29,141)	(3,582)
Cash provided from operations	22,637	60,383
Investing activities		
Sales of assets	2,401	29,846
Capital expenditures	(93,670)	(85,342)
Investments and deferred charges	(4,039)	(10,682)
Cash used for investing activities	(95,308)	(66,178)
Financing activities		
Issues of common shares and warrants	4,253	59,031
Increase in long-term debt	251,820	1,200
Repayment of long-term debt	(145,160)	(59,778)
Cash provided from financing activities	110,913	453
Cash increase (decrease)	38,242	(5,342)
Net bank indebtedness at beginning of year	(44,423)	(39,081)
Net bank indebtedness at end of year	$ (6,181)	$(44,423)

Net bank indebtedness comprises bank indebtedness, cash and short-term investments with original maturities of less than three months.

Notes to Consolidated Financial Statements

(ALL DOLLAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Sherritt Inc. (formerly Sherritt Gordon Limited), Sherritt Fertilizers Limited, Westaim Technologies Inc., and Canada Northwest Energy Limited (CNW), their major subsidiary.

(b) Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange. The unrealized translation gains or losses on long-term monetary items are recognized over the remaining terms of these items. Foreign oil and gas operations are considered integrated (financially and operationally dependent on the parent), and are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities and average rates for the year for revenues and expenses, except depreciation and depletion which are translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income.

(c) Inventory valuation

Finished products, raw materials, materials in process and operating supplies are valued at the lower of average cost and net realizable value.

(d) Fixed assets

i) Capitalization Fixed assets in manufacturing operations are stated at cost, which includes capitalized interest. Interest is capitalized only on those projects that have a capital cost in excess of $1,000 and a construction period in excess of six months.

In oil and gas operations, the Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized in cost centres on a country-by-country basis and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical, interest and overhead expenses related to exploration and development activities.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Under full cost accounting, the net carrying cost of oil and gas properties in producing cost centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, future site restoration and abandonment costs, financing costs and income taxes (the ceiling test). Future net revenues are calculated using current prices, for volumes not subject to contract, that are not escalated or discounted.

Expenditures, net of revenues, incurred in cost centres which are in the preproduction stage of development, are capitalized until such time as planned principal operations commence. The recovery of the Company's investments in preproduction stage cost centres is subject to finding and producing oil and gas reserves in economic quantities. The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

Substantially all of the Company's exploration and development activities related to oil and gas are conducted jointly with others and accordingly the consolidated financial statements reflect only the Company's proportionate interest in such activities.

ii) Depreciation and depletion are calculated on the following bases:

Fertilizer and chemical plants – on the unit of production method based on estimated productive lives of up to twenty years.

Metals plants and technologies facilities – on the straight-line method over their estimated useful lives of up to twenty years.

Oil and gas properties and equipment – on the unit of production method based on the energy equivalent of gross proved reserves as determined by outside consultants for the respective producing cost centres.

(e) **Site Restoration and Abandonment Costs**
Site restoration and abandonment costs, net of expected recoveries, are provided for when reasonably determinable by a systematic charge to earnings, included in operating costs. The Company has an engineering approach to developing specific site restoration and abandonment plans and continues to review obligations which could result from new environmental regulations.

2 SHERRITT-UNOCAL OIL AND GAS PARTNERSHIP

The Company holds an 89% interest in a partnership with Unocal Canada Limited ("Unocal") that owns and operates oil and gas properties. In 1993, the partnership sold all of its fertilizer production facilities and related working capital to Sherritt Fertilizers Limited at their carrying values. The minority partner's share of earnings of the partnership for the year ended December 31, 1993 amounted to $1,348 (1992: $1,380) and was included in operating costs of the Company.

3 INVENTORIES

	1993	1992
Fertilizers	$ 21,588	$ 16,814
Refined metals products	30,193	25,468
Raw materials and materials in process	62,077	72,848
Operating supplies	21,978	20,389
	$135,836	$135,519

The inventories as at December 31, 1993 were net of an $8,980 provision for write down to net realizable value.

4 FIXED ASSETS

1993	Cost	Accumulated depreciation and depletion	Net book value
Fertilizers	$481,425	$255,981	$225,444
Oil & Gas	320,454	105,687	214,767
Metals	139,849	52,462	87,387
Technologies	28,560	10,584	17,976
	$970,288	$424,714	$545,574

1992	Cost	Accumulated depreciation and depletion	Net book value
Fertilizers	$470,027	$233,786	$236,241
Oil & Gas	266,580	50,843	215,737
Metals	114,670	47,210	67,460
Technologies	29,298	8,533	20,765
	$880,575	$340,372	$540,203

Net expenditures in the unproved and preproduction stage oil and gas cost centres amounted to $39,034 as at December 31, 1993 (1992: $47,862). These amounts are not subject to depreciation and depletion.

The Company's application of the ceiling test at December 31, 1993, using an average price realized in the fourth quarter of 1993 for uncontracted volumes, resulted in a write down of $15,663 to carrying costs of producing oil and gas properties. The write down was recorded as an increase in depreciation and depletion. If the ceiling test were applied using year-end prices for uncontracted volumes, the write down would have been $46,772.

The Company did not apply the ceiling test at December 31, 1992 in accordance with the twenty-four month exemption on recent acquisitions.

5 INVESTMENTS AND DEFERRED CHARGES

	1993	1992
Investments in and advances to		
Albchem Industries Ltd. (a)	$ 1,773	$ 5,494
Limited recourse promissory note (b)	11,935	12,000
Fertilizer dealer loans	2,957	3,248
Deferred charges – long-term notes (c)	6,619	–
Other investments and advances	5,597	4,100
	$28,881	$24,842

(a) In March 1993, the Company sold its 42.5% investment in Albchem Industries Ltd., receiving net proceeds of $4,794 and recording a gain of $848. Sherritt continues to hold a $1,773 term note receivable from Albchem, bearing interest at 15% paid monthly with equal principal payments due annually over the next three years.

(b) The limited recourse promissory note bears interest at 12% per annum and is secured by Unocal's minority interest in the partnership. Interest and principal amounts are due and payable upon the distribution of cash on account of Unocal's interest in the partnership.

(c) The deferred charges represent issue costs related to the 9 ¾% Notes and are being amortized over the term of the Notes.

6 BANK INDEBTEDNESS

Bank indebtedness is comprised of operating loans of $74,015 (1992: $78,875) which are secured by pledges of inventories and receivables, and a demand loan of nil (1992: $28,143).

7 LONG-TERM DEBT

	1993	1992
9 ¾ % Notes (a)		
1993: U.S. $200,000 (1992: nil)	$264,340	–
Fertilizer project loan (b)		
1993: nil (1992: U.S. $46,482)	–	59,073
Revolving term credit facility (c)	–	89,064
Other loans	4,347	4,847
Unrealized foreign exchange loss	(11,581)	(11,100)
	257,106	141,884
Deduct portion due within one year	1,693	32,482
	$255,413	$109,402

(a) 9 ¾% Notes

On April 1, 1993, the Company sold U.S. $200,000 9 ¾% Notes due April 1, 2003, resulting in net proceeds of $244,687 after deduction of issue costs of $7,133. A portion of the proceeds was used to repay the fertilizer project loan, the revolving term credit facility and certain bank indebtedness.

Interest is payable on April 1 and October 1 of each year, commencing October 1, 1993. The Notes are redeemable at the option of the Company, in whole or in part, at any time on or after April 1998 at specified redemption prices plus accrued interest.

The Notes are unsecured obligations of the Company. The Notes indenture contains certain quarterly covenants dealing with the Company's consolidated cash flow and interest coverage. These covenants were met in 1993.

(b) Fertilizer project loan

The fertilizer project loan was paid in full on April 6, 1993.

(c) Revolving term credit facility

This limited recourse revolving term credit facility with a Canadian chartered bank was paid in full on April 6, 1993.

(d) Financing

Financing expense for the year comprised the following:

	1993	1992
Interest expense		
– short-term	$ 3,807	$ 9,095
– long-term	27,891	9,171
Less capitalized interest	(566)	(741)
	31,132	17,525
Foreign exchange losses	13,034	6,139
Interest income and other	(10,562)	(4,174)
	$ 33,604	$19,490

Foreign exchange losses includes a loss of $8,140 (1992: nil) relating to the lump sum repayment on April 6, 1993 of the fertilizer project loan and the revolving term credit facility.

8 PROVISION FOR SITE RESTORATION AND ABANDONMENT

Changes in the provision were as follows:

	1993	1992
Provision at beginning of year	$34,393	$37,476
Additional provisions required and charged against earnings	1,150	(1,037)
Site restoration expenditures incurred and charged against the provision	(2,155)	(2,046)
Provision at end of year	$33,388	$34,393

During 1992, revisions to the estimated abandonment cost at one oil and gas location indicated an over-provision of $3,218 which was recorded as a reduction of the provision for site restoration and abandonment expense.

9 INCOME TAXES

Income taxes included in the determination of net earnings for the year reflect a number of adjustments to earnings and the statutory rates of taxes payable as follows:

	1993	1992
Earnings before income taxes	$(57,001)	$ 2,550
Add: losses in subsidiaries not tax effected	15,889	1,918
	$(41,112)	$ 4,468
Income tax at the combined basic rate of 44.40%	$(18,254)	$ 1,984
Increase (decrease) in taxes resulting from:		
Large corporation and other taxes	1,562	1,837
Resource allowance and earned depletion	(2,634)	(2,274)
Non-deductible depreciation, depletion and crown charges	3,642	6,874
Utilization of acquired tax losses and pools	(1,695)	(8,140)
Difference between Canadian and foreign tax rates	(261)	(626)
Deferred tax draw down – rate difference	–	131
Other items	2,100	490
Total income taxes	$(15,540)	$ 276

At December 31, 1993, the Company's subsidiaries have unrecognized timing differences and tax losses carried forward from predecessor entities that approximate $80,000. Due to the differing tax laws under which the subsidiaries operate, the timing, ability to utilize and expiry of these items vary. Unrecognized timing differences consist of oil and gas tax pools in excess of book values.

Deferred income taxes relate primarily to claiming capital cost allowance for income tax purposes in excess of depreciation charged in the financial statements.

10 CONVERTIBLE SUBORDINATED NOTES

The Zero Coupon Convertible Subordinated Notes (the Notes) have a face value of $264,737 and are due in the year 2011.

No interest is payable, prior to maturity, on the Notes, which have a yield to maturity on the issue price of 9% per annum compounded semi-annually. The Notes are a direct obligation of the Company, but are not secured by any mortgage, pledge, hypothec or other charge.

The Notes are convertible into common shares of the Company at any time before maturity, the conversion rate being 19.29 shares for each one thousand dollars face value of the Notes.

Prior to October 15, 1994, the Notes are not redeemable unless the market price of the Company's common shares is at least 150% of an amount equal to the quotient obtained when the issue price of the Notes plus accrued interest is divided by the number of common shares which would be issuable in respect of a conversion on that date. Subject to meeting this requirement before October 15, 1994, and at any time after that date, the Company may redeem the Notes, including accrued interest, for cash in whole at any time, or in part from time to time.

The Company may purchase for cancellation Notes on the open market, or by tender, at a price not exceeding 110% of the issue price plus accrued interest.

At the option of the holder of the Notes, and subject to compliance with certain notice provisions, the Company is required to repurchase any tendered Notes as of a date determined by the Company which falls during each of the 60 day periods ended October 15, 1996, 2001 or 2006, or as of the date that is 60 days after the occurrence of a change in control of the Company. The purchase price would be equal to the issue price plus accrued interest, and payable at the Company's option in either cash or common shares of the Company.

	Face Value		Book Value	
	1993	1992	1993	1992
Balance at beginning of year	$264,783	$264,792	$50,657	$46,390
Converted to common shares	(46)	(9)	(9)	(1)
Interest accrued for the year	–	–	4,663	4,268
Balance at end of year	$264,737	$264,783	$55,311	$50,657

11 CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of common shares and 4,375,000 preferred shares, all without par value. There were no preferred shares outstanding at December 31, 1993 and 1992. Changes in the Company's common shares outstanding during 1993 and 1992 are as follows:

	Number		Stated Capital	
COMMON SHARES	1993	1992	1993	1992
Balance at beginning of year	42,624,557	35,032,559	$208,883	$151,678
Public issue (a)	–	7,500,000	–	56,581
Employee Stock Options, Share Purchase Plan and Other (b)	627,110	82,870	4,098	550
Incentive Savings Plan (c)	18,695	8,955	146	73
Conversion of Subordinated Notes (d)	887	173	9	1
Balance at end of year	43,271,249	42,624,557	213,136	208,883
Warrants				
Balance at beginning of year	3,750,000	–	1,826	–
Public issue (a)	–	3,750,000	–	1,826
Balance at end of year	3,750,000	3,750,000	1,826	1,826
			$214,962	$210,709

(a) On October 9, 1992, the Company completed a $60,000 offering comprising 7,500,000 units consisting of one common share and one-half of a warrant to purchase a common share of which $58,125 was allocated to the common shares. Each whole warrant to purchase common shares will entitle the holder to purchase one common share of the Company for $9.50 on or before October 9, 1995. Net proceeds to the Company of $58,407 were used to retire a portion of the Company's consolidated indebtedness and for additional investment and working capital purposes. Expenses of the share issue, net of deferred income taxes of $1,092, amounted to $1,593.

(b) Employee and Director Option Plans – Options to purchase an aggregate of 3,098,550 common shares of the Company at an average price of $7.31 per share were outstanding at December 31, 1993 (1992: 3,130,050 shares at $6.90 per share). During the year ended December 31, 1993, options on 580,250 shares were exercised at an average price of $6.45 per share (1992: 25,300 shares at $5.50 per share). In addition, the Company has granted options on 35,747 common shares in substitution of outstanding options on common shares of CNW at prices which result in the same aggregate consideration payable by the optionees as would have been payable on the exercise of the CNW options averaging $196.00 per Company share. The outstanding stock options are exercisable up to various dates to 1999.

Employee Share Purchase Plan – Under the Employee Share Purchase Plan, employees with one year of service are entitled to subscribe for common shares of the Company, to a maximum value of five percent of their annual compensation, and to pay for them over a period of 24 months at a price per share equal to the lesser of the average market price on the offering dates (June 21, 1993, June 15, 1992) and the average market price on the completion dates of purchase. At December 31, 1993, there were outstanding purchase arrangements with employees having an aggregate value of $244 (1992: $363) During the year ended December 31, 1993, 46,860 shares were issued under this plan at an average price of $7.58 per share (1992: 50,820 shares at $7.11 per share).

Other – During the year ended December 31, 1993, no shares were issued as long service awards (1992: 6,750).

(c) Incentive Savings Plan – During the year ended December 31, 1993, 18,695 shares were issued under this plan at an average price of $7.83 per share (1992: 8,955 shares at $8.19 per share).

(d) During the year ended December 31, 1993, holders of $46 face value of Subordinated Notes converted their holdings into 887 common shares of the Company (1992: $9 face value of Subordinated Notes for 173 shares). At December 31, 1993, there were $264,737 (1992: $264,783) face value of Subordinated Notes outstanding which are convertible into common shares of the Company.

(e) During the year ended December 31, 1993, the Company purchased 5,155 of its common shares on the open market (1992: 5,595) which were distributed to fertilizer dealers under a dealer incentive program.

(f) Shareholder Rights Plan – The Company has a Shareholder Rights Plan, which provides for the issue of one Right for each outstanding common share of the Company at an Exercise Price of $41.00. The Rights expire on November 23, 1999 unless exchanged or redeemed on an earlier date. Such Rights can only be exercised on the occurrence of certain triggering events, which include (i) a person (an "Acquiring Person") acquiring 20% or more of the common shares of the Company (except through a permitted bid or certain other limited exceptions), or (ii) the Company merging or amalgamating with or into any other person (other than a wholly owned subsidiary), or (iii) the Company or one or more of its subsidiaries selling or transferring more than 50% of the Company's assets to another person. Upon the occurrence of the events described above each Right entitles the holder, other than an Acquiring Person, to purchase that number of common shares of the Company or other person, as the case may be, having an aggregate market price equal to twice the Exercise Price, for an amount in cash equal to the Exercise Price. The Plan was confirmed by shareholders at the Annual Meeting held April 19, 1990 and is to be reconfirmed by shareholders after five years.

12 PENSION PLANS

The Company maintains defined benefit pension plans for certain salaried employees. The plans provide for the payment of benefits based on years of service and compensation.

The Company also maintains a contribution plan which is supplemented with an incentive savings plan for the remaining salaried employees. Company funding is comprised of a combination of cash and Company shares, based on the specific requirements of the plans.

The Company also maintains a defined contribution plan for hourly employees.

The Company funds the plans in amounts that are neither less than the minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes.

Net pension expense includes the following components:

	1993	1992
Defined Benefits Plans		
Service cost of pension benefits earned	$ 686	$ 836
Interest cost on benefit obligation	1,876	1,925
Interest on plan assets	(1,766)	(2,040)
Other	(46)	(133)
	750	588
Defined Contribution Plans		
Accrued and paid during the year	2,496	2,126
	$ 3,246	$ 2,714

Reconciliation of the funded status of the defined benefit plans to the pension liability recorded in the Consolidated Balance Sheets is as follows:

Plan assets at market value	$ 26,372	$ 24,700
Actuarial present value of benefit obligation	(25,291)	(25,584)
Excess (deficiency) of plan assets over benefit obligations	1,081	(884)
Pension asset recognized	148	361
Unrecognized pension asset (liability)	$ 933	$ (1,245)

Plan assets consist primarily of listed stocks, government and corporate fixed income securities and pooled balanced funds.

The actuarial determinations for the defined benefit plans were based on discount rates of 8%, expected long-term rates of return on plan assets of 8%, and rates of increase in future compensation levels of 5.5%.

13 GOVERNMENT ASSISTANCE

Westaim Technologies Inc. (Westaim), a wholly owned subsidiary of the Company, was organized to manage a $140,000 research and development program in advanced industrial materials over an initial five-year period ending in March 1995. This program is being funded by the governments of Canada and Alberta, the Company and industry partners.

The government funding, to a maximum of $70,000, is in the form of grants which may be repayable if program expenditures or funding from industry partners do not reach prescribed levels, or if Westaim's retained earnings exceed specified amounts. The future liability, if any, to repay amounts received from the Government of Alberta is secured by a charge on the fixed assets of Westaim. To December 31, 1993, the Company has received $48,570 of the government funding.

During the year ended December 31, 1993, Westaim has accounted for government funding totalling $9,592 (1992: $14,091) which has been applied to the cost of the related program expenditures and assets as follows:

	1993	1992
Fixed assets	$ 2,361	$ 1,249
Research and development costs	8,650	7,246
Deferred – to be applied against future expenditures	–	5,596
Receivable	(1,419)	–
Total funding	$ 9,592	$14,091

14 COMMITMENTS

(a) Through a wholly owned subsidiary, the Company has a 50% equity interest in a joint venture company established to provide raw materials, operating equipment and technology services to a major metal feed supplier to the Company. The Company is committed to provide up to $25,000 in outstanding advances related to this arrangement with any advances secured by metal feed payables.

(b) The Company is committed to future annual payments under operating leases as follows: 1994: $3,146; 1995: $2,932; 1996: $1,283; 1997: $702; 1998: $563.

(c) At December 31, 1993, the Company was committed to capital expenditures amounting to approximately $4,791 (1992: $16,200).

15 SEGMENTED INFORMATION

1993

	Revenue	Operating earnings (loss)	Depreciation and depletion	Capital expenditures	Assets
Fertilizers	$159,612	$ 9,913	$22,982	$12,186	$361,853
Oil & Gas	61,612	(5,525)	54,285	53,874	240,927
Metals	166,415	(19,560)	5,298	25,222	222,882
Technologies	23,157	6,398	1,491	2,388	59,532
Consolidated	$410,796	$ (8,774)	$84,056	$93,670	$885,194

1992

	Revenue	Operating earnings (loss)	Depreciation and depletion	Capital expenditures	Assets
Fertilizers	$158,617	$14,852	$23,373	$ 7,743	$344,059
Oil & Gas	65,477	16,333	30,537	47,800	256,059
Metals	181,652	(3,270)	2,479	28,910	193,594
Technologies	30,009	7,818	1,076	889	72,324
Consolidated	$435,755	$35,733	$57,465	$85,342	$866,036

There are no significant foreign geographic segments in which the Company's operations are conducted. Direct export shipments from Canada, principally to customers in the United States and Europe, amounted to $144,620 for the year ended December 31, 1993 (1992: $167,406).

16 SUBSEQUENT EVENTS

(a) The Company is currently engaged in discussions with Imperial Oil Limited ("Imperial") concerning a possible purchase of most of Imperial's fertilizer assets. The Company and Imperial have entered into a letter of agreement pursuant to which Imperial has granted to the Company the opportunity, exclusive of all others, to perform due diligence investigations with respect to the proposed purchase. In consideration of this period of exclusivity, the Company has posted a deposit of $2.5 million with Imperial, which is non-refundable except in certain specified circumstances, and which would be applied as a credit against the purchase price if the proposed transaction is completed.

The discussions between the Company and Imperial have proceeded on the basis of a proposed base purchase price of $365 million, which would be subject to adjustment in certain circumstances, including a working capital adjustment. The Company is pursuing various financing alternatives.

(b) In February 1994, the Company completed an issue of 18.5 million of its common shares at $11 per share. Total proceeds to the Company, net of commission but before expenses was $194,343. The proceeds of this share issue will be utilized to pay a portion of the cost of the acquisition of the Imperial fertilizer assets if completed or, if not, for working capital, for general corporate purposes, and for other potential future acquisitions.

17 COMPARATIVE FIGURES

Certain of the figures for 1992 have been restated to conform to the presentation of the current year.

Quarterly Information

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE FIGURES)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1993					
Revenue	**95,190**	**128,171**	**76,773**	**110,662**	**410,796**
Net earnings (loss)	**(11,924)**	**2,203**	**(8,463)**	**(23,277)**	**(41,461)**
Earnings (loss) per common share ($ per share)	**(0.28)**	**0.05**	**(0.20)**	**(0.54)**	**(0.97)**
1992					
Revenue	103,216	149,930	86,194	96,415	435,755
Net earnings (loss)	17	7,039	284	(5,066)	2,274
Earnings (loss) per common share ($ per share)	0.00	0.20	0.01	(0.15)	0.06

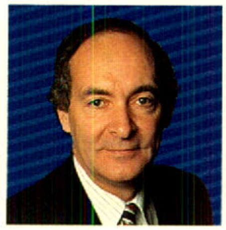
Sherritt Inc. Five Year Summary

(FIGURES IN THOUSANDS EXCEPT PER SHARE DATA)	1993	1992	1991	1990	1989
PRODUCTION					
Fertilizer (tonnes)					
Nitrogen	807	800	827	800	823
Phosphates	91	78	65	99	114
Chemicals (tonnes)	158	111	78	92	81
Oil (barrels)	3,050	2,767	606	–	–
Natural gas (mmcf)	18	18	9	7	6
Nickel (lb)	40,444	36,737	44,150	38,920	46,503
Cobalt (lb)	2,686	1,511	1,810	1,517	1,352
Rolling mill products (lb)	10,853	10,372	7,945	9,304	9,922
Specialty materials (lb)	679	760	961	908	1,008
FINANCIAL INFORMATION					
STATEMENT OF EARNINGS					
Revenue					
Fertilizers & Chemicals	$159,612	$158,617	$138,209	$131,864	$146,136
Oil & Gas	61,612	65,477	19,149	8,698	7,396
Metals	166,415	181,652	190,871	174,635	364,933
Technologies	23,157	30,009	36,024	30,053	27,434
Total revenue	410,796	435,755	384,253	345,250	545,899
Operating earnings (loss)					
Fertilizers & Chemicals	9,913	14,852	13,772	2,680	17,882
Oil & Gas	(5,525)	16,333	2,404	2,681	4,081
Metals	(19,560)	(3,270)	1,702	5,397	45,495
Technologies	6,398	7,818	8,148	2,380	6,468
Operating earnings (loss)	(8,774)	35,733	26,026	13,138	73,926
Research and development	(5,775)	(4,324)	(5,838)	(3,969)	(4,542)
Corporate	(8,848)	(9,369)	(5,685)	(9,435)	(9,733)
Financing	(33,604)	(19,490)	(8,382)	(9,970)	(8,026)
Write down of fixed assets	–	–	–	(14,408)	–
Provision for future site restoration	–	–	–	(23,900)	–
Earnings (loss) before income taxes	(57,001)	2,550	6,121	(48,544)	51,625
Income taxes (recovered)	(15,540)	276	4,971	(16,157)	19,444
Net earnings (loss)	$ (41,461)	$ 2,274	$ 1,150	$ (32,387)	$ 32,181
Earnings (loss) per common share	$(0.97)	$0.06	$0.04	$(1.29)	$1.19

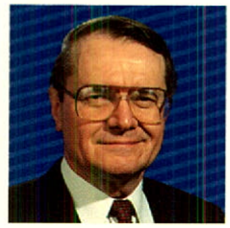
(FIGURES IN THOUSANDS EXCEPT PER SHARE DATA)	1993	1992	1991	1990	1989
BALANCE SHEET					
Assets	$885,194	$866,036	$840,259	$548,057	$586,885
Net bank indebtedness	$ 6,181	$ 44,423	$ 39,081	$ 51,945	$ 10,465
Current portion of long–term debt	1,693	32,482	25,302	15,367	–
Long-term debt	255,413	109,402	175,160	95,799	125,831
	$263,287	$186,307	$239,543	$163,111	$136,296
Convertible Subordinated Notes	$ 55,311	$ 50,657	$ 46,390	–	–
Shareholders' equity Common	$296,064	$333,272	$271,967	$204,513	$239,803
CHANGES IN FINANCIAL POSITION					
Cash provided before working capital changes	$ 51,778	$ 63,965	$ 40,232	$ 19,600	$ 78,112
Capital expenditures	(93,670)	(85,342)	(23,733)	(21,297)	(30,379)
Dividends					
Common	–	–	(4,904)	(3,265)	(7,519)
Preferred	–	–	–	–	(2,305)
Dividends per common share	–	–	$0.14	$0.13	$0.30
SHARE PRICE					
High	$11.38	$9.38	$8.38	$11.00	$16.00
Low	$ 5.75	$5.88	$5.75	$ 5.25	$ 9.85
Warrants Price					
High	$ 3.10	$0.80			
Low	$ 0.47	$0.42			

Board of Directors

Ian W. Delaney*
Chairman and
Chief Executive Officer
Sherritt Inc.

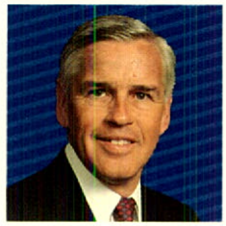


Neil Carragher†•
Chairman
Corporate Finance
Associates

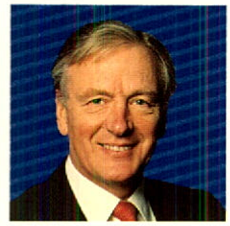


Edward M. Lakusta*
Private Business and
Energy Consultant

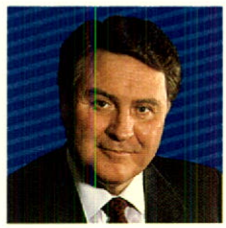
Bruce V. Walter
Vice Chairman
Sherritt Inc. and President
and Chief Executive Officer
Plaintree Systems Inc.



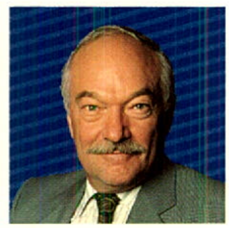
Dr. Ralph S. Cunningham†
President
Texaco Chemical Company



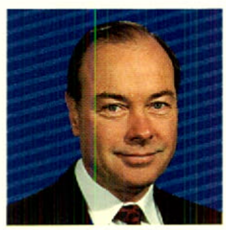
Daniel P. Owen*•
Chairman
Molin Holdings Limited and
Gulf Stream Investments



Clifford H. Frame
Professional Mining
Consultant



James G. Temple*•
Private Business Consultant



Frank W. King†•
President and Chief
Executive Officer
Cambridge Environmental
Systems Inc.

* Audit Committee

† Compensation Committee

• Environmental, Health and
Safety Committee

Corporate Information

OFFICERS

Ian W. Delaney
Chairman and
Chief Executive Officer

Bruce V. Walter
Vice Chairman

Michael G. Weedon
Executive Vice President and
Chief Operating Officer

Michael G. McKibbin
Senior Vice President,
Finance and
Chief Financial Officer

Bud W. Kushnir
Senior Vice President,
Fertilizers

D. Robert Weir
Senior Vice President,
Technologies

Fred J. Wellhauser
Senior Vice President,
Oil & Gas

Samuel W. Ingram
Vice President,
General Counsel and
Corporate Secretary

Dennis G. Maschmeyer
Vice President,
Metals Production

Lee F. Doty
Vice President,
Sales and Marketing,
Metals and Chemicals

Peter A. Bonyun
Treasurer

Donald M. Kossey
Controller

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