sherritt Gordon Mines Ltd.

Annual Report 1982

Sherritt Gordon Mines Limited owns and operates an integrated metallurgical-chemical complex at Fort Saskatchewan, Alberta, where it manufactures nitrogen and phosphate fertilizers and other chemicals, refines nickel and cobalt and produces various fabricated metal products, principally from nickel and cobalt. The company is currently expanding its nitrogen fertilizer manufacturing facilities by constructing new world-scale ammonia and urea plants. Sherritt owns and operates two mines in northern Manitoba which produce copper and zinc concentrates containing gold and silver, actively engages in mineral exploration and participates through joint ventures in oil and gas exploration. In addition, the company derives revenue from licensing its metallurgical technology and providing contract research and engineering services.

Annual Meeting

Monday, April 18, 1983, at 2:30 p.m.
Commerce Hall, Commerce Court
Toronto

Auditors
Deloitte Haskins & Sells, Toronto

Solicitors
Blake, Cassels & Graydon, Toronto

Transfer Agents
Canada Permanent Trust Company
Toronto
Morgan Guaranty Trust Company
of New York

Bankers
Canadian Imperial Bank of Commerce
Toronto
The Toronto-Dominion Bank
Toronto

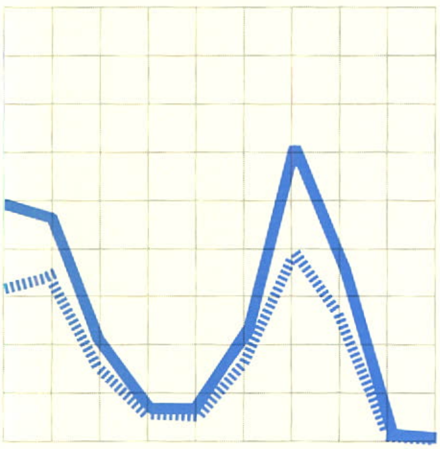
Listing
Toronto Stock Exchange

Report of the Directors

Return on Shareholders' Equity and Invested Capital

	1973	1974	1975	1976	1977
	(percentages)				
Equity	25.1	23.9	10.6	3.8	3.8
Capital	16.5	16.8	8.2	3.7	3.2

	1978	1979	1980	1981	1982
	(percentages)				
Equity	12.8	31.9	18.9	1.6	1.1
Capital	9.0	20.5	14.0	1.1	0.6



Most of 1982 was characterized by high interest rates, low levels of economic activity, further deterioration in metal prices, particularly for nickel and cobalt, and some softness in fertilizer markets. Late in the year with inflation under better control and interest rates dropping steadily, there were some signs of the beginnings of a slow economic recovery.

During the year we continued to improve Sherritt's competitiveness in the face of difficult market conditions. We have made good progress in this direction and believe the company is in a strong position to benefit from an economic pickup when it gathers momentum.

Earnings amounted to $2,297,000 but were reduced by an unusual write-off to a net loss for the year of $708,000. After provision for preferred dividends we recorded losses of 29¢ (1981 — 7¢) per common share before unusual items and 52¢ (1981 — 94¢) per common share after unusual items. Gross revenue for 1982 amounted to $274,748,000, a sharp 16% reduction from 1981 levels. Lower prices for all base metals, together with less output from our mining division because of the summer shutdown, accounted for the reduced revenue.

Mining results for the year improved markedly over 1981, despite the shutdown for fifteen weeks of both Ruttan and Fox mines. Restructuring and cost reduction activities in the mining division continued and were reflected in greatly improved unit costs. By the fourth quarter, with only a marginal improvement in the copper price, profitable operations were achieved in the mining division. During the year we continued to evaluate in detail our Ruttan ore reserves and removed 1,490,000 tons of material no longer considered mineable. The related unamortized cost of plant and mine development expenditures amounting to $3,005,000 net of tax has been charged to earnings as an unusual item. The lower cost levels and improved productivity should permit us to achieve some cash flow in 1983 even at current depressed metal price levels.

Fertilizer operations remained very profitable although sales and earnings were below 1981 levels due to declining volumes and profit margins for phosphates. Record grain crops in North America in the past two years along with weak economic conditions have reduced fertilizer demand in the U.S. and offshore. At the same time aggregate western Canada fertilizer consumption has not declined due primarily to Canada's record export grain shipments. With major additions to nitrogen capacity in Alberta this spring, including Sherritt's new ammonia-urea facilities, markets will be very competitive.

Partial cutbacks in production from older less efficient fertilizer plants in western Canada may be necessary until export markets improve. If need be we are prepared to reduce production from our old ammonia and urea plants. However, we believe that our manufacturing facilities and marketing network will be competitive in supplying the growing demand for nitrogen fertilizers in the prairie provinces and in adjacent major U.S. markets.

Natural gas is the key raw material in the manufacture of ammonia and urea, the primary nitrogen fertilizers. Gas has been our basic feedstock for ammonia used in fertilizers and also has been used in nickel refining since Sherritt established its operations in Alberta in 1954. We are confident that the natural gas policies of the Alberta government will continue to provide strong support for this important domestic and export industry. We have consumed some 300 billion cubic feet of gas in our operations over the past 30 years, to refine metals, to convert into fertilizer products and as energy for our Fort Saskatchewan complex. This is the kind of industrial diversification, based on natural gas, which is so important to the broadening of western Canada's economy.

While our fertilizer products are used mainly in the western prairies, there is significant tonnage exported to the U.S. Transportation expense is a large component of our cost and continued support by the railways is essential for the well-being of this important industry.

The most serious reduction in profit levels occurred in our refining operations. The net prices realized for nickel and cobalt declined sharply during 1982 with quoted prices late in the year down by as much as 40%. In view of this collapse in markets, we have reduced our workforce and renegotiated major feed and raw material contracts. We have also received strong support from our unionized employees at Fort Saskatchewan who have agreed to an eleven-month contract extension at current rates of pay. We believe that the refining operation can now show a modest profit even with the currently depressed state of nickel markets. The long-term economics of our refining operations remain very positive as business recovery brings nickel prices back to more reasonable levels.

Fabricated metal products suffered a reduction in sales volume but our profit levels improved due to lower raw material costs.

Mineral exploration expenditures were reduced significantly in 1982. The drilling program on the Agassiz gold property was completed and feasibility and financing studies are now in progress. Although we have had some success in our natural gas exploration efforts, we are intent on minimizing expenditures in this area until Sherritt's financial condition improves.

Income taxes resulted in a net addition to income of $339,000 primarily as a result of the federal inventory allowance which is not related to income levels. In addition, no Manitoba mining taxes were payable in 1982 due to losses in the mining operations and an earlier provision for future Manitoba mining taxes amounting to $1,072,000 at the end of 1981 was taken back into earnings during the year. Due to the major capital expenditure program and the low levels of earnings in the past two years, a large part of the capital cost of the fertilizer project is available in the form of accelerated capital cost allowances for federal income tax purposes and will minimize our future cash taxes for a significant period.

A dividend of 4¢ per share was paid to common shareholders at the end of the year. This minimum dividend was paid to maintain eligibility of the company's shares for purchase as an investment by Canadian pension funds, insurance companies and other institutions. Your directors feel that this eligibility is important to Sherritt and its shareholders, particularly in view of current financing plans.

Capital expenditures during the year amounted to $238,807,000, of which $225,329,000 was related to the nitrogen fertilizer expansion. Total costs of the completed fertilizer project including interest during construction are now estimated at $373,000,000, about 17% over the original budget. For 1983, capital expenditures are estimated at $73,000,000, including $61,000,000 for completion of the nitrogen expansion.

During 1982, because of heavy capital expenditures and the low level of cash flow from operations, long-term debt increased dramatically and working capital was reduced substantially. Early in February the company filed a preliminary prospectus with the Provincial Securities Commissions indicating its intention of raising approximately $50,000,000 through the issue of common shares. Newmont Mining Corporation has agreed to purchase its pro rata portion (39.7%) of this share issue. At the same time, the Canadian Imperial Bank of Commerce and the Toronto-Dominion Bank have agreed to extend a further term credit to Sherritt equal to the amount of the equity financing. This financing package will materially strengthen both our equity and working capital position.

During 1981 and 1982 Sherritt managed to remain marginally profitable while efforts were directed towards maintaining the viability of each operating division. We want to thank all Sherritt people for their extra effort and dedication towards this goal.

On behalf of the Board of Directors.

David D Thomas

David D. Thomas
Toronto, Ontario

February 14, 1983

Mining

Concentrate Production in Payable Pounds

	1978	1979	1980	1981	1982*
	(figures in millions)				
Copper	72.4	73.6	80.7	62.6	49.0
Zinc	74.7	53.0	41.5	45.0	10.3

**37 weeks' production*

Operations

Despite lower realized copper and zinc prices compared to 1981, the overall loss for the year in the mining division was reduced from $25,521,000 in 1981 to $13,223,000 for 1982. Moreover, continued operating improvements and a modest upturn in metal prices returned the division to profitable operation by the fourth quarter of 1982.

In December 1981 the decision was made to reduce tonnage and to mine higher grade ore at both the Ruttan and Fox mines. The daily production target for Ruttan was reduced to 4,500 tons and the daily rate at Fox was reduced to 2,500 tons. Steps taken to overcome the effects of depressed metal prices resulted in slightly lower costs per ton milled, and significantly lower costs per unit of metal produced. The Manitoba workforce was reduced by 38% to a year-end figure of 734.

In May 1982, members of Locals 5757 and 8144 of the United Steelworkers of America ratified a new three-year agreement with the company. Recognizing the condition of the mining industry and the economics of our operations, the union members accepted a 3% increase for the first year and a total increase of 22% over the three-year period.

While good production was achieved in the first half of 1982, persistently low metal prices and work stoppages at the outside facilities which treat our copper concentrates from both mines, precipitated a 15-week shutdown of Sherritt's mining operations in mid-June.

At Ruttan Mine production of above average grade copper ore from the west lens averaged 4,800 tons per scheduled day during the 37-week operating period of 1982. Zinc bearing ore was not scheduled for production in 1982. Mill feed grade averaged 2.16% copper as forecast, and metallurgical results were excellent at a 96.1% recovery and a concentrate grade of 27.2% copper. While total copper production in concentrate was much lower due to the 15-week shutdown, on an annualized basis it was higher than 1981. Productivity (tons milled per shift per person) increased by 11% relative to 1981.

In 1981 the cost per ton milled was $29.21. Despite lower operating rates during the first five full months of 1982, the average cost was lowered to $27.82 per ton through improved productivity. The average cost per ton during the last quarter was further reduced to $25.84.

The present mining plan is based on ore reserves totalling 15,643,000 tons at 1.74% copper and 1.02% zinc. Almost half these reserves are located between the 1400 and 2200 levels. During the first half of 1982, a diamond drill program to outline the ore between the 1400 and 2200 levels was completed. Feasibility studies for mine deepening to the 2200 level are in the final stages of completion. This ore can be developed and mined through the existing service shaft, and capital costs have been estimated at $20,000,000, in 1982 dollars, most of which would have to be spent in 1984 and 1985.

The balance of the ore reserves totalling 7,500,000 tons at 0.94% copper and 1.48% zinc, will be incorporated into these mining plans if metal prices and economic conditions warrant.

Production

	1982*	1981
Ruttan Mine		
Ore milled (tons)	865,000	1,877,000
% copper	2.16	1.30
% zinc	0.14	1.25
Copper contained in concentrate (lb.)	35,796,000	44,540,000
Zinc contained in concentrate (lb.)	–	32,687,000
Fox Mine		
Ore milled (tons)	471,000	809,000
% copper	1.76	1.42
% zinc	1.77	1.73
Copper contained in concentrate (lb.)	15,270,000	20,486,000
Zinc contained in concentrate (lb.)	11,443,000	19,341,000

**37 weeks' production*

Plans for 1983 call for an annual mining rate of 1,500,000 tons at 1.83% copper and 0.94% zinc. With the higher operating rate, unit costs are expected to be lower than in 1982.

Fox Mine tonnage and average copper grade during the 37-week operating period exceeded forecasts. Mill feed averaged 1.76% in the period. Both copper recoveries and the percentage copper in the copper concentrate were above previous standards at 92% and 26.5% respectively. Zinc mill heads at 1.77% and zinc recovery at 68.4% were slightly below expectations, but the average grade of zinc concentrate was above normal despite problems with the metallurgy reported in the first quarter. During the summer shutdown a new cyclone system was installed in the grinding circuit which contributed to further improvements in metallurgy during the fourth quarter. Despite the lower tonnage, the operating cost per ton milled was maintained at $28.86 for the first five months of the year and averaged $27.13 during the last quarter compared to $28.69 for 1981.

The installation of a borehole hoisting system to hoist ore from the 2800 and 2600 levels to the 2000 level began in 1982. By year end most of the development was complete, all the major equipment was on order and the sinking hoist from Ruttan had been dismantled and moved to Fox. The project is scheduled for completion in April 1983.

In 1983, total copper production from Ruttan and Fox is scheduled at 75,000,000 pounds.

Markets

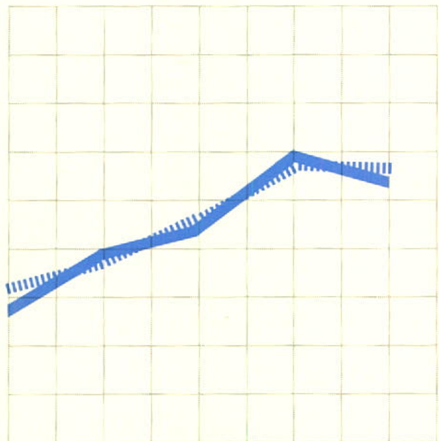
As noted in last year's annual report, copper prices in 1981 were at a 50-year low in real dollar terms. 1982 did not meet the optimistic predictions of the metal industry and the average copper price for the year was even lower. Western world copper consumption was approximately 10% less than 1981 with LME prices fluctuating between 76¢ U.S. per lb. and 53¢ U.S. per lb. with the year-end price of 67.7¢ U.S. approximating the average for the year. Sherritt's realization was 83¢ Cdn. per pound, compared with 90¢ Cdn. in 1981.

Zinc metal prices were also lower due to poor demand with a realized price of 44¢ Cdn. compared with 52¢ Cdn. in 1981.

Gold prices were somewhat lower with Sherritt's realization averaging $467 Cdn. per oz. versus $487 in 1981, while silver was slightly better at $10.51 Cdn. per oz. as compared to $9.79 in 1981. Precious metal prices increased substantially early in 1983.

Cash Production Cost

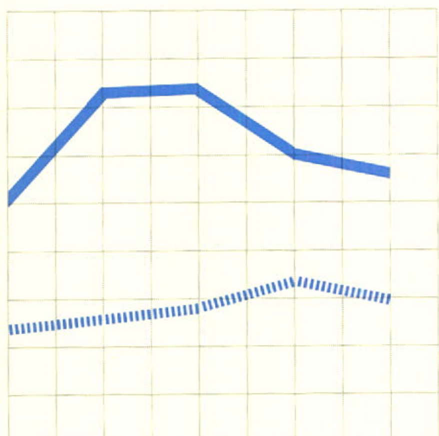
	1978	1979	1980	1981	1982*
	($ per ton milled)				
Ruttan	13.66	19.70	22.08	29.21	27.07
Fox	15.32	18.85	23.18	28.69	28.21



* *Excludes costs incurred during shutdown period.*

Average Price Received – Copper and Zinc

	1978	1979	1980	1981	1982
	(¢ per lb.)				
Copper	76	110	111	90	83
Zinc	36	41	43	52	44



Ore Reserves

	Tons	% Copper	% Zinc
	(tonnage figures in thousands)		
Ruttan Mine			
At January 1, 1982	24,809	1.51	1.17
New drilling information	689	0.37	0.22(−)
Non-mineable material deleted	(1,490)	1.07	1.26
Production 1982	(865)	2.16	0.14
At December 31, 1982	23,143	1.48	1.17
Included in current mine plan	15,643	1.74	1.02
Excluded from current mine plan	7,500	0.94	1.48
	23,143	1.48	1.17
Fox Mine			
At January 1, 1982	2,608	1.94	1.59
New drilling information and other changes to previous estimates	(227)	1.07(+)	1.28
Production 1982	(471)	1.76	1.77
At December 31, 1982	1,910	2.34	1.58

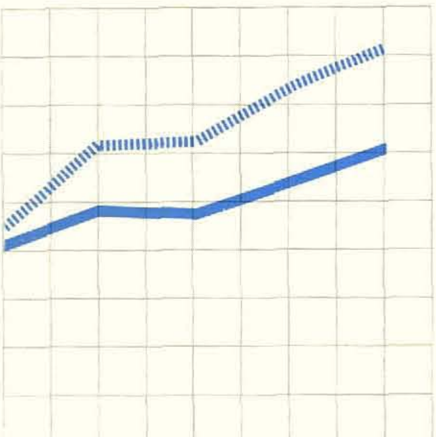
Mining Division Sales Revenue

	1982		1981	
	(figures in thousands)			
Copper	48,974 lb.	$40,825	62,606 lb.	$56,199
Zinc	10,260 lb.	4,508	44,991 lb.	23,384
Precious metals				
Gold	11 oz.	5,053	16 oz.	7,894
Silver	231 oz.	2,425	365 oz.	3,571
		7,478		11,465
Total		$52,811		$91,048

Fertilizers and Chemicals

Consumption of Ammonia and Urea in Western Canada

	Fertilizer year ended June 30				
	77-78	78-79	79-80	80-81	81-82
	(thousand tonnes)				
Ammonia	200	245	242	267	305
Urea	225	303	307	367	406



Source: Canadian Fertilizer Institute.

Operations

Operating profit for the fertilizer and chemical division in 1982 was $18,302,000, 17% below the prior year. Generally, price increases did not fully cover higher raw material costs. In particular, phosphate volumes and margins were substantially lower. Nitrogen fertilizer sales volumes, primarily ammonia and urea, generally kept pace with 1981.

Total production of marketable nitrogen and phosphate fertilizer was 359,000 tonnes, lower than the record 1981 production of 397,000 tonnes due to a planned maintenance shutdown, and a different product mix in 1982. The expansion of the phosphate facility to an annual capacity of 62,000 tonnes P_2O_5 was completed during the year. Other capital projects involved improvements to energy efficiency and reduction of water and air emissions.

Sherritt's wholly-owned subsidiary, Thio-Pet Chemicals Ltd., a specialty chemical manufacturer, continues to be profitable, and has the potential to expand and prosper.

Nitrogen Fertilizer Expansion

Sherritt's new world scale ammonia-urea facilities are scheduled to come on stream to meet the spring fertilizer season in April 1983. Production is planned to reach full capacity by the fall.

Good progress was made on construction of the plants during 1982, reaching an overall completion of 85% by year end.

Annual rated capacity of Sherritt's ammonia and urea facilities, expressed in terms of product available for sale, is reflected in the adjoining table. The new plants are expected to have the capability to operate above rated capacity. In addition, they are 30% more energy efficient than our present plants and will have significantly lower unit operating costs.

Markets

In western Canada, where Sherritt sells most of its fertilizer products, total demand was basically unchanged from 1981. Ammonia and urea markets, however, increased by 12%, maintaining the strong growth pattern experienced over the past number of years as shown in the adjacent graph. Canadian grain exports in 1982 were at record volumes, but prices were sharply lower. For 1983 we expect some decline in farm income with weak grain prices and higher input costs. At the same time total fertilizer consumption in western Canada is expected to be unchanged in 1983 from 1982 levels.

In U.S. markets, fertilizer consumption and prices declined in 1982 (fertilizer year ending June 30) reflecting recessionary conditions and weak grain markets. Offshore markets also weakened due in part to financial conditions in third world countries.

In 1980, when the decision was made to proceed with a world-scale nitrogen plant at Fort Saskatchewan, we expected only one other major plant to be constructed during the same period in

Nitrogen Capacity

	Existing plants	New plants	Total
			(thousands of tonnes)
Ammonia	45	156	201
Urea	92	306	398
Ammonium sulphate (1)	130	—	130
	267	462	729

(1) Produced as a by-product in the nickel refining process.

Fertilizer and Chemical Sales Revenue

		1982		1981
				(figures in thousands)
Fertilizers				
Nitrogen	317 tonnes	$54,517	331 tonnes	$52,629
Phosphates	100 tonnes	26,241	126 tonnes	31,843
	417 tonnes	80,758	457 tonnes	84,472
Chemicals	13 tonnes	3,563	19 tonnes	3,020
Total	430 tonnes	$84,321	476 tonnes	$87,492
Average Prices				
				($/tonne)
Nitrogen		$171.81		$159.02
Phosphates		261.97		251.85

Alberta. This has proved correct. In fact, no other world-scale plants have been built in North America during this period except one recently started in Ontario. The anticipated growth in demand in the huge U.S. mid-west market, though, where some Alberta product has been exported in the past, has not materialized. This has been due to recessionary conditions and record grain crops in 1981 and 1982 which reduced grain prices and farm income in that area. In fact, consumption of fertilizers in the U.S. has declined in each of the past two years and is forecast to drop further in 1983 before normal growth resumes. This is partly a result of a recently announced program to reduce grain production in the United States.

Fertilizer prices, including ammonia and urea, have declined markedly in the U.S. mid-west. Offsetting the reduced demand however, over two million tonnes of high-cost nitrogen capacity has been closed in the U.S. in the past two years. Many of the plants have high gas costs and low energy efficiency and will not reopen.

With steps being taken to reduce grain surpluses in the U.S., we expect some strengthening in grain and fertilizer prices by 1984. Until that time, the economics of moving nitrogen products from Alberta into the U.S. mid-west market, with inherent high freight costs, will be marginal.

Recognizing these conditions and the major new nitrogen capacity coming on stream in Alberta in 1983, we have taken certain steps to ensure the economic operation of our new fertilizer plants. Firstly, in recent years a substantial volume of product has been purchased by Sherritt for resale in order to build markets. In 1982, 57,000 tonnes of nitrogen products (12% of the capacity of the new plants) were marketed in excess of our own production. This has allowed for expansion of our dealership network. There are currently 116 independent Sherritt dealers in western Canada who market the major share of our fertilizer products.

Our next step has been to presell a significant share of the new capacity. About 20% of the new plant output has now been sold under secure long-term contract arrangements. Other arrangements, which include roughly a further 20%, are under consideration. Pricing terms under these contracts and arrangements will vary, but in aggregate, the prices are expected to cover Sherritt's operating costs, debt repayment and ongoing interest charges relating to the output sold.

Despite the shortage of product in the past few years, Sherritt has maintained its markets in the Pacific Northwest. We consider this area to be part of our natural market and have continued to build up our nitrogen volumes there in anticipation of the new production.

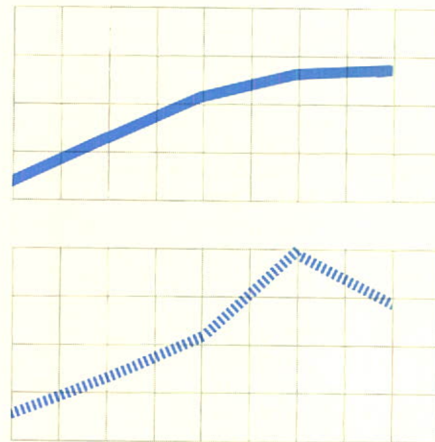
After the new fertilizer facilities are operational, a reduction in output from Sherritt's existing ammonia and urea plants may be necessary in order to balance production with demand.

Natural gas supply arrangements in the North American context are extremely favourable to the economics of our Alberta-based operation. As we have indicated before, natural gas represents the major cost element in the production of nitrogen fertilizer. The competitive cost of this raw material is established under long-term contract arrangements related to the regulated field price of natural gas. This price is established after deducting transportation to eastern Canada, to keep the delivered cost at the Toronto city gate at 65% of the blended oil price. We are confident that these arrangements will continue to be supported by government pricing policies which favour upgrading of Canada's surplus natural gas supplies, and encourage a competitive cost structure for our industry.

Sherritt's gas supply arrangements for its new ammonia plant should, when combined with the greater energy efficiency of the plant, give our nitrogen fertilizer business a strong competitive cost advantage over most Alberta and North American producers.

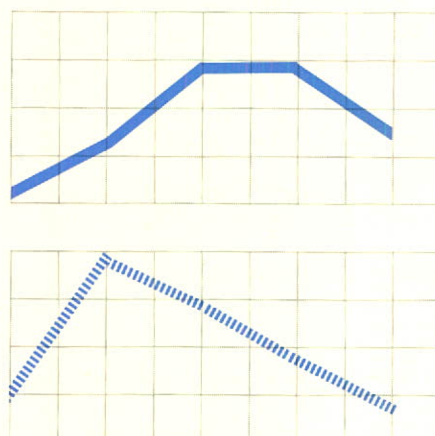
Refined Nickel and Cobalt Production

	1978	1979	1980	1981	1982
	(million lb.)				
Nickel	26.9	32.0	35.8	38.2	38.7
	(thousand lb.)				
Cobalt	1,145	1,333	1,526	2,014	1,729



Average Price Received – Nickel and Cobalt

	1978	1979	1980	1981	1982
	($ per lb.)				
Nickel	2.09	2.65	3.41	3.46	2.76
Cobalt	13.59	34.35	27.28	18.12	10.95



Metal Refining

Operations

Following three years of very profitable operations in the refining division, a loss of $2,337,000 was experienced in 1982. A 20% decline in the average nickel price and a 40% drop in the cobalt price from 1981 caused a sharp reduction in operating results and a write-down of nickel inventories at the end of 1982.

Production of nickel at Fort Saskatchewan in 1982 was 38.7 million pounds, slightly exceeding the previous record for refinery output in 1981. To counteract the continuing weakness in the nickel market, a number of remedial steps were taken to hold down the unit cost of production: product inventory was lowered, the workforce was reduced, salaries were frozen, and feedstock arrangements and labor contracts were renegotiated. As a result, losses in 1982 were minimized despite drastically depressed nickel prices. Some improvement in the nickel price is expected, but even at current price levels the refining operations should return to a profitable level in 1983.

Production of refined cobalt metal was 1.7 million pounds, a 14% drop from the production of 2 million pounds in 1981. The drop in production was due to a shortage of feed materials.

Markets

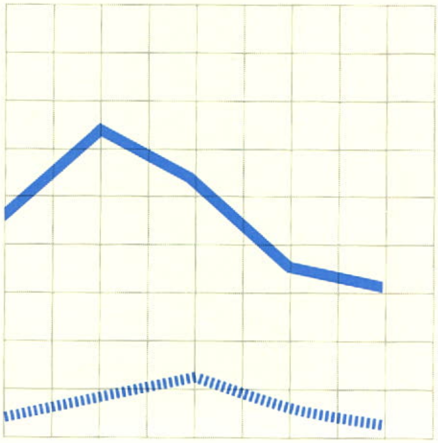
Markets for both major products, nickel and cobalt, were severely depressed. U.S. consumption registered a drop of over 25% in the case of nickel and over 20% in the case of cobalt. Sherritt maintained its share of the western world nickel market. LME nickel prices varied from a high of $2.72 U.S. per pound to a low of $1.42 U.S. per pound, averaging $2.18 U.S. per pound and posting $1.71 U.S. per pound at year end.

Cobalt prices declined throughout the year from a high of $14.00 U.S. per pound to approximately $5.00 U.S. per pound at year end. Both major cobalt producers, Zaire and Zambia, were very aggressive sellers and have recaptured a significant market share by continually lowering prices throughout the year.

Sherritt's 1982 nickel sales exceeded the 1981 level as higher volumes more than offset lower average prices. Year-end inventories were at normal levels. Cobalt sales were substantially lower than in 1981.

Fabricated Metal Production

	1978	1979	1980	1981	1982
	(thousand lb.)				
Nickel	4,624	6,461	5,493	3,718	3,268
Cobalt and Other	433	866	1,242	670	377
Total	5,057	7,327	6,735	4,388	3,645



Metal Refining Sales Revenue

		1982		1981
			(figures in thousands)	
Nickel	36,188 lb.	$ 99,825	28,076 lb.	$ 97,072
Cobalt	753 lb.	8,243	836 lb.	15,153
Copper, precious metals and custom refining		4,415		5,607
Total		$112,483		$117,832

Fabricated Metal Products Sales Revenue

		1982		1981
			(figures in thousands)	
Nickel products	3,072 lb.	$14,668	3,669 lb.	$17,896
Cobalt products	11 lb.	194	26 lb.	662
Alloy, composite and other metal products	394 lb.	5,994	648 lb.	7,889
Total	3,477 lb.	$20,856	4,343 lb.	$26,447

Fabricated Metal Products

Operations

Operating profits for 1982 were $2,781,000, a significant improvement over 1981. Prices for Sherritt's specialty powders held up despite declining metal prices. Severe competition continued in the coinage market where prices were continually under pressure.

Production volume declined in 1982 to 3,645,000 pounds, down about 17% from 1981. Total rolling mill output was down 12%, while special products declined 30% in volume.

Rolling mill production of strip rose over last year because of orders for the Canadian Constitution dollar. Coin blank production declined because of reduced sales to the Netherlands. No N-B-S™ blanks or coins were produced during the year.

Markets

In 1982, the competition intensified in the coinage market and customers began changing away from traditional materials to cheaper alternatives such as aluminum, stainless steel and clad materials. Our share of the pure nickel blank market was maintained and we increased our sales to the Canadian strip market. A disappointment was the lack of business for our new N-B-S plant. Considerable effort was expended in several countries to develop business and we expect that orders will result in 1983.

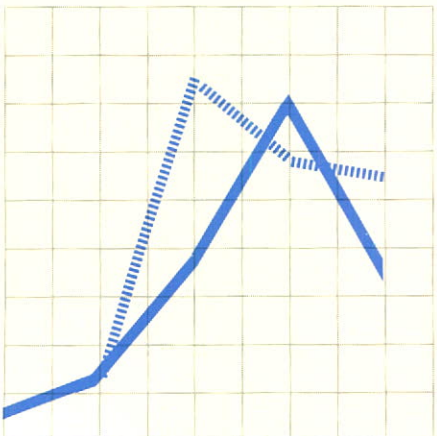
Our medallion business increased slightly over 1981 levels. Our sales of copper alloy tokens are expected to continue to improve as their use in vending machines expands.

Specialty product sales were down in 1982 and we believe that the markets have bottomed out and will slowly improve. Sales of magnetic alloy powders are expected to continue the improvement shown in 1982. Markets for TUFFSTUDDS™, a form of abrasion-resistant material, were expanded and market development began in the United States, South Africa and Australia. Dispersion strengthened nickel sales are expected to hold at present levels with expansion dependent on improvements in the aircraft industry.

Exploration and Development

Exploration Expenditures

	1978	1979	1980	1981	1982
	($ million)				
Mineral	0.6	1.3	3.9	7.0	3.6
Oil and Gas	–	1.3	7.5	5.9	5.6



Mineral Exploration

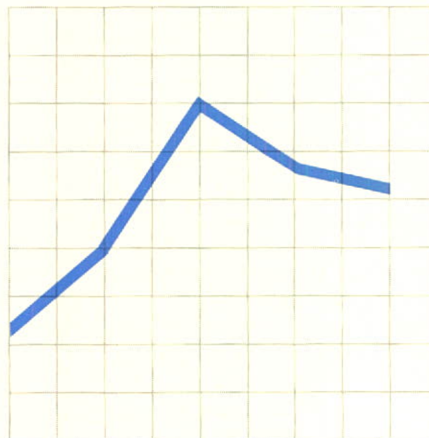
At the Agassiz gold property in Manitoba the drilling to further delineate reserves was completed. Ore reserves in the central and west lenses are now estimated at two million tons containing .14 oz. per ton gold and .30 oz. per ton silver above the 1500-foot level with potential for further reserve additions at depth and to the east of the main deposit. A feasibility study is now under way to operate the property on a 1000 ton a day basis and financing arrangements are being discussed with third parties.

Pilot plant acidulation tests on the Cargill phosphate concentrate were completed and demonstrated that this material could be used to manufacture saleable phosphate products. Work is continuing to determine the economic potential of Cargill by-products: niobium, uranium, rare earths and vermiculite. While world phosphate markets are severely depressed today, studies of long-term market potential continue. Discussions are in progress with a view to extending our option on the Cargill property.

In Manitoba exploration is concentrated on areas in the vicinity of our existing mills. In northwestern Ontario the search has focused on gold. Results obtained have been somewhat encouraging; however, nothing of commercial value has been delineated.

Technology Licensing Revenue

1978	1979	1980	1981	1982
($ million)				
1.2	2.0	3.5	2.8	2.6



Oil and Gas Exploration

During 1982 Sherritt participated, through two joint venture programs, in the drilling of 22 wells in Alberta of which six were completed as gas wells and six as oil discoveries. The Victor gas field, north of Edmonton, was discovered by the Norcen joint venture and production should commence in the spring of 1983 at the rate of 5 million cubic feet per day. Sherritt has a net interest of 35.6% in this field and anticipates cash flows in excess of $1 million from the production in 1983.

Sherritt's interest in proven and probable reserves, net of royalties at the end of 1982, is estimated by independent consulting firms at 10 billion cubic feet of natural gas and minor volumes of oil and natural gas liquids. Reserves exclude interests in five small oil discoveries made late in 1982 and not fully evaluated.

Sherritt held working interests in 360,000 acres of petroleum and natural gas rights in Saskatchewan, Alberta and northeast British Columbia at the end of 1982.

Expenditures on oil and gas exploration in 1982 totalled $5,641,000 compared to $5,870,000 in 1981. Due to financial constraints Sherritt's 1983 program will be held to minimum necessary levels.

Technology

Product Development

Throughout 1982, new compositions and designs were developed to improve the impact resistance of our TUFFSTUDDS wear-resistant product. Our new aureate (gold-coloured) coins were prepared for market development, and improvements were made to our N-B-S coin blanks leading to a reduction in the nickel content and, consequently, a substantial drop in the cost of these coins. Several improvements were made in the commercial production of our samarium-cobalt magnetic alloy powder for which the market is growing. Research in 2-17 samarium-cobalt alloy resulted in permanent magnets with very high stored magnetic energy; we are developing this product for commercial production.

Research on metal powders increased in 1982 with the inclusion of work on ultrafine powders for the electronics industry and improvements to the quality of our standard cobalt powder as well as our continuing work on composite powders for turbine-engine seals and wear-resistant coatings.

Process Development

Considerable effort was devoted to a number of projects aimed at improving the nickel refinery operations by lowering operating costs and enhancing metal recoveries. Potential new feeds, including some containing impurities, were evaluated for the metals plants. On outside projects, the process research group worked for Homestake Mining Company on the development of the pressure oxidation process to enhance recovery of gold from the McLaughlin orebody in California. Test work conducted in a continuous, mini-scale pilot plant demonstrated successfully the integrity of the flowsheet. Sherritt provided design engineering input for the autoclave for this project.

Technology Licensing

Our revenue from technology licensing in 1982 was $2.6 million, down 8% from 1981. Construction of the pressure-leaching plant for zinc concentrates by Kidd Creek Mines Ltd. was completed by the end of 1982, after a delay caused by a construction workers' strike. The pressure leaching plant for the treatment of nickel-copper matte of Matthey Rustenburg Refiners (Pty.) Ltd. in South Africa was successfully commissioned early in 1982, and soon after achieved its design rate.

Personnel

On January 6, 1982, 340 hourly and salaried employees were laid off from our mining operations in line with the reduced level of operations of the Ruttan and Fox mines. Employment levels in the mining division continued to fall throughout 1982 as a result of retirement, voluntary termination and some additional lay-offs. By December 31, 1982, employment in the division stood at 744, down 463 from a year earlier. We expect employment to remain relatively constant at this level throughout 1983.

A renewal of the mining division labor agreements with United Steelworkers was concluded in May 1982. The new agreements run for 37 months with increases in May 1982, June 1983 and June 1984 of 3.4%, 8.7% and 8.9% respectively. The contracts also contain a wage reopener clause under which the union may request a review of wage rates following any 12-month period during which the average price of copper on the LME equals or exceeds a base price of $1.05 U.S. per pound. This base price was established as of June 1, 1982 and is indexed to the Consumer Price Index.

The Fox and Ruttan mines and the divisional offices in Lynn Lake were shut down for 15 weeks on June 19, 1982. In August, Sherritt concluded an agreement with the Province of Manitoba and the Federal Government to provide temporary employment for those employees who had exhausted their vacation benefits. Approximately 200 employees participated in this program which included a variety of community projects as well as a project to collect and store core samples from various drilling locations and demolition of several unused structures in the Lynn Lake area.

At Fort Saskatchewan, employment levels were steadily reduced throughout 1982. On December 31, 1982 there were 907 employees compared to 993 a year earlier despite additional staffing for the nitrogen expansion.

The labor contract at Fort Saskatchewan with local 530, Energy and Chemical Workers Union was originally scheduled to expire April 30, 1983. In October 1982, Sherritt asked the union to consider an extension of this contract and in late November the company and union reached an agreement to extend the contract for 11 months at the prevailing wage rates. The extended contract will now expire March 31, 1984. Under the terms of the extension, company and union representatives will meet in October 1983 to review wage rates in light of business conditions at that time.

Training retained its high priority at Fort Saskatchewan with 35 employees graduating from the Basic Operators Training Program and 55 employees graduating from the Supervision Program. Improved operating performance is partly a result of this emphasis on training.

Significant progress has been realized in the field of occupational health and hygiene in the Alberta operations. Associated with the company's efforts in the area Sherritt will host the international meeting of the Nickel Producers Environmental Research Association (NiPERA) in September 1983.

In recent years, salaries and salary ranges have been reviewed each January. All salaried employees in the company have been advised that salaries would be frozen from June 1982 until December 1983.

Personnel

	1982	*1981*
Mining, Milling and Exploration	744	1207
Metal and Chemical and Research	907	993
Fertilizer marketing and Corporate Transportation	22	21
Thio-Pet	13	12
Energy Resources	2	2
Corporate Office	54	66
	1742	2301

Consolidated Balance Sheet

as at December 31, 1982 (with 1981 figures for comparison)
(thousands of dollars)

Sherritt Gordon Mines Limited
(Under the Business Corporations Act, Ontario)

Assets		1982	1981
			Restated
Current	Cash, including interest-bearing deposits	$ **364**	$ 346
	Accounts receivable	**51,428**	65,621
	Income and resource taxes recoverable	—	13,097
	Inventories (note 3)	**77,952**	95,872
	Prepaid expenses	**3,180**	1,272
		132,924	176,208
Fixed (note 4)		**453,254**	229,436
Other	Investments (note 5)	**7,086**	7,337
	Employee housing and other loans	**6,151**	6,869
	Patents and non-producing assets	**1,298**	1,563
		14,535	15,769
		$600,713	$421,413

Liabilities and Shareholders' Equity			
Current	Bank indebtedness (note 6)	$ **63,242**	$ 42,553
	Accounts payable	**54,944**	66,542
	Income and resource taxes	**4,102**	—
	Current portion of long-term liabilities	**2,920**	2,920
		125,208	112,015
Long-term Liabilities (note 7)		**236,152**	61,547
Provision for Future Income and Resource Taxes		**42,910**	44,352
Shareholders' Equity	Capital stock (note 8)	**75,378**	75,349
	Contributed surplus (note 8)	**26,359**	26,237
	Retained earnings	**94,706**	101,913
		196,443	203,499
		$600,713	$421,413

Approved by the Board of Directors:
William E. P. DeRoche, Director
David D. Thomas, Director

Consolidated Statement of Earnings

for the year ended December 31, 1982
(with 1981 figures for comparison)
(thousands of dollars)

		1982	1981
Revenue	Metal sales	**$186,150**	$235,327
	Fertilizer and chemical sales	**84,321**	87,492
	Technology licensing, interest and other income	**4,277**	3,851
		274,748	326,670
Costs and expenses	Operating costs	**249,300**	289,391
	Technology	**1,322**	1,579
	Exploration		
	Minerals	**2,644**	5,681
	Oil and gas	**220**	1,528
	Selling and administration	**8,917**	8,413
	Interest (note 10)	**186**	3,068
	Depreciation and amortization	**11,273**	13,683
	Income and resource taxes (note 11)	**(1,411)**	537
		272,451	323,880
Earnings before unusual items		**2,297**	2,790
Unusual items net of tax (note 12)		**(3,005)**	(11,118)
(Loss) for the year		**$ (708)**	$ (8,328)
(Loss) per common share (after preferred dividends)	Before unusual items	**$ (.29)**	$ (.07)
	After unusual items	**$ (.52)**	$ (.94)
Dividends per common share		**$ .04**	$ .25

Consolidated Statement of Retained Earnings

for the year ended December 31, 1982
(with 1981 figures for comparison)
(thousands of dollars)

	1982	1981
Balance at beginning of the year		
As previously reported	**$103,904**	$119,153
Adjustment to prior years' income (note 2)	**(1,991)**	(1,991)
As restated	**101,913**	117,162
(Loss) for the year	**(708)**	(8,328)
	101,205	108,834
Dividends — Common	**515**	3,208
— Preferred	**5,984**	3,713
	6,499	6,921
Balance at end of the year	**$ 94,706**	$101,913

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1982
(with 1981 figures for comparison)
(thousands of dollars)

		1982	1981 Restated
Working capital was obtained from	Operations		
	(Loss) for the year	**$ (708)**	$ (8,328)
	Items not affecting working capital		
	Depreciation, amortization and other write-offs	**11,273**	14,972
	Future income and resource taxes	**(1,442)**	5,911
	Unusual items	**4,950**	18,512
		14,073	31,067
	Issue of capital stock	**151**	62,679
	Increase in long-term liabilities	**177,525**	64,467
		191,749	158,213
Working capital was used for	Capital and deferred assets		
	Mining	**3,641**	10,633
	Fertilizers and chemicals	**7,043**	6,371
	Fertilizer expansion	**225,329**	78,918
	Metal refining	**1,008**	1,969
	Fabricated metals	**331**	6,536
	Oil and gas	**2,588**	14,077
	Other	**(1,133)**	364
		238,807	118,868
	Dividends	**6,499**	6,921
	Reduction of long-term liabilities	**2,920**	2,920
		248,226	128,709
(Decrease) increase in working capital		**(56,477)**	29,504
Working capital at beginning of the year		**64,193**	34,689
Working capital at end of the year		**$ 7,716**	$ 64,193
Analysis of (decrease) increase in working capital			
(Decrease) increase in current assets	Cash	**$ 18**	$ (1,253)
	Accounts receivable	**(14,193)**	5,450
	Income and resource taxes recoverable	**(13,097)**	13,097
	Inventories	**(17,920)**	9,881
	Prepaid expenses	**1,908**	(138)
		(43,284)	27,037
(Increase) decrease in current liabilities	Bank indebtedness	**(20,689)**	15,138
	Accounts payable	**11,598**	(12,781)
	Income and resource taxes	**(4,102)**	3,030
	Current portion of long-term liabilities	**—**	(2,920)
		(13,193)	2,467
(Decrease) increase in working capital		**$ (56,477)**	$ 29,504

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a) Presentation of Financial Statements
The consolidated financial statements include the accounts of Sherritt Gordon Mines Limited and its active subsidiary companies.

b) Translation of Foreign Currencies
Transactions in foreign currencies are translated into Canadian dollars at rates prevailing at the time of such transactions, and current assets, current liabilities and long-term liabilities are translated at the rate of exchange at year end. Unrealized gains or losses on exchange relating to long-term liabilities are amortized over the life of the liabilities.

c) Revenue Recognition
Revenue from metals contained in mine concentrates is recognized in the month of production and is subject to adjustment on, or prior to, settlement to reflect changes in settlement quantities and metal market prices. Revenue from other products is recognized at the time of shipment.

d) Inventory Valuation
Mine production is valued at estimated net realizable value. Other finished products, raw materials, materials in process, and operating supplies are valued at the lower of average cost and net realizable value.

e) Exploration and Development Costs
Minerals — Costs of exploring for new ore occurrences are charged to earnings in the period in which they are incurred. Development costs relating to a new ore occurrence are deferred until production commences after which only development costs of a capital nature are deferred.

Oil and gas — Costs of exploring for oil and gas are accounted for using the full-cost method under which costs incurred in acquiring, exploring and developing properties are capitalized. The costs capitalized are limited to the present value of future net revenues from estimated production of proven and probable reserves plus the estimated value of unproven properties.

f) Fixed Assets
Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction.

Depreciation of plant and equipment costs and amortization of development costs and patents are charged to earnings as follows:
(i) Mining — on a unit of production method based on metallic content of the estimated recoverable ore reserves under mining plans currently in effect.
(ii) Fertilizers and chemicals, metal refining, fabricated metals — on a straight-line basis over the estimated useful lives of the assets.
(iii) Patents — on a straight-line basis over the lives of the patents.

g) Income and Resource Taxes
The company follows the tax-allocation method of providing for income and resource taxes.

Taxable income may be different from reported earnings before taxes principally because capital cost allowances and development expenditures claimed for tax purposes differ from depreciation and amortization recorded. The difference between the taxes calculated as payable each year and those charged against earnings using the tax-allocation method is accumulated and carried forward in the balance sheet under the heading Provision for Future Income and Resource Taxes.

2. Change in Accounting Policy

Effective 1982, the company adopted the accrual basis of accounting for the vacation benefits of all its employees. Previously only regular hourly vacation benefits were accounted for on an accrual basis. This change has had no material effect on earnings for 1982 and 1981.

This change was applied retroactively and the comparative figures for 1981 have been restated by reducing retained earnings by the after-tax cost of $1,991,000, increasing accounts payable and thereby reducing working capital by $3,280,000 and reducing provision for future income and resource taxes by $1,289,000.

3. Inventories

(thousands of dollars)	1982	1981
Concentrates	$12,251	$14,011
Fertilizers and chemicals	10,788	5,071
Refined metal products	23,069	38,564
Raw materials and materials in process	13,886	23,928
Operating supplies	17,958	14,298
	$77,952	$95,872

4. Fixed Assets

(thousands of dollars)	Property, plant and equipment Cost	Depreciation	Net cost	Unamortized development and exploration costs	Total
Mining	$ 96,750	$ 55,793	$ 40,957	$30,612	$ 71,569
Fertilizers and chemicals	75,361	44,943	30,418	—	30,418
Metal refining	38,505	28,761	9,744	—	9,744
Fabricated metals	16,528	5,321	11,207	—	11,207
	227,144	134,818	92,326	30,612	122,938
Fertilizer plant under construction	311,722	—	311,722	—	311,722
Oil and gas	—	—	—	18,594	18,594
1982	$538,866	$134,818	$404,048	$49,206	$453,254
1981	$304,064	$123,976	$180,088	$49,348	$229,436

5. Investments

(thousands of dollars)	Common shares	Percentage owned	1982	1981
Marinduque Mining & Industrial Corporation	9,021,177	10	$6,470	$ 6,687
BowRio Resources Limited	600,000	21	600	600
Other companies			16	50
			$7,086	$ 7,337

These investments are carried at cost. The quoted market value of the investment in shares of Marinduque Mining & Industrial Corporation at December 31, 1982 was $4,852,000 (1981: $5,529,000). There is no quoted market value for shares of BowRio Resources Limited, a Calgary-based oil and gas exploration company.

Subsequent to December 31, 1982, the company disposed of approximately one-third of its investment in shares of Marinduque for an amount slightly in excess of book value.

6. Bank Indebtedness

Receivables and inventories of the company have been pledged as security for bank indebtedness.

7. Long-term Liabilities

(thousands of dollars)	1982	1981
Project Loan — fertilizer expansion		
U.S. dollars $136,029,000 (1981: $40,000,000)	$167,234	$ 47,436
Canadian dollars	67,050	8,000
	234,284	55,436
Unamortized foreign exchange (loss) gain	(1,052)	271
	233,232	55,707
Other Long-term Liabilities		
Petroleum and natural gas rights	5,840	8,760
Deduct current portion	2,920	2,920
	2,920	5,840
Total Long-term Liabilities	$236,152	$ 61,547

Project Loan (See also note 17)

The company has entered into an agreement with two Canadian chartered banks to cover the financing of a new fertilizer plant, providing for a long-term loan of $260,000,000, limited to 75% of the project cost, and a demand operating line of credit of $40,000,000. These loans may be drawn in either Canadian funds or the U.S. equivalent.

Prior to completion of the new plant, the amount of the loans outstanding is a general obligation of the company and is secured by charges on the new plant facilities and on the inventory and receivables of the company's nitrogen fertilizer business. After completion of the new plant and subject to satisfaction of certain conditions relating to the project, the banks' remedies against the company with respect to the operating line of credit and up to $235,000,000 of the long-term loan will be limited to the realization of their security.

Interest may be fixed at rates agreed when funds are drawn down or may vary with the rate of interest charged by the lenders for Canadian or U.S. dollar loans made to their prime commercial borrowers. As at December 31, 1982 the composite rate on the total amount outstanding was 12.22% (1981: 15.67%).

Repayment of the long-term loan will be in twenty semi-annual instalments commencing the earlier of March 31, 1984 or nine months after project completion. Scheduled repayments of the loan over the next five years are estimated to be — 1983: $0; 1984: $13,000,000; 1985: $15,600,000; 1986: $18,200,000 and 1987: $20,800,000. There is provision for deferral of certain repayments of the long-term loan if cash flows from the project and existing nitrogen fertilizer business are insufficient to meet scheduled repayments. There is also provision for limited prepayments when such cash flows exceed scheduled repayments.

Under the terms of the project loan agreement the company is required to meet certain financial ratios. While the company did not achieve these ratios at December 31, 1982, the lenders have waived this requirement for 1982.

Petroleum and Natural Gas Rights

In connection with its participation in a joint exploration program, the company has acquired an interest in certain petroleum and natural gas rights which require payments of $2,920,000 to be made in each of the years 1983 and 1984.

8. Capital Stock and Contributed Surplus

Authorized capital
20,000,000 common shares, par value $1 each
7,500,000 preferred shares, without par value

Issued and fully paid	Number of shares	Amount (thousands)
Common —		
January 1, 1982	12,849,340	$12,849
Issued for cash	29,230	29
December 31, 1982	12,878,570	$12,878
Preferred Series "A"	3,125,000	$62,500
		$75,378

(See also note 17)

During 1982, 29,230 common shares were issued under the Employee Share Purchase Plan for a cash consideration of $151,000 of which $122,000 has been credited to contributed surplus.

The Series "A" Preferred Shares provide for a cumulative floating rate dividend, payable quarterly, which varies with the interest rate charged by a Canadian bank to prime commercial borrowers. At December 31, 1982 this rate was 7.78% (1981: 10.25%). The shares are redeemable in whole or in part at any time at the company's option, after July 1, 1991 at the holder's option, and commencing July 1, 1985 at a rate of 5% per annum. The redemption price per share cannot exceed the amount paid up thereon plus accrued dividends.

9. 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 and to pay for such common shares by payroll deduction over a period of 24 months at a price per share equal to the lesser of the average market price on the original offering dates (June 15, 1981 and July 12, 1982), or the average market price on the completion dates of purchase. At December 31, 1982 there were outstanding purchase arrangements with employees having an aggregate value of $891,000 (1981: $513,000).

10. Interest

(thousands of dollars)	1982	1981
Interest expense comprises:		
Interest on current bank indebtedness	$ 5,320	$ 5,956
Interest on long-term liabilities	19,997	2,752
	25,317	8,708
Capitalized interest on major projects during construction	25,131	5,640
Interest expense — net	$ 186	$ 3,068

11. Income and Resource Taxes

Income and resource taxes charged against earnings before unusual items reflect a number of adjustments to the statutory rates of taxes payable as follows:

(thousands of dollars)	1982	1981
Combined federal and provincial income taxes (at 51.3%)	$ 454	$ 1,707
Inventory allowance	(1,250)	(1,304)
Resource allowance, depletion and other allowances	215	(51)
Other adjustments	242	185
Federal and provincial income tax	(339)	537
Manitoba mining tax	(1,072)	—
	$ (1,411)	$ 537

Manitoba mining tax is not payable for 1982 due to losses in the mining operations and the provision for future Manitoba mining tax at December 31, 1981 of $1,072,000 has been credited to income.

At December 31, 1982 depreciation and exploration and development expenditures charged against earnings exceeded the amounts claimed for Manitoba mining tax purposes by approximately $17,000,000. In addition the company has available investment tax credits of approximately $20,000,000 for application against Canadian federal income tax liabilities. These credits may be carried forward to future years but if unutilized will expire as follows — 1985: $1,400,000; 1986: $5,700,000 and 1987: $12,900,000. Any future tax benefits which may arise from these items have not been recognized but will be recorded only when realized.

12. Unusual Items

(thousands of dollars)	1982	1981
Reduction in carrying values of mine assets		
Ruttan	$ 4,950	$ 9,598
Fox	—	5,600
Termination costs — mining division	—	4,606
Write-off of investment in PT Pacific Nikkel Indonesia	—	3,314
	4,950	23,118
Future income and resource taxes	1,945	12,000
	$ 3,005	$11,118

Further evaluation of the Ruttan orebody resulted in the deletion from reserves of material now considered non-mineable. The related unamortized capital expenditures net of tax have been written off as an unusual item.

13. Pension Plans

The company maintains pension plans for salaried and hourly-paid employees.

Annual pension costs determined at regular intervals by independent actuaries are funded currently and include provision for current service costs and for funding of past service costs over a period not exceeding fifteen years. The total cost of employee pension plans charged against earnings for the year ended December 31, 1982 amounted to $878,000 (1981: $1,467,000).

At December 31, 1982 unfunded liabilities for past service costs under these pension plans amounted to $4,170,000 (1981: $3,650,000).

14. Commitments and Guarantees

Fertilizer Expansion

The company is committed to build and bring into production a nitrogen fertilizer plant at its Fort Saskatchewan site, designed to produce 1000 tonnes per day of ammonia and 900 tonnes per day of urea, at an estimated cost of $373,000,000 including interest during construction. Of this amount $311,722,000 has been spent to date. The plant is scheduled for start-up in April 1983.

Lease Commitments

The company is committed to payments under operating leases for equipment and business premises through to 1992 in the amount of approximately $12,630,000. Annual commitments for the next five years are — 1983: $1,900,000; 1984: $1,680,000; 1985: $1,650,000; 1986: $1,430,000 and 1987: $1,410,000.

Townsites and Government

Certain expenditures incurred by the Province of Manitoba and the Local Government Districts of Leaf Rapids and Lynn Lake for the development of the townsites and certain provincial highways are being amortized over periods up to 1995 through charges to the company of approximately $700,000 annually in addition to normal municipal taxes. The company has guaranteed the repayment of the debts incurred on account of these expenditures, which obligations total $6,950,000 at December 31, 1982.

Manitoba Hydro

Under agreements with Manitoba Hydro for the supply of power, the cost (incurred by Manitoba Hydro) of certain transmission lines to the company's mining properties is being paid by the company over periods up to the year 2017. The company's obligation under these agreements amounts to $1,650,000 at December 31, 1982.

15. Comparative Figures

Certain comparative figures have been restated to conform with the presentation adopted in 1982.

16. Quarterly Financial Information
(unaudited)

(thousands of dollars except earnings per share)

1982	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	$78,902	$80,383	$44,105	$71,358	$274,748
Earnings (loss) before unusual item	510	3,910	(4,191)	2,068	2,297
(Loss) earnings	510	3,910	(4,191)	(937)	(708)
(Loss) earnings per common share (after preferred dividends)					
Before unusual item	$ (.08)	$ .18	$ (.45)	$ .06	$ (.29)
After unusual item	$ (.08)	$ .18	$ (.45)	$ (.17)	$ (.52)
1981					
Revenue	$80,256	$89,286	$74,082	$83,046	$326,670
Earnings (loss) before unusual items	1,003	4,809	(2,930)	(92)	2,790
(Loss) earnings	1,003	4,809	(2,930)	(11,210)	(8,328)
(Loss) earnings per common share (after preferred dividends)					
Before unusual items	$ .08	$ .37	$ (.38)	$ (.14)	$ (.07)
After unusual items	$ .08	$ .37	$ (.38)	$ (1.01)	$ (.94)

17. Subsequent Events

Equity Issue — On February 10, 1983 the company filed a preliminary prospectus with the Provincial Securities Commissions indicating its intention of raising approximately $50 million through the issue of common shares.

Bank Loan — In February 1983, the company made arrangements with its bankers for a special term loan in an amount equal to the amount to be realized from the sale of common shares up to a maximum of $50 million. The special term loan may be drawn down at any time within a year, has a 3-year term which is extendible and, if extended, is repayable in 20 semi-annual instalments commencing the earlier of March 31, 1984 or 9 months after completion of the fertilizer expansion project. Interest varies with the rate of interest charged by the lenders on Canadian or United States dollar loans made to their prime commercial borrowers.

The special term loan, the recourse portion of the project long-term loan, and the company's operating loans (other than the project operating loan) are to be secured by a fixed and floating charge on the company's assets (with the exception of mineral and oil and gas properties held under options or through joint venture exploration programs).

The company has agreed that until the special term loan and the recourse portion of the project long-term loan are repaid, it will restrict dividend payments on common shares to 40% of net earnings after deduction of dividends on preferred shares. The company is entitled to pay dividends necessary to maintain eligibility of its common shares for purchase as an investment by Canadian pension funds, insurance companies and other institutions.

Increase in Preferred Dividends — The company has agreed with the bank holding the Series "A" Preferred Shares that, from January 31, 1983, the effective dividend rate on these shares will be raised by 0.64 of 1%.

Consolidated Statement of Segmented Information

for the year ended December 31, 1982
(with 1981 figures for comparison)
(thousands of dollars)

Industry Segments	Mining		Fertilizers and Chemicals		Metal Refining		Fabricated Metal Products		Other		Consolidated	
	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981
Sales to customers	$ 52,811	$ 91,048	$ 84,321	$ 87,492	$112,483	$117,832	$20,856	$26,447	$ 4,277	$ 3,851	$274,748	$326,670
Inter-segment sales	—	—	—	—	10,307	16,342	—	—	—	—		
Total revenue	$ 52,811	$ 91,048	$ 84,321	$ 87,492	$122,790	$134,174	$20,856	$26,447	$ 4,277	$ 3,851		
Operating profit (loss)	$(13,223)	$(25,521)	$ 18,302	$ 21,948	$ (2,337)	$ 19,556	$ 2,781	$ 746	$ 2,975	$ 1,959	$ 8,498	$ 18,688
Resource exploration											2,864	7,209
General corporate expenses											4,562	5,084
Interest											186	3,068
Income and resource taxes											(1,411)	537
											6,201	15,898
Earnings before unusual items											$ 2,297	$ 2,790
Identifiable assets	$100,972	$115,334	$382,990	$161,073	$ 59,268	$ 80,260	$26,534	$25,358	$30,949	$39,388	$600,713	$421,413
Capital expenditures	$ 3,641	$ 10,633	$232,372	$ 85,289	$ 1,008	$ 1,969	$ 331	$ 6,536	$ 1,455	$14,441	$238,807	$118,868
Depreciation and amortization	$ 7,096	$ 9,626	$ 2,697	$ 2,733	$ 867	$ 723	$ 382	$ 377	$ 231	$ 224	$ 11,273	$ 13,683

Notes to Consolidated Statement of Segmented Information

1. Industry Segments

Sherritt has four major areas of business: mining, fertilizers and chemicals, metal refining and fabricated metal products. The rest of the company's activities have been designated as "other".

Mining

The headquarters of Sherritt's mining operations are in Lynn Lake, Manitoba, about 500 air miles due north of Winnipeg. Currently operating properties are Fox Mine, about 28 miles southwest of Lynn Lake, and Ruttan Mine, about 80 miles southeast of Lynn Lake. Both properties are copper/zinc mines, yielding gold and silver as by-products. The copper and zinc concentrates produced at the two mines are shipped to Canadian refineries for further processing. The refined copper and zinc are sold mainly in North America and Europe.

Fertilizers and Chemicals

At Fort Saskatchewan, Alberta, about 17 miles northeast of Edmonton, Sherritt produces nitrogen and phosphate fertilizers as well as sulphuric acid, hydrogen sulphide, carbon disulphide, and xanthates. Feed stock consists of natural gas, acquired locally for nitrogen fertilizers and phosphate rock, acquired mainly from Florida, for phosphate fertilizers. Sherritt's fertilizer products are marketed mainly in the prairie provinces of Canada and the northwestern United States. Some modest amounts are shipped to other export markets. Identifiable assets and capital expenditures related to the fertilizer expansion have been included in the above statement under fertilizers and chemicals.

Metal Refining

At Fort Saskatchewan, Sherritt also operates a nickel refinery and a cobalt refinery. The refinery feed stock is either purchased or custom refined on a fee basis. The nickel and cobalt metal is sold worldwide, in the form of briquettes, plates, or powder. Some of the refined nickel and cobalt is sold internally for further processing or fabrication.

Fabricated Metal Products

Sherritt's fabricated metals facilities, also at Fort Saskatchewan, produce a range of special metal powders, strip and sheet products, and coinage blanks. The Sherritt Mint produces a variety of coins and medallions. Most of these fabricated products are marketed in North America. Coinage products are produced to order for a number of central banks throughout the world.

Other

Technology licensing and research services, conducted at Fort Saskatchewan, constitute the major business in this category. Also included are corporate investments, deferred oil and gas expenditures, and corporate financing activities.

2. Geographic Segments

There are no significant foreign geographic segments in which company operations are conducted.

3. Inter-segment Sales

Inter-segment sales of metal from the metal refining segment to fabricated metal products are accounted for at prices comparable to those realized on sales to unaffiliated customers.

4. Export Sales

Direct export shipments, principally to customers in the United States and Europe, amounted to $36,330,000 (1981: $43,873,000). In addition, a major portion of mine production and metal refinery output, while sold to Canadian customers, is ultimately shipped to destinations outside of Canada.

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 and internal audit departments and the company's independent auditors. The committee reviews the company's accounting policies, systems of internal control and the scope and 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. Their report to the shareholders of the company is set out opposite.

The consolidated financial statements in the annual report have been reviewed and approved by the board of directors and the audit committee.

February 14, 1983

Auditors' Report

To the Shareholders of
Sherritt Gordon Mines Limited:

We have examined the consolidated balance sheet of Sherritt Gordon Mines Limited as at December 31, 1982 and the consolidated statements of earnings, retained earnings, changes in financial position, and segmented information for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations, the changes in its financial position, and the segmented information for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for the cost of employee vacation benefits as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells
Chartered Accountants

Toronto, Ontario
January 24, 1983
(February 10, 1983 as to note 17)

Ten-Year Record 1973-1982

(figures in thousands except share prices and per share figures)

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Operating information										
Ore milled (tons)										
Ruttan Mine	**865**	1,877	2,548	2,308	2,543	2,487	2,661	3,341	3,358	1,871
Fox Mine	**471**	809	864	852	964	890	832	1,007	1,008	963
Lynn Lake Mine	**—**	—	—	—	—	—	197	352	432	676
Production										
Copper (lb.)	**49,785**	63,527	81,228	74,687	73,895	75,489	76,009	87,005	100,399	72,101
Zinc (lb.)	**10,260**	44,991	41,473	52,959	74,695	87,477	95,369	99,953	79,102	48,380
Gold (oz.)	**11**	16	21	17	19	21	22	25	29	16
Silver (oz.)	**231**	365	499	406	473	479	484	555	749	416
Nickel (lb.)	**38,724**	38,232	35,792	32,018	26,920	26,688	27,708	27,937	26,172	30,262
Cobalt (lb.)	**1,729**	2,014	1,526	1,333	1,145	1,011	658	560	410	616
Fabricated metals (lb.)	**3,645**	4,388	6,735	7,327	5,057	5,355	2,763	3,887	4,455	4,087
Fertilizers (tonnes)										
Nitrogen	**251**	284	251	253	249	240	233	229	209	218
Phosphates	**108**	113	101	106	94	109	59	120	108	110
Financial information										
Revenue from sales	**$270,471**	$322,819	$354,976	$300,348	$229,229	$180,463	$179,428	$191,479	$192,958	$124,092
Technology licensing, interest and other income	**4,277**	3,851	4,912	4,226	2,150	1,929	3,634	3,873	2,128	941
Costs and expenses	**262,589**	309,660	300,534	224,410	190,951	165,240	166,086	166,787	141,934	92,128
Depreciation and amortization	**11,273**	13,683	14,552	12,043	11,824	10,759	9,680	10,017	12,571	9,234
Income and resource taxes	**(1,411)**	537	16,713	27,155	14,179	2,227	3,165	7,390	17,535	2,685
Earnings (loss) before unusual items	**$ 2,297**	$ 2,790	$ 28,089	$ 40,966	$ 14,425	$ 4,166	$ 4,131	$ 11,158	$ 23,046	$ 20,986
Per Share (after preferred dividends)	**(.29)**	(.07)	2.19	3.20	1.13	.33	.32	.88	1.81	1.65
Unusual items	**(3,005)**	(11,118)	(3,296)	—	—	—	—	—	—	—
Net earnings (loss)	**(708)**	(8,328)	24,793	40,966	14,425	4,166	4,131	11,158	23,046	20,986
Per Share (after preferred dividends)	**(.52)**	(.94)	1.93	3.20	1.13	.33	.32	.88	1.81	1.65
Dividends										
Common	**$ 515**	$ 3,208	$ 10,257	$ 15,360	$ 6,392	$ 1,915	$ 4,460	$ 7,010	$ 9,555	$ 8,918
Per Share	**.04**	.25	.80	1.20	.50	.15	.35	.55	.75	.70
Preferred	**5,984**	3,713	—	—	—	—	—	—	—	—
Capital Expenditures	**$238,807**	$118,868	$ 31,080	$ 16,115	$ 26,892	$ 14,176	$ 6,180	$ 11,513	$ 14,527	$ 20,791
Cash flow from operations	**$ 14,073**	$ 31,067	$ 46,144	$ 57,346	$ 32,483	$ 15,509	$ 14,605	$ 25,156	$ 45,519	$ 29,383
Working capital	**7,716**	64,193	34,689	89,615	66,183	70,174	38,140	38,472	36,409	24,779
Long-term liabilities	**236,152**	61,547	—	59,106	62,621	57,764	24,731	29,564	34,194	41,881
Shareholders' equity	**196,443**	203,499	156,069	141,405	115,668	109,536	107,213	107,437	103,289	89,798
Invested capital	**475,505**	309,398	194,510	235,671	209,686	193,857	158,438	163,145	159,935	144,403
Return on shareholders' equity †	**1.1%**	1.6%	18.9%	31.9%	12.8%	3.8%	3.8%	10.6%	23.9%	25.1%
Return on invested capital †	**0.6%**	1.1%	14.0%	20.5%	9.0%	3.2%	3.7%	8.2%	16.8%	16.5%
Share price — high	**$8.88**	$18.13	$19.38	$14.13	$8.75	$6.88	$8.25	$7.88	$15.63	$19.50
— low	**$4.10**	$ 7.00	$11.13	$ 7.75	$4.30	$4.05	$5.00	$4.80	$ 4.10	$13.00
Ore Reserves ††										
Ruttan Mine										
Tons	**23,143**	24,809	25,037	27,045	28,771	30,439	32,047	43,600	45,900	49,100
% Copper	**1.48**	1.51	1.71	1.74	1.79	1.74	1.73	1.45	1.45	1.46
% Zinc	**1.17**	1.17	1.18	1.18	1.20	1.25	1.25	1.45	1.52	1.60
Fox Mine										
Tons	**1,910**	2,608	5,411	5,917	6,333	7,093	7,836	8,700	10,700	11,800
% Copper	**2.34**	1.94	1.78	1.77	1.79	1.83	1.95	1.92	1.95	2.03
% Zinc	**1.58**	1.59	2.29	2.21	2.22	2.12	2.10	2.08	2.07	2.15

† Returns are calculated on average shareholders' equity and average invested capital using earnings before unusual items. Return on invested capital is calculated on earnings before unusual items adjusted for interest on long-term debt.

†† Ore reserves are stated on a diluted basis for 1982 and 1981 and undiluted for 1973 to 1980.

Note: Shareholders' equity, invested capital, returns thereon and working capital, have been restated for the years 1978 to 1981 to reflect the change in accounting policy disclosed in the financial statements.

Directors

†W. E. P. DeRoche
Chairman of the Board
Partner, Blake, Cassels & Graydon

*†Edward L. Donegan
Partner, Blake, Cassels & Graydon

E. P. Fontaine
Vice-president, Finance
Newmont Mining Corporation

J. A. Fraser
Vice-president, Marketing

V. N. Mackiw
Executive Vice-president

Plato Malozemoff
Chairman of the Board and
Chief Executive Officer
Newmont Mining Corporation

G. R. Parker
Vice-president, Operations
Newmont Mining Corporation

*David D. Thomas
President and
Chief Executive Officer

*†J. E. Thompson
President
Newmont Mining Corporation

*Audit Committee Members
†Compensation Committee Members

Officers

W. E. P. DeRoche
Chairman of the Board

David D. Thomas
President and Chief Executive Officer

V. N. Mackiw
Executive Vice-president

Neil Colvin
Vice-president, Metal and
Chemical Operations

J. A. Fraser
Vice-president, Marketing

Kenneth J. Harvey
Vice-president, Finance

Robert R. Topp
Vice-president, Corporate
Development

Frank I. Piper
Corporate Secretary

Ian A. Shaw
Treasurer

Peter S. Bleach
Controller

John G. Norwood
Corporate Solicitor and Assistant
Corporate Secretary

David W. Kinnear
Assistant Treasurer

Peter W. Lynch
Assistant Controller

Operations Management

Mining and Milling Division

Garry M. Hughes
General Manager
Manitoba Operations
Toronto

P. H. Goodwin
Manager
Ruttan Mine

I. M. Plummer
Manager, Fox Mine

Eric Cunningham
Manager, Mineral Resource
Development
Toronto

D. S. Speakman
Manager of Geology and
Exploration
Lynn Lake

Peter A. Bonyun
Controller, Mining and Milling
Division
Lynn Lake

Graham P. Holmes
Manager, Milling and
Development
Lynn Lake

Metal and Chemical Division

V. N. Mackiw
Executive Vice-president
Toronto

Neil Colvin
Vice-president and General
Manager, Alberta Operations
Fort Saskatchewan

B. W. Kushnir
Project Director,
Fertilizer Expansion

A. C. Oliver
Manager, Administration,
Alberta Operations

J. H. Kilburn
Acting Manager,
Production Groups

A. H. Lee
Manager,
Fabricated Metal Products

D. G. Maschmeyer
Manager,
Engineering and Projects

Sherritt Research Centre

Herb Veltman
Director

M. A. Clegg
Manager, Product Research

D. R. Weir
Manager, Process Research

Energy Resources

Robert R. Topp
Vice-president,
Corporate Development
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Gordon B. Darling
Manager, Oil and Gas
Exploration and Production
Calgary

Marketing

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Edmonton

R. M. Garvey
Manager, Metal Marketing
Toronto

A. H. Lee
Marketing Director,
Sherritt Mint
Fort Saskatchewan

J. M. Nichols
Manager, Fertilizer Marketing
Edmonton

R. D. Urquhart
Manager, Western Canada
Fertilizer Marketing
Edmonton

D. Peeno
Vice-president and
General Manager
Sherritt Fertilizers, Inc., Portland

Thio-Pet Chemicals Ltd.

A. R. Otterdahl
General Manager
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Photo:
Sherritt's new ammonia-urea facilities
at Fort Saskatchewan, Alberta

Design: Goodhoofd / Fretz
Photo: David Ohashi
Printing: Norgraphics (Canada) Ltd.