Annual Report 1981

1981 was not a good year. Sherritt's mining division suffered serious setbacks, and incurred a severe loss. At the same time the refining and fertilizer operations maintained a healthy profit performance. The result was minimal net earnings of $2,790,000 before write-off of unusual items.

sherritt Gordon Mines Ltd.

1981 at a Glance

(figures in thousands except per share figures and employees)

	1981	1980
Earnings before unusual items	$ **2,790**	$ 28,089
Net (loss) earnings	$ **(8,328)**	$ 24,793
(Loss) earnings per common share (after preferred dividends)		
Before unusual items	$ **(.07)**	$ 2.19
Net (loss) earnings	$ **(.94)**	$ 1.93
Dividends per common share	$ **.25**	$ .80
Working capital	$ **67,473**	$ 37,969
Capital expenditures	**$118,868**	$ 31,080
Revenue		
Metal sales	**$235,327**	$288,286
Fertilizer and chemical sales	**87,492**	66,690
Technology licensing, interest and other income	**3,851**	4,912
Total revenue	**$326,670**	$359,888
Copper sales (lb.)	**63,575**	80,959
Zinc sales (lb.)	**44,991**	41,473
Gold sales (oz.)	**16**	21
Silver sales (oz.)	**365**	499
Nickel sales (lb.)	**28,076**	31,177
Cobalt sales (lb.)	**836**	432
Fabricated metal product sales (lb.)	**4,343**	6,880
Fertilizer sales (tonnes)	**457**	427
Employees	**2,301**	2,328

Annual Meeting

Thursday, April 22, 1982, at 2:30 p.m.
Commerce Hall, Commerce Court
Toronto

Profile

Sherritt Gordon Mines Limited, a public corporation with 14,000 shareholders, was incorporated in Ontario, Canada in 1927. Sherritt owns and operates two mines in Manitoba which produce concentrates containing copper, zinc and precious metals. At the company's refinery complex in Alberta it produces nickel and cobalt metal, fertilizers, chemicals and a wide variety of fabricated metal products, which are sold in Canada and around the world. Sherritt is actively engaged in mineral exploration in Canada. Extensive research, development and engineering work on metallurgical processes and products is carried out in Alberta.

sherritt

Report of the Directors

Low world metal prices throughout the year adversely affected all base-metal companies. Sherritt was also hit with disappointing production performance in both operating mines.

Contents

Report of the Directors 1
Mining 4
Metal Refining 6
Fertilizers and Chemicals 7
Fabricated Metal Products 8
Technology 9
Exploration and Development 10
Personnel 11
Consolidated Balance Sheet 12
Consolidated Statement of Earnings 13
Consolidated Statement of Retained Earnings 13
Consolidated Statement of Changes in Financial Position 14
Notes to Consolidated Financial Statements 15
Statement of Segmented Information 20
Auditors' Report 21
Ten-year Record 22
Company Locations and Operations Management 23
Directors and Officers 24

There are few signs of economic improvement in 1982, but we have taken a number of drastic steps to stem mining losses.

The most painful of these steps led to the layoff of about one-third of the work force in the mining division at the beginning of 1982. As the losses on our mining operation increased during 1981 to over $25 million and as the economic outlook continued to worsen, it became imperative to reduce the cash drain that would result if we continued to operate our mines at existing operating levels. Following an exhaustive analysis, including consideration of the shutdown of one or both properties, the board of directors in late December decided that a reduction in the level of both Ruttan and Fox operations appeared the most viable and least painful alternative. The objective is to allow the mining of higher average grade ore and thereby improve the economics during this period of depressed copper prices.

At the same time, ore reserves at Ruttan and Fox were reviewed in detail. Some 5,400,000 tons of reserves have been eliminated, resulting in a special write-off of $15,198,000 to amortize the related portion of capital expenditures.

Additional costs of $4,606,000 related to the layoffs, combined with the $3,314,000 write-off of our investment in P.T. Pacific Nikkel Indonesia, bring the total of these non-recurring items to $23,118,000. After allowance for future taxes of $12,000,000, the total charge to earnings for these unusual items was $11,118,000.

Net earnings of $2,790,000 were reduced by these special write-offs to a net loss for the year of $8,328,000. After provision for preferred dividends, losses of 7¢ per common share before unusual items and 94¢ after unusual items were recorded.

Although these figures reflect one of the worst years in Sherritt's history, there were some bright spots in the overall gloomy picture. In spite of the harsh economic climate, we continued to build for the future.

During 1981, progress was steady on the construction of our world-scale fertilizer facilities at Fort Saskatchewan. This major project is scheduled for start-up in the first half of 1983. We opened our new plant to manufacture Nickel-Bonded-Steel coin blanks. We embarked on a major natural gas exploration program, tied to our future energy requirements at the Fort Saskatchewan complex. The continuing assessment of the Cargill phosphate property near Kapuskasing, Ontario, produced encouraging results. Our position as a custom refiner of nickel and cobalt was strengthened.

Even in the mining division, where 1981 was such a difficult year, we believe that the steps taken to reduce the scale of operations will make our mines more viable. Recent management changes in the mining operations should also help to produce positive results.

Company revenues for 1981 totalled $327,000,000. This was 9% lower than in 1980, because of lower mine production and a much weaker average copper price, which more than offset the increased revenues from our fertilizer operations.

Fertilizer profits improved marginally over 1980 as selling prices increased in line with a rapid escalation in raw material costs, particularly natural gas, sulphur and phosphate rock. Refinery earnings were down slightly from 1980 but were satisfactory in view of depressed nickel market conditions and much lower cobalt prices. Fabricated metal profits declined sharply, due mainly to lower sales volume for nickel strip.

Average world prices for copper and for precious metals during 1981 were all much lower than in 1980. Sherritt's average realized copper price dropped from $1.11 per pound in 1980 to 90¢ in 1981; the average price of gold went down from $746 an ounce to $487; silver prices dropped from $21 an ounce to $10. Zinc reversed this trend, going up from an average price of 43¢ a pound in 1980 to 52¢ in 1981.

Along with the generally lower prices for the metals that Sherritt mines, production was considerably lower than in 1980 at both mines, but particularly at Ruttan, where both tonnage and grade were well short of forecast. This situation resulted in a dramatic increase in unit costs.

Costs for resource exploration charged to earnings were reduced from 1980 levels. Our decision to adopt the full-cost method of accounting for oil and gas exploration has resulted in reduced write-offs. We also capitalized expenditures on the Cargill phosphate deposit. However, our exploration expenditures on the Agassiz gold prospect were significantly higher than in 1980 and have been written off in the year.

Dividends of $3,208,000 (25¢ per share) were paid to common shareholders in the first half of 1981. No common dividends were declared during the second half of the year in view of the depressed earnings level.

At the end of June, the company issued $62,500,000 in redeemable preferred shares to the Canadian Imperial Bank of Commerce under the terms of an option agreement arranged as part of the financing of the fertilizer expansion project. Dividends on these shares are related to bank prime and averaged 11.8% in 1981, for a total cost of $3,713,000.

Sherritt's capital expenditures in 1981 totalled $118,868,000, with $78,918,000 of this amount going into the fertilizer expansion project. By year end we had drawn down $55,436,000 on the fertilizer project loan. Interest on this loan is being capitalized as part of the project cost.

At this time it is difficult to be optimistic about 1982. The most hopeful forecasters see little improvement in the overall economic climate before the second half of the year, and the recessionary circumstances are affecting most companies. For Sherritt, there are a few areas of very specific concern. The future viability of our mining operations depends on a strong increase in the world copper price and equally on the ability of our mining work force to achieve a level of productivity that will yield a competitive cost structure for our operations. We must try to work our way through the trough in copper prices, for as long as it lasts, without incurring substantial additional losses.

Secondly, we must have some assurance that we will be able to retain a fair share of the mining profits when times improve. On balance we believe that the existing federal provincial tax structure will allow this. We cannot emphasize too strongly the damage that could be done by regressive changes to the tax structure.

A final broad concern for Sherritt is the financing arrangements for our fertilizer project and other necessary capital projects. Debt financing is in place. Current cash flows from operations are not providing the anticipated equity; some other source of funding must be found if we are to ensure a balanced financial structure for the company.

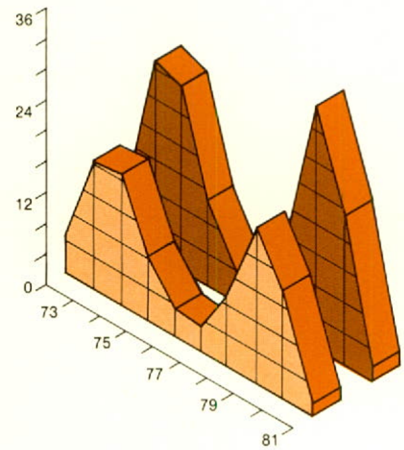
On behalf of the Board of Directors.

David D. Thomas
Toronto, Ontario

February 9, 1982

Return on Shareholders' Equity and Invested Capital

	1972	1973	1974	1975	1976
	(percentages)				
Equity	6.4	25.1	23.9	10.6	3.8
Capital	4.7	16.5	16.8	8.2	3.7
	1977	1978	1979	1980	1981
	(percentages)				
Equity	3.8	12.7	31.4	18.6	1.5
Capital	3.2	8.9	20.2	13.8	1.1

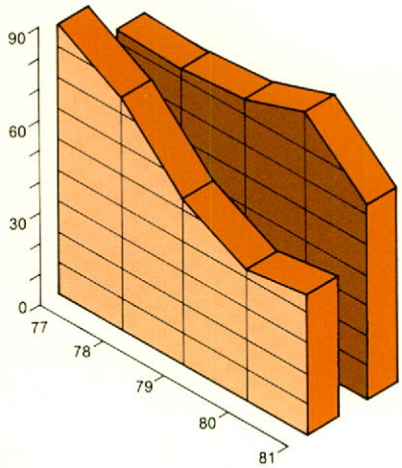


This gas reform furnace is a key part of the world-scale nitrogen fertilizer complex under construction at Fort Saskachewan, Alberta.

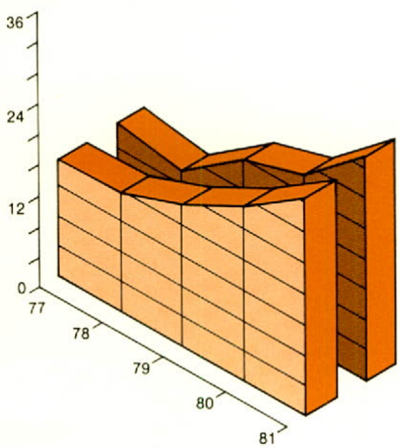
Mining

Low metal prices combined with poor production levels to create serious losses from mining operations.

Concentrate Production in Payable Pounds	1977	1978	1979	1980	1981
	(figures in millions)				
Copper	73.0	72.4	73.6	80.7	62.6
Zinc	87.5	74.7	53.0	41.5	45.0



Cash Production Cost	1977	1978	1979	1980	1981
	($ per ton milled)				
Ruttan	15.14	13.66	19.70	22.08	29.21
Fox	15.22	15.32	18.85	23.18	28.69



Operations

At Ruttan Mine, production from underground was 1,585,000 tons, only 78% of forecast. This was augmented by 292,000 tons of relatively low-grade ore from the stockpiled residue from the pit operations, which ceased at the end of 1980. The resulting mill tonnage was 88% of forecast.

Although there was a gradual improvement in underground production throughout the year, both tonnage and grade for the year were well below forecast, mainly due to insufficient underground stopes. This situation was the result of poor development and production drilling performances, particularly during the summer months. Contractors were brought in to rectify these problems. We also had difficulties with equipment maintenance early in the year but these were resolved by mid-year. After many of the production problems were corrected, performance did improve in the last quarter but still failed to reach the forecast level. With the complex, irregular, multi-lens orebody, there were still too few stoping areas from which to produce.

These production problems, combined with continuing depressed metal prices, led to the cutback decision made by the board of directors in December. The production target for Ruttan Mine was revised downward to 4,500 tons per day for 1982. Ore extraction will be limited to the higher grade west zones of the deposit. At this level of operation, the existing service shaft is adequate to meet production requirements above the 2200-foot level; a planned second shaft will not be needed and there will be a resultant reduction in capital required for development between the 1400- and 2200-foot levels.

Development work improved late in the year. Exploration drifts at the 1800- and 2000-foot levels were completed before year end. Initial drilling results in the west lenses indicate that some high-grade intersections extend to the 2000-foot level, but strike length and tonnage will not be defined until the drilling program is completed during the second quarter of 1982. Other detailed drilling of the Ruttan orebody during 1981 has resulted in the removal from the ore reserves of 2,690,000 tons grading 1.62% copper. In addition, ore reserves have been restated to allow for mining dilution; in prior years they were reported on an undiluted basis.

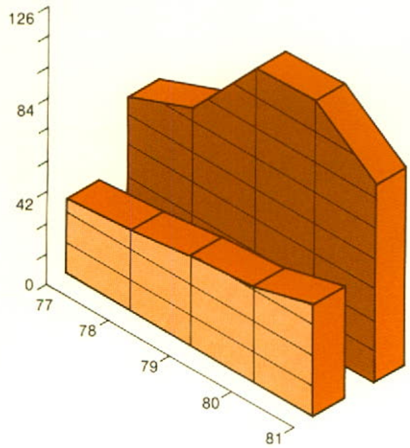
Production from the Fox Mine in 1981 was also disappointing. Mining and milling production was 809,000 tons, only 85% of forecast. There were a number of reasons for the low tonnage, particularly during the first three quarters of the year: failure of a high-grade pillar and subsequent backfill dilution, repairs and eventual replacement of the primary crusher feed chute, and mechanical problems in the crusher itself. In the last quarter of the year most of these problems had been overcome and, by working a seven-day week, we achieved forecast tonnage.

However, the resultant cash loss for the fourth quarter indicated that under the current price/cost relationship some of the ore being mined at Fox could no longer be considered economic. As a result, the cutback decision was made by the board of directors in December and the production target for Fox Mine was lowered to 625,000 tons for 1982. Ore extraction will be limited to the higher grade ore sections.

Due to the limited life of Fox, ore reserves have been reviewed and reduced by 2,720,000 tons to eliminate certain remnants and lower grade material no longer considered economic. Reserves have also been restated to allow for mining dilution.

Production	1981	1980
Ruttan Mine		
Ore milled (tons)	1,877,000	2,548,000
% copper	1.30	1.36
% zinc	1.25	1.02
Copper contained in concentrate (lb.)	44,540,000	62,293,000
Zinc contained in concentrate (lb.)	32,687,000	30,378,000
Fox Mine		
Ore milled (tons)	809,000	864,000
% copper	1.42	1.40
% zinc	1.73	1.56
Copper contained in concentrate (lb.)	20,486,000	21,458,000
Zinc contained in concentrate (lb.)	19,341,000	18,152,000

Average Price Received – Copper and Zinc	1977	1978	1979	1980	1981
	(¢ per lb.)				
Copper	64	76	110	111	90
Zinc	33	36	41	43	52



In prior years ore reserves have been reported on an undiluted basis. Based on the remaining reserves, the Fox Mine is estimated, under reasonable metal market conditions, to have an economic life of four to five years at the planned mining rate of 500,000 to 625,000 tons per year.

By year end, development of access drifts to both the main lens and the west lens zones at the 2600-foot level and to the west lens stopes at the 2200-foot level was complete, and the main haulage decline was extended to the 2700-foot level. During the year we conducted studies to determine the best method for hoisting ore from the 2600- and 2800-foot levels. Although final analysis has not been completed, it appears that the most effective system will involve hoisting through an internal shaft developed by boreholing. If approved for development, this system must be completed by mid-1983, in order to ensure continuity of production from the higher grade lower levels. We continued exploration near Fox during 1981, defining some new areas of interest that we will follow up with geophysical and drilling field work.

With low copper prices and reduced production at both mines, the overall loss for mining operations before unusual items was $25,521,000 for the year, compared to a profit of $14,317,000 in 1981. With the revised plans for 1982, we expect to achieve lower unit costs and improved results even under the current depressed market conditions.

Markets

Weak metal markets in 1981 reflected the lower level of economic activity in all developed countries. Copper prices were at a 50-year low after allowing for inflation. Estimates indicate that at least 75% of the world's copper production is being sold below cost. Through reduced production, copper inventories have been held at reasonable levels; when the economy turns, sharply higher prices can be expected. London Metal Exchange (LME) copper prices ranged from a high of 88¢ U.S. per pound to a low of 72¢, with a year-end price of 76¢. Sherritt's realization was 90¢ Can. per pound, compared with $1.11 in 1980.

Sherritt's average realized price for zinc was somewhat better in 1981, at 52¢ Can. per pound, compared with 43¢ in 1980. This is due to a tight supply situation caused by mine closures. Although gold and silver values declined in volume and price, precious metals are still of significant benefit to Sherritt.

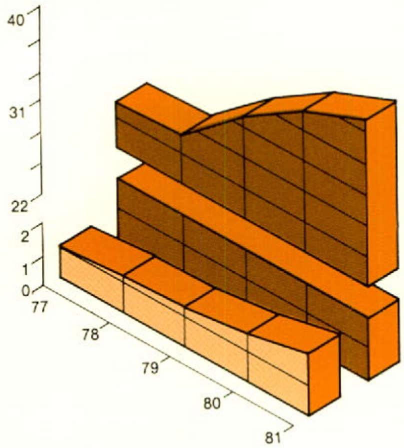
Ore Reserves	Tons	% Copper	% Zinc
	(tonnage figures in thousands)		
Ruttan Mine			
At January 1, 1981			
Undiluted	25,037	1.71	1.18
Diluted	29,084	1.51	1.04
Net deletions resulting from current year diamond drilling	2,690	1.62	0.32 (+)
Underground production 1981	1,585	1.33	1.28
At December 31, 1981	24,809	1.51	1.17
Fox Mine			
At January 1, 1981			
Undiluted	5,411	1.78	2.29
Diluted	6,137	1.60	2.05
Remnants and uneconomic material eliminated	2,720	1.33	2.58
Production 1981	809	1.42	1.73
At December 31, 1981	2,608	1.94	1.59

Mining Division Sales Revenue		1981		1980
	(figures in thousands)			
Copper	62,606 lb.	$56,199	80,698 lb.	$ 89,414
Zinc	44,991 lb.	23,384	41,473 lb.	17,832
Precious metals				
Gold	16 oz.	7,894	21 oz.	15,309
Silver	365 oz.	3,571	499 oz.	10,530
		11,465		25,839
Total		$91,048		$133,085

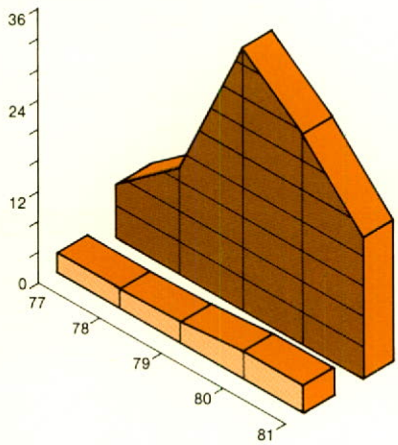
Metal Refining

Production of refined nickel and cobalt set new records, although sales and profits were somewhat lower.

Refined Nickel and Cobalt Production	1977	1978	1979	1980	1981
	(million lb.)				
Nickel	26.7	26.9	32.0	35.8	38.2
	(thousand lb.)				
Cobalt	1,011	1,145	1,333	1,526	2,014



Average Price Received – Nickel and Cobalt	1977	1978	1979	1980	1981
	($ per lb.)				
Nickel	2.16	2.09	2.65	3.41	3.46
Cobalt	6.21	13.59	34.35	27.28	18.12



Operations

At Fort Saskatchewan, our refinery produced 38,232,000 pounds of nickel in 1981, breaking an earlier record set in 1972. The high production, 7% more than in 1980, was possible because we had an adequate supply of feed materials and our refinery has the flexibility to operate with various combinations of feed mix. We are planning further improvements and minor additions to plant equipment, in order to stabilize unit production costs and to try to offset inflationary pressure.

Cobalt refinery production also set a new record of 2,014,000 pounds, 32% above last year's record production. This improvement was realized as a result of the extensive debottlenecking program completed a year ago.

Production of copper sulphide was 921,000 pounds, 74% higher than that in 1980, largely because of the higher level of copper content in the feed materials processed.

In spite of higher production, operating profit from the refinery was $19,556,000, down 5% from 1980. A reduction in nickel sales volume and a lower average realized cobalt price more than offset a significant increase in cobalt shipments.

Markets

Nickel and cobalt consumption in the western world was lower in 1981 than 1980 as consumers continued to reduce inventories. Prices of both metals fell throughout the year. LME nickel quotes began the year at $2.95 U.S. per pound and ended the year at $2.50 after touching a low of $2.17 in September. Producer prices were more stable, ending the year at $3.00 U.S. which was also lower than at the end of 1980.

The effective cobalt price tumbled from $20.00 U.S. to about $10.00 per pound at year end. Improved demand and limited supply should contribute to higher price levels for nickel in 1982. Cobalt prices are much more difficult to predict as supply exceeds demand.

Sherritt's nickel sales declined as the year progressed and were lower than in 1980. There was some inventory build-up at year end. Sales of cobalt were almost double the 1980 level.

Metal Refining Sales Revenue		1981		1980
	(figures in thousands)			
Nickel	28,076 lb.	$97,072	31,177 lb.	$106,436
Cobalt	836 lb.	15,153	432 lb.	11,749
Copper, precious metals and custom refining		5,607		2,793
Total		$117,832		$120,978

Fertilizers and Chemicals

Fertilizers provided the bright spot in the profit picture: both sales volumes and revenues increased substantially.

Operations

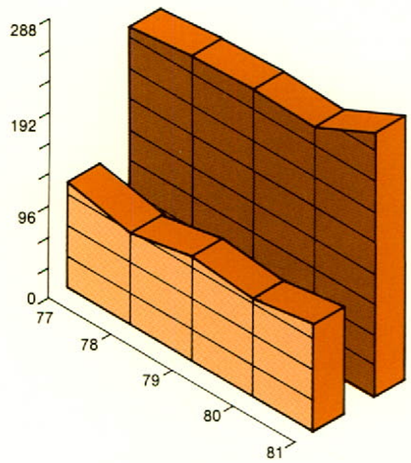
In 1981, our net production of marketable fertilizer totalled 397,000 tonnes, exceeding 1980 production by 13%. Raw material costs of all fertilizers increased dramatically. Natural gas costs rose, largely because of the federal taxes on gas consumers introduced in the National Energy Program. Sulphur and phosphate rock costs increased due to market conditions. Production of phosphoric acid attained a record level as incremental expansion to the phosphoric acid plant took effect. Sulphuric acid production was also expanded.

Operating profit for fertilizer and chemical operations was $21,948,000, 6% higher than in 1980. Sales volumes increased, because of higher phosphate production and greater sales of purchased nitrogen products.

Sales from Thio-Pet Chemicals Ltd. topped $3,000,000 in 1981, because of the brisk demand for hydrogen sulphide. Some discounting was required in a sluggish carbon disulphide market. During 1981 we more than doubled our xanthate production.

Fertilizer Production

	1977	1978	1979	1980	1981
	(thousand tonnes)				
Nitrogen	240	249	253	251	284
Phosphates	109	94	106	101	113
Total	349	343	359	352	397



Expansion

Our fertilizer expansion project – a new 1000-tonne-per-day ammonia plant and a 900-tonne-per-day urea plant – made steady progress during 1981. By the end of the year, most of the detailed engineering and design work was nearing completion: M. W. Kellogg Company of Houston, Texas, has completed over 92% of the work on the ammonia plant; Foster Wheeler Energy Corporation of Livingston, New Jersey, has completed 99% and 95% respectively of the work on the urea synthesis and granulation plants; and Associated-Kellogg Limited has progressed to 78% completion of the off-site facilities. Procurement of equipment and construction materials has kept in line with engineering work: total commitments for expenditure reached $163,000,000. Field work for construction also progressed satisfactorily, aided by favourable weather conditions during most of 1981.

By year end, most of the earthwork, pouring of concrete, and installation of underground piping was complete. Very cold weather during December and January slowed down the construction and could make the 1982 schedule very tight. Start-up of the new plants is now planned for April 1983, about two months later than originally scheduled.

Cost of the project, including financing, is estimated at $350,000,000 based on current interest levels.

Markets

In 1981 we enjoyed a record year for fertilizer and chemical sales volume. Sales, at 476,000 tonnes, were up 25,000 tonnes from 1980. During the spring season prices were firm, but in the last half reduced fall sales in the U.S., with resultant high inventories, put prices under heavy pressure. Reduced grain prices and high interest rates have also contributed to customers' reluctance to buy early. Though we have experienced downward pressure on prices, our fall sales were still above those in 1980.

Sales revenue, at $87,500,000, was up 31% from 1980, because of increased volume and higher prices. The improvement in volume was obtained by increasing purchases from other producers, although these sales contributed little to profits. In preparation for the expanded nitrogen fertilizer production in 1983, we have continued to add to our dealer organization and have supplied the dealers with purchased fertilizers. Nitrogen fertilizer prices remain generally in line with our forecasts and the market outlook looks positive for the expansion.

We have reached agreement with Western Co-operative Fertilizers Limited for a ten-year contract, to be signed shortly, covering the sale of 100,000 tonnes of urea and 27,000 tonnes of ammonia per annum, commencing in 1983. This long-term sale represents about 25% of the production from our nitrogen expansion and will substantially reduce the market risk of the project.

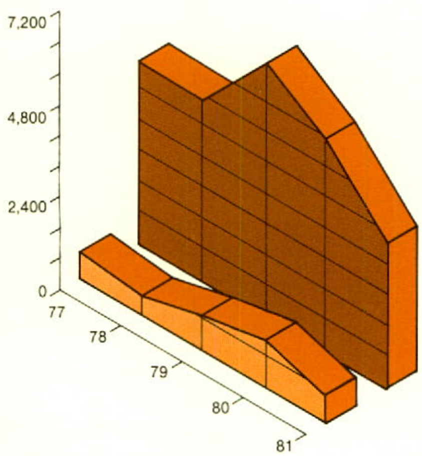
Fertilizer and Chemical Sales Revenue

	1981		1980	
	(figures in thousands)			
Fertilizers				
Nitrogen	331 tonnes	$52,629	321 tonnes	$42,139
Phosphates	126 tonnes	31,843	106 tonnes	22,192
	457 tonnes	84,472	427 tonnes	64,331
Chemicals	19 tonnes	3,020	24 tonnes	2,359
Total	476 tonnes	$87,492	451 tonnes	$66,690

Fabricated Metal Products

With poor market demand leading to low production of fabricated metals, profits were sharply reduced.

Fabricated Metal Production	1977	1978	1979	1980	1981
	(thousand lb.)				
Nickel	4,681	4,624	6,461	5,493	3,718
Cobalt and other	674	433	866	1,242	670
Total	5,355	5,057	7,327	6,735	4,388



Operations

Production volume, at 4,388,000 pounds during 1981, only 65% of the 1980 figure, reflected greatly reduced sales of nickel coinage strip. Production of other coinage products and special powders showed a slight increase in volume.

Construction of the new Nickel-Bonded-Steel coinage blank plant was completed and start-up testing began at the end of the year. Innovative process and equipment developments have enabled our new plant, designed for 1560 tonnes output, to be extended in capacity to more than 3500 tonnes with lower nickel content. These blanks will produce high quality coins having a useful life of more than 15 years.

A new composite powder containing nickel, chromium, aluminum and bentonite for high-temperature abradable seals in turbine engines, developed in our Research Centre in 1980, was brought to full commercial production. Another product, TUFFSTUDDStm, an innovation in wear-resistant material, advanced to commercial-scale production.

Operating profit for the fabricated metals division at $746,000 was sharply lower than in 1980. Reduced volume of coinage products and severe competition in price both contributed to this downturn.

Markets

In 1981 there was intense competition for business in both international and domestic coinage markets. Our share of export markets for nickel coin blanks was maintained, but our participation in the Canadian market for nickel coinage strip was greatly reduced.

We delivered N-B-Stm coins to two countries—a repeat order to Ecuador and a new order to Nicaragua. Prospective customers delayed the adoption of N-B-S coin blanks because the weak nickel and copper prices reduced our competitive cost advantage.

Our medallion business maintained its traditional market of trade dollars and expanded into several new sales promotion areas.

Sales of specialty powders and other high technology products increased during the year, in spite of generally weak economic conditions. The line of powder products used in abradable seal applications was expanded and further developments in this area look promising. Sales of dispersion-strengthened nickel sheet, for turbine engine use, improved considerably.

TUFFSTUDDS, representing a new concept in abrasion-resistant materials, were successfully test marketed in western Canada. TUFFSTUDDS are small castings of wear-resistant alloys that can be readily stud-welded onto heavy equipment parts exposed to abrasive wear to greatly extend their useful life. Development work is continuing, and we plan to introduce a family of products designed to reduce the cost of abrasive wear in mining, construction, forestry, and industrial application.

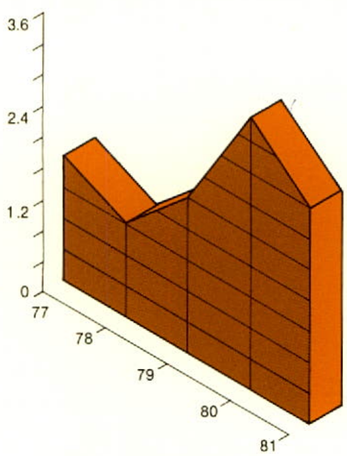
Fabricated Metal Products Sales Revenue		1981		1980
	(figures in thousands)			
Nickel products	3,669 lb.	$17,896	5,812 lb.	$26,541
Cobalt products	26 lb.	662	52 lb.	2,262
Alloy, composite and other metal products	648 lb.	7,889	1,016 lb.	5,420
Total	4,343 lb.	$26,447	6,880 lb.	$34,223

Technology

Research and development work continued to strengthen the company's base for future profits.

Technology Licensing Revenue

	1977	1978	1979	1980	1981
($ million)					
	1.6	1.2	2.0	3.5	2.8



Product Development

During 1981, development work continued on N-B-S coinage blanks, TUFFSTUDDS wear-resistant material, and a new composite powder for abradable seal application, all of which are now in commercial production. Interest by potential customers in our cobalt-samarium alloy powder, used in the manufacture of high-strength permanent magnets, increased during the last half of the year. A program to produce new powders for even higher strength cobalt-samarium magnets made good progress, with financial support by the National Research Council.

We continued our research work on the development of composite powders for thermal spraying applications in jet-engine seals and for wear-resistant coatings. Test results by potential customers were encouraging and several new products are expected to move ahead for commercial production in the near future.

Process Development

Our research staff provided valuable services to the Fort Saskatchewan refinery in devising improvements and changes to the nickel and cobalt refining facilities. Their technical input has been instrumental in maintaining the refinery's competitive position to continue treating a wide variety of feed materials.

Additional research and development work continued on the adaptation of our zinc process to a number of existing zinc plants. Also, Sherritt's pressure-leach technology has been applied to treat uranium ores from Saskatchewan and South Africa. Improved processes for the recovery of cobalt from pyritic concentrates, were developed in our laboratory for prospective users of Sherritt's technology in the U.S. and elsewhere.

Technology Licensing

Our revenue from technology licensing in 1981 was $2,792,000, 21% lower than that received in 1980. This drop is not related to the level of activity; it reflects the variable nature of payments received from year to year, depending on the contractual arrangements with our licensees.

The new nickel refinery of Matthey Rustenburg Refiners (Pty.) Ltd. in South Africa, for which we supplied pressure-leach technology under licence, is now being started up. A small team from Sherritt is currently assisting in the start-up of this plant.

During 1981, at Trail, B.C., Cominco Ltd. continued to successfully operate the first commercial zinc concentrate pressure-leaching plant based on Sherritt's technology. Kidd Creek Mines Ltd. (formerly Texasgulf Canada Limited) is constructing a facility using similar technology, which is expected to start up in 1982. Prospective applications for Sherritt zinc technology are being actively studied for companies in Canada, Australia, Europe, and South America.

Nickel production at Marinduque Mining & Industrial Corporation in the Philippines was 47,367,000 pounds for only eleven months in 1981, 69% of design capacity, which was substantially lower than the previous year's record output. Cobalt recovered in mixed sulphides for eleven months in 1981 amounted to 2,202,000 pounds, down from 2,924,000 pounds recovered in twelve months of 1980. Low production was due in part to the weak nickel market, which prompted Marinduque to prolong shutdown for maintenance during the months of December 1981 and January 1982. Because of the continuing high cost of fuel oil and high interest rates, Marinduque sought further financial assistance through Philippine government-owned financial institutions. Marinduque's coal conversion project is proceeding according to schedule with four ore dryers and two coal-fired boilers expected to be in operation in January 1983.

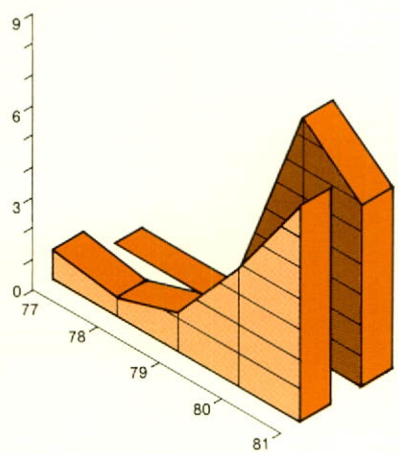
The consortium of P.T. Pacific Nikkel Indonesia, in which Sherritt was a shareholder, discontinued its development activities on the Gag Island project for mining lateritic nickel ore and refining nickel. We have decided to write off our investment in this project, valued at $3,314,000.

Exploration and Development

Expenditure on exploration for new mineral and petroleum resources is an investment in the future.

Exploration Expenditures

	1977	1978	1979	1980	1981
	($ million)				
Mineral	0.9	0.6	1.3	3.9	7.0
Oil and Gas	–	–	1.3	7.5	5.9



Mineral Exploration

During 1981, we undertook a major reorganization of our mineral exploration activities. A separate exploration group was established in the Lynn Lake area to reflect our commitment to locate additional ore reserves in northern Manitoba. The outside exploration group moved to the Dryden area.

Expenditures for mineral exploration and development outside our two currently operating mines increased by 79% over 1980 to $6,988,000, including the Cargill and Agassiz programs.

In the Lynn Lake area, development work continued on the Agassiz property. The shaft was deepened to 840 feet and drifting on the 800-foot level had advanced 500 feet by year end. Diamond drilling, to confirm ore reserves from the 600- to the 1200-foot level and to explore the downward extensions of the deposit to the 1700-foot level, is planned to start in the first quarter of 1982. In 1981 we examined more than 35 occurrences and staked 701 claims in the Lynn Lake area.

The focus of our exploration in northwestern Ontario was on the search for gold deposits. Although results obtained from extensive trenching, sampling, and diamond drilling were in some cases encouraging, nothing of commercial interest was delineated. Exploration in the Maritimes centred around the Caribou gold district in Nova Scotia, where drill results were inconclusive.

During the first quarter of 1981, we completed sonic drilling at the Cargill phosphate deposit near Kapuskasing, Ontario. Revised reserve calculations and pit design, based on the recent drill data, closely agreed with previous work done by International Minerals & Chemical Corporation (Canada) Limited, optionor of the property.

During the first half of 1981, 140,000 cubic yards of overburden and ore were mined from a test pit to confirm proposed mining methods, slope stability, and ground water conditions. Results indicated that mining would be much less difficult than was originally anticipated. After completion of a conceptual mill design and cost estimates for a mine, mill and a phosphoric acid plant by consultants, a preliminary feasibility study was initiated.

In the third quarter of 1981, Lakefield Research of Canada carried out pilot plant tests on material from the test pit. The encouraging results correlated with the estimates used in the feasibility study. Ongoing discussions are being held with companies that are interested in the project.

Oil and Gas Exploration

In April 1981, Sherritt embarked on a major new exploration venture with Norcen Energy Resources Limited. This four-year exploration program covers 124,000 gross acres primarily in the deep basin portion of Alberta. We will acquire a 47.5% working interest in these lands and will be involved in the drilling of about 28 exploratory wells. Our cost for this program will approximate $20,000,000, exclusive of any associated development costs. Our objective for this program is to find and develop gas for use in our Fort Saskatchewan metal and chemical complex.

Drilling was initiated during the third quarter and at year's end six wells had been drilled; two indicated gas discoveries and four were dry holes. The dry holes were drilled on large blocks of leases and further technical studies are being undertaken. In 1982, 11 or 12 exploratory wells will be drilled and seismic surveys will be conducted on one prospect.

During 1981, no further exploration was undertaken with Forest Oil Corporation. Our program with BowRio Resources Limited continued, but at a reduced scale. We participated in the drilling of 13 wells, resulting in four gas discoveries and seven dry holes; two wells were suspended. Two farmouts were completed as small oil wells.

Oil production and revenue was minimal. At year's end, one gas well, in which Sherritt has a 15% interest, was placed on production.

At the end of 1981, we had a working interest in 364,000 acres of petroleum and natural gas rights in Alberta and northeastern B.C.

Cash expenditures for oil and gas exploration totalled $5,870,000 in 1981, compared to $7,532,000 in 1980.

In 1981, Sherritt changed from the successful-efforts method to the full-cost method of accounting for oil and gas expenditures. The full-cost method, under which all exploration costs in an area of interest are deferred and charged against future income, was considered more appropriate for a long-term program tied to future gas supply for our Fort Saskatchewan operation.

Personnel

Manitoba

Depressed conditions and unsatisfactory results led to a substantial reduction in the work force.

The decision late in the year to reduce the level of operations in our mining division meant that the work force had to be reduced to about two-thirds of its previous level.

On January 6, 1982, 342 employees were terminated. Resignations and early retirements have reduced the total work force in Manitoba to approximately 800. The employees affected by the lay-off all received termination benefits combining notice and wages or salary in lieu of notice equal to eight or twelve weeks' pay, in accordance with the terms of the Employment Standards Act Manitoba. Salaried employees who were laid off received severance pay in accordance with Sherritt policy.

Management in the mining division is participating in the work of a committee, which includes representatives of the union and the federal government, to assist terminated employees in finding alternate employment.

The present contract with locals 5757 and 8144 of the United Steelworkers of America, last negotiated in 1979, will expire in May 1982.

Alberta

Negotiations with the Energy and Chemical Workers' Union at Fort Saskatchewan concluded in April with ratification of a two-year agreement covering the period from May 1981 to April 1983. The new agreement, providing wage increases averaging 16% in the first year and 12% in the second, does not contain a cost-of-living clause.

In December, the company and the union signed an interim agreement establishing a single seniority system for the fertilizer expansion plants. The agreement provides for a four-crew operation working 12-hour shifts rather than the nine-crew eight-hour shift system in the existing plants. The new system requires less manpower and should be noticeably more efficient, particularly during the start-up period.

During 1981, the Fort Saskatchewan operations improved on an already enviable safety record, with reductions in both the accident frequency and severity rates. Part of this improvement can be attributed to the company-sponsored training programs, all of which include job safety as a major component.

During the year, 50 employees completed a seven-day basic operator training program, and 165 supervisors completed the initial phase of a supervisory training program. Our apprenticeship program is currently operating at a ratio of one apprentice for every three certified tradesmen.

Personnel

	1981	1980
Manitoba	1,193	1,225
Alberta	1,022	1,029
Ontario	79	69
Other	7	5
Total	2,301	2,328

Consolidated Balance Sheet

as at December 31, 1981 (with 1980 figures for comparison)
(thousands of dollars)

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

Assets		1981	1980
Current	Cash, including interest-bearing deposits	$ **346**	$ 1,599
	Accounts receivable	**65,621**	60,171
	Income and resource taxes recoverable	**13,097**	—
	Inventories (note 2)	**95,872**	85,991
	Prepaid expenses	**1,272**	1,410
		176,208	149,171
Fixed (note 3)		**229,436**	141,004
Other	Investments (note 4)	**7,337**	10,759
	Employee housing and other loans	**6,869**	6,537
	Patents and non-producing assets	**1,563**	1,521
		15,769	18,817
		$421,413	$308,992

Liabilities and Shareholders' Equity		1981	1980
Current	Bank indebtedness (note 5)	$ **42,553**	$ 57,691
	Accounts payable	**63,262**	50,481
	Income and resource taxes	—	3,030
	Current portion of long-term liabilities	**2,920**	—
		108,735	111,202
Long-term Liabilities (note 6)		**61,547**	—
Provision for Future Income and Resource Taxes		**45,641**	39,730
Shareholders' Equity	Capital stock (note 7)	**75,349**	12,832
	Contributed surplus (note 7)	**26,237**	26,075
	Retained earnings	**103,904**	119,153
		205,490	158,060
		$421,413	$308,992

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

Approved by the Board:
Edward L. Donegan, Director
David D. Thomas, Director

Consolidated Statement of Earnings

for the year ended December 31, 1981 (with 1980 figures for comparison)
(thousands of dollars)

		1981	1980
Revenue	Metal sales	**$235,327**	$288,286
	Fertilizer and chemical sales	**87,492**	66,690
	Technology licensing, interest and other income	**3,851**	4,912
		326,670	359,888
Costs and expenses	Operating costs	**289,391**	277,132
	Technology	**1,579**	2,167
	Exploration		
	Minerals	**5,681**	3,908
	Oil and gas	**1,528**	5,304
	Selling and administration	**8,413**	6,654
	Interest (note 9)	**3,068**	5,369
	Depreciation and amortization	**13,683**	14,552
		323,343	315,086
Earnings before taxes		**3,327**	44,802
Income and resource taxes (note 12)		**537**	16,713
Net earnings before unusual items		**2,790**	28,089
Unusual items (note 10)	Less future taxes of $12,000 (1980: nil)	**11,118**	3,296
Net (loss) earnings		**$ (8,328)**	$ 24,793
(Loss) earnings per common share (after preferred dividends)	Before unusual items	**$ (.07)**	$ 2.19
	Net (loss) earnings	**$ (.94)**	$ 1.93
Dividends per common share		**$ .25**	$ .80

Consolidated Statement of Retained Earnings

for the year ended December 31, 1981 (with 1980 figures for comparison)
(thousands of dollars)

	1981	1980
Balance at beginning of the year	**$119,153**	$104,617
Net (loss) earnings	**(8,328)**	24,793
	110,825	129,410
Dividends — Common	**3,208**	10,257
— Preferred	**3,713**	—
	6,921	10,257
Balance at end of the year	**$103,904**	$119,153

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

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1981 (with 1980 figures for comparison)
(thousands of dollars)

		1981	1980
Working capital was obtained from	Operations for the year		
	Net (loss) earnings	**$ (8,328)**	$ 24,793
	Items not affecting working capital		
	Depreciation, amortization and other write-offs	**14,972**	14,774
	Future income and resource taxes	**5,911**	3,281
	Unusual items	**18,512**	3,296
		31,067	46,144
	Issue of capital	**62,679**	128
	Issue of long-term liabilities	**64,467**	—
		158,213	46,272
Working capital was used for	Capital and deferred assets		
	Mining	**10,633**	11,763
	Metal refining	**1,969**	3,089
	Fabricated metals	**6,536**	2,195
	Fertilizers and chemicals	**6,371**	3,446
	Fertilizer expansion	**78,918**	7,475
	Oil and gas	**14,077**	2,228
	Other	**364**	884
		118,868	31,080
	Dividends	**6,921**	10,257
	Reduction of long-term liabilities	**2,920**	59,861
		128,709	101,198
Increase (decrease) in working capital		**29,504**	(54,926)
Working capital at beginning of the year		**37,969**	92,895
Working capital at end of the year		**$ 67,473**	$ 37,969

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

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, except that current assets, current liabilities and long-term debt are translated at the rate of exchange at year end.
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. (note 3). The costs capitalized are limited to the present value of future net revenues from estimated production of proven reserves plus the costs associated with 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.
(ii) Metal refining, fabricated metals, fertilizers and chemicals — 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. Inventories

(thousands of dollars)	1981	1980
Concentrates	$14,011	$22,588
Refined metal products	38,564	27,628
Fertilizers and chemicals	5,071	2,411
Raw materials and materials in process	23,928	21,439
Operating supplies	14,298	11,925
	$95,872	$85,991

3. Fixed Assets

(thousands of dollars)	Property, plant and equipment Cost	Depreciation	Net cost	Unamortized development and exploration costs	Total
Mining	$ 95,634	$ 48,974	$ 46,660	$33,342	$ 80,002
Metal refining	36,896	27,816	9,080	–	9,080
Fabricated metals	16,639	4,778	11,861	–	11,861
Fertilizers and chemicals	68,502	42,408	26,094	–	26,094
	217,671	123,976	93,695	33,342	127,037
Fertilizer plant under construction	86,393	–	86,393	–	86,393
Oil and gas	–	–	–	16,006	16,006
1981	$304,064	$123,976	$180,088	$49,348	$229,436
1980	$206,180	$105,128	$101,052	$39,952	$141,004

In 1981 the company changed its method of accounting for oil and gas exploration costs from the successful-efforts method to the full-cost method. This change was adopted to more appropriately reflect the longer range nature of the company's exploration programs, the objective of which is to assure a source of natural gas for the metal and chemical complex at Fort Saskatchewan.

Had the company continued to use the successful-efforts method, net earnings before unusual items for the current year would have decreased by $1,970,000 (15¢ per share). Although the change was made retroactively, 1980 results have not been restated as the effect on that year was not material.

4. Investments

(thousands of dollars)	Common shares	Percentage owned	1981	1980
Marinduque Mining & Industrial Corporation	9,323,777	10	$6,687	$ 6,752
P.T. Pacific Nikkel Indonesia (note 10)			–	3,314
BowRio Resources Limited	600,000	21	600	600
Other companies			50	93
			$7,337	$10,759

These investments are considered to be of a long-term nature and are carried at cost. The quoted market value of the investment in shares of Marinduque Mining & Industrial Corporation at December 31, 1981 was $5,529,000 (1980: $15,466,000). Nickel, cobalt and copper production comprise the bulk of this company's business. BowRio Resources Limited is a Calgary-based oil and gas exploration company.

5. Bank Indebtedness

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

6. Long-term Liabilities

(thousands of dollars)	
Project Loan – fertilizer expansion	
U.S. dollars ($40,000,000)	$47,436
Canadian dollars	8,000
	55,436
Unamortized foreign exchange gain	271
	55,707
Other Long-term Liabilities	
Petroleum and natural gas rights	8,760
Deduct current portion	2,920
	5,840
Total Long-term Liabilities	$61,547

Project Loan

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 an operating line of credit of $40,000,000.

Prior to completion of the new plant, the amount of the loan 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, the company's obligation as to the operating line of credit and up to $220,000,000 of the long-term loan will, subject to certain conditions, cease to be a general obligation of the company and will be limited to the security given to the banks.

The loan may be drawn in either Canadian funds or the U.S. equivalent. The carrying value of the loan denominated in U.S. funds is determined using the current rate of exchange. The unrealized gain or loss on exchange is being amortized over the life of the debt.

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, 1981 the composite rate on the total amount outstanding was 15.67%.

Repayment of the loan will be in twenty semi-annual instalments commencing the earlier of March 31, 1984 or nine months after project completion. 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.

The plant is scheduled to be completed and in production in the first half of 1983.

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 1982, 1983 and 1984.

7. 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, 1981	12,831,600	$12,832
Issued for cash	17,740	17
December 31, 1981	12,849,340	$12,849
Preferred Series "A" —		
January 1, 1981	—	—
Issued for cash	3,125,000	$62,500
December 31, 1981	3,125,000	$62,500
		$75,349

At a special general meeting of the shareholders held on January 9, 1981, the authorized share capital of the company was increased by creating 6,000,000 additional common shares with a par value of $1 each, ranking on a parity with the existing common shares of the company; and by creating 7,500,000 preferred shares without par value.

During 1981, 17,740 common shares were issued under the Employee Share Purchase Plan for a cash consideration of $179,000 of which $162,000 has been credited to contributed surplus.

During 1981, 3,125,000 Variable Rate Cumulative Redeemable Preferred Shares Series "A" were issued for a cash consideration of $62,500,000. 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, 1981 this rate was 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.

8. Employee Share Purchase Plan

Under the Employee Share Purchase Plan eligible employees are entitled to subscribe for shares of the company and to pay for such 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 16, 1980 and June 15, 1981), or the average market price on the completion dates of purchase. At December 31, 1981 there were outstanding purchase arrangements with employees having an aggregate value of $513,000 (1980: $459,000).

9. Interest

(thousands of dollars)	1981	1980
Interest expense comprises:		
Interest on current bank indebtedness	$ 5,956	$ 3,426
Interest on long-term liabilities	2,752	2,120
	8,708	5,546
Capitalized interest on major projects during construction	5,640	177
Interest expense — net	$ 3,068	$ 5,369

10. Unusual Items

(thousands of dollars)		1981	1980
Investment in P.T. Pacific Nikkel Indonesia		$ 3,314	$ —
Reduction in carrying value of assets			
Fox	$ 5,600		
Ruttan	9,598	15,198	—
		18,512	—
Termination costs		4,606	—
Foreign exchange loss on redemption of income debentures		—	3,296
		23,118	3,296
Income and resource taxes — future		12,000	—
		$11,118	$ 3,296

The P.T. Pacific Nikkel Indonesia project is unlikely to proceed in view of the limited remaining life of the contract of work agreement with the government of Indonesia as well as current economic projections for the project. Accordingly the carrying value of the investment has been written off.

In view of the limited remaining life of the Fox mine, a detailed evaluation of the orebody was carried out during the year. As a result of this study certain remnant material and lower grade sections of the mine previously considered to be economically recoverable have been deleted from reserves. At Ruttan mine ore outline drilling to the 2200-foot level resulted in a net deletion from reserves during the year. The cost of unamortized plant and mine development expenditures related to these deletions has been charged to net earnings for the year.

In December 1981, as a result of continuing depressed prices for copper and ongoing escalation in operating and capital costs, the company reduced the level of operations at both of its mines incurring termination payments to employees and other related costs.

In view of the unusual nature and the magnitude of these items the total of these costs amounting to $23,118,000 has been charged to earnings as an unusual item net of provision for income taxes amounting to $12,000,000.

11. 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, 1981 amounted to $1,467,000 (1980: $1,655,000).

At December 31, 1981 unfunded liabilities for past service costs under these pension plans amounted to $3,650,000 (1980: $3,150,000).

12. Income and Resource Taxes

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

	Percentage of earnings before taxes	
	1981	1980
Combined federal and provincial income tax rate	51.3%	51.3%
Inventory allowance	(39.2)	(2.0)
Resource allowance	—	(7.7)
Depletion	—	(5.2)
Non-deductible income debenture costs	—	2.7
Other adjustments and allowances	4.0	(4.0)
Effective federal and provincial income tax rate	16.1%	35.1%
Resource taxes — 18% of mining income	—	2.0
Effective income and resource tax rate	16.1%	37.1%

13. Commitments and Guarantees

Fertilizer Expansion

The company is committed to build and bring into production a nitrogen fertilizer plant at its present Fort Saskatchewan site, designed to produce 1000 tonnes per day of ammonia and 900 tonnes per day of urea, at an estimated cost of $350,000,000 including interest during construction. Of this amount $86,393,000 has been spent to date. The plant is scheduled for start-up in the first half of 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 $15,120,000. Annual commitments for the next five years are — 1982: $1,870,000; 1983: $1,850,000; 1984: $1,780,000; 1985: $1,710,000; and 1986: $1,490,000.

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 $695,000 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 $7,400,000 at December 31, 1981.

The company has also guaranteed employees' mortgage indebtedness in these townsites amounting to approximately $4,500,000 at December 31, 1981.

Manitoba Hydro

Under agreement 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 2013. The balance to be paid under this agreement amounts to $1,800,000 at December 31, 1981.

14. Comparative Figures

Certain comparative figures have been restated to conform with the presentation adopted in 1981.

15. Quarterly Financial Information
(unaudited)

(thousands of dollars except earnings per share)

1981	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	$ 80,256	$89,286	$74,082	$ 83,046	$326,670
(Loss) earnings before taxes	1,393	6,661	(4,342)	(385)	3,327
(Loss) earnings before unusual items	1,003	4,809	(2,930)	(92)	2,790
Net (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)
Net (loss) earnings	$ .08	$ .37	$ (.38)	$ (1.01)	$ (.94)
1980					
Revenue	$106,063	$81,708	$67,434	$104,683	$359,888
Earnings before taxes	18,278	14,309	3,701	8,514	44,802
Earnings before unusual item	10,926	8,567	2,826	5,770	28,089
Net earnings	10,926	5,271	2,826	5,770	24,793
Earnings per common share					
Before unusual item	$ .85	$ .67	$ .22	$ .45	$ 2.19
Net earnings	$ .85	$ .41	$ .22	$ .45	$ 1.93

Statement of Segmented Information

for the year ended December 31, 1981 (with 1980 figures for comparison)
(thousands of dollars)

Industry Segments	Mining		Metal Refining		Fabricated Metal Products		Fertilizers and Chemicals		Other		Consolidated	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
Sales to customers	$ 91,048	$133,085	$117,832	$120,978	$26,447	$34,223	$ 87,492	$66,690	$ 3,851	$ 4,912	$326,670	$359,888
Inter-segment sales	—	—	16,342	21,485	—	—	—	—	—	—		
Total revenue	$ 91,048	$133,085	$134,174	$142,463	$26,447	$34,223	$ 87,492	$66,690	$ 3,851	$ 4,912		
Operating profit (loss)	$ (25,521)	$ 14,317	$ 19,556	$ 20,607	$ 746	$ 5,751	$ 21,948	$20,709	$ 1,959	$ 2,533	$ 18,688	$ 63,917
Resource exploration											7,209	9,212
General corporate expenses											5,084	4,534
Interest											3,068	5,369
Income and resource taxes											537	16,713
											15,898	35,828
Net earnings before unusual items											$ 2,790	$ 28,089
Identifiable assets	$115,334	$140,569	$ 80,260	$ 72,622	$25,358	$22,451	$161,073	$53,902	$39,388	$19,448	$421,413	$308,992
Capital expenditures	$ 10,633	$ 11,763	$ 1,969	$ 3,089	$ 6,536	$ 2,195	$ 85,289	$10,921	$14,441	$ 3,112	$118,868	$ 31,080
Depreciation and amortization	$ 9,626	$ 10,690	$ 723	$ 809	$ 377	$ 358	$ 2,733	$ 2,489	$ 224	$ 206	$ 13,683	$ 14,552

Notes to Statement of Segmented Information

1. Industry Segments

Sherritt has four major areas of business: mining, metal refining, fabricated metal products, and fertilizers and chemicals. 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.

Metal Refining

At Fort Saskatchewan, Alberta, about 17 miles northeast of Edmonton, Sherritt 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.

Fertilizers and Chemicals

At Fort Saskatchewan Sherritt also produces nitrogen and phosphate fertilizers as well as sulphuric acid, hydrogen sulphide, carbon disulphide, and xanthates. Feedstock 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.

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 \$43,873,000 (1980: \$44,227,000). 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.

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, 1981 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, 1981 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 on a basis consistent with that of the preceding year. (As explained in note 3, the company retroactively changed its method of accounting for oil and gas exploration costs but this did not have a material effect on the 1980 financial statements.)

Deloitte Haskins & Sells
Chartered Accountants

Toronto, Ontario
January 25, 1982

Ten-Year Record 1972-1981

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

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Operating information										
Ore milled (tons)										
Ruttan Mine	**1,877**	2,548	2,308	2,543	2,487	2,661	3,341	3,358	1,871	—
Fox Mine	**809**	864	852	964	890	832	1,007	1,008	963	946
Lynn Lake Mine	**—**	—	—	—	—	197	352	432	676	995
Production										
Copper (lb.)	**63,527**	81,228	74,687	73,895	75,489	76,009	87,005	100,399	72,101	41,474
Zinc (lb.)	**44,991**	41,473	52,959	74,695	87,477	95,369	99,953	79,102	48,380	8,986
Gold (oz.)	**16**	21	17	19	21	22	25	29	16	9
Silver (oz.)	**365**	499	406	473	479	484	555	749	416	231
Nickel (lb.)	**38,232**	35,792	32,018	26,920	26,688	27,708	27,937	26,172	30,262	37,321
Cobalt (lb.)	**2,014**	1,526	1,333	1,145	1,011	658	560	410	616	809
Fabricated metals (lb.)	**4,388**	6,735	7,327	5,057	5,355	2,763	3,887	4,455	4,087	3,393
Fertilizers (tonnes)	**397**	352	359	343	349	292	349	317	328	337
Financial information										
Revenue from sales	**$322,819**	$354,976	$300,348	$229,229	$180,463	$179,428	$191,479	$192,958	$124,092	$ 72,861
Technology licensing, interest and other income	**3,851**	4,912	4,226	2,150	1,929	3,634	3,873	2,128	941	1,365
Costs and expenses	**309,660**	300,534	224,410	190,951	165,240	166,086	166,787	141,934	92,128	61,517
Depreciation and amortization	**13,683**	14,552	12,043	11,824	10,759	9,680	10,017	12,571	9,234	7,563
Income and resource taxes	**537**	16,713	27,155	14,179	2,227	3,165	7,390	17,535	2,685	55
Net earnings before extraordinary and unusual items	**$ 2,790**	$ 28,089	$ 40,966	$ 14,425	$ 4,166	$ 4,131	$ 11,158	$ 23,046	$ 20,986	$ 5,091
Per Share (after preferred dividends)	**(.07)**	2.19	3.20	1.13	.33	.32	.88	1.81	1.65	.40
Extraordinary and unusual items	**11,118**	3,296	—	—	—	—	—	—	—	2,784
Net earnings (loss)	**(8,328)**	24,793	40,966	14,425	4,166	4,131	11,158	23,046	20,986	2,307
Per Share (after preferred dividends)	**(.94)**	1.93	3.20	1.13	.33	.32	.88	1.81	1.65	.18
Dividends										
Common	**$ 3,208**	$ 10,257	$ 15,360	$ 6,392	$ 1,915	$ 4,460	$ 7,010	$ 9,555	$ 8,918	$ 6,370
Per Share	**.25**	.80	1.20	.50	.15	.35	.55	.75	.70	.50
Preferred	**3,713**	—	—	—	—	—	—	—	—	—
Capital Expenditures	**$118,868**	$ 31,080	$ 16,115	$ 26,892	$ 14,176	$ 6,180	$ 11,513	$ 14,527	$ 20,791	$ 30,963
Cash flow from operations	**$ 31,067**	$ 46,144	$ 57,346	$ 32,483	$ 15,509	$ 14,605	$ 25,156	$ 45,519	$ 29,383	$ 12,570
Working capital	**67,473**	37,969	92,895	69,463	70,174	38,140	38,472	36,409	24,779	27,375
Long-term liabilities	**61,547**	—	59,106	62,621	57,764	24,731	29,564	34,194	41,881	36,333
Shareholders' equity	**205,490**	158,060	143,396	117,659	109,536	107,213	107,437	103,289	89,798	77,730
Invested capital	**312,678**	197,790	238,951	212,966	193,857	158,438	163,145	159,935	144,403	127,306
Return on shareholders' equity †	**1.5%**	18.6%	31.4%	12.7%	3.8%	3.8%	10.6%	23.9%	25.1%	6.4%
Return on invested capital †	**1.1%**	13.8%	20.2%	8.9%	3.2%	3.7%	8.2%	16.8%	16.5%	4.7%
Share price — high	**$18.13**	$19.38	$14.13	$8.75	$6.88	$8.25	$7.88	$15.63	$19.50	$17.00
— low	**$ 7.00**	$11.13	$ 7.75	$4.30	$4.05	$5.00	$4.80	$4.10	$13.00	$12.00
Ore Reserves ††										
Ruttan Mine										
Tons	**24,809**	25,037	27,045	28,771	30,439	32,047	43,600	45,900	49,100	51,000
% Copper	**1.51**	1.71	1.74	1.79	1.74	1.73	1.45	1.45	1.46	1.47
% Zinc	**1.17**	1.18	1.18	1.20	1.25	1.25	1.45	1.52	1.60	1.61
Fox Mine										
Tons	**2,608**	5,411	5,917	6,333	7,093	7,836	8,700	10,700	11,800	13,300
% Copper	**1.94**	1.78	1.77	1.79	1.83	1.95	1.92	1.95	2.03	2.01
% Zinc	**1.59**	2.29	2.21	2.22	2.12	2.10	2.08	2.07	2.15	2.23

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

†† Ore reserves are stated on a diluted basis for 1981 and undiluted for 1972 to 1980.

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Manager
Ruttan Mine

I. M. Plummer
Manager, Fox Mine

R. C. McCombe
Manager of Divisional Services
Lynn Lake

Eric Cunningham
Operations Manager
Ruttan Mine

D. S. Speakman
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Lynn Lake

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Dryden

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Manager, Alberta Operations
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Herb Veltman
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Manager, Product Research

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Manager, Process Research

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Corporate Development
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A. R. Otterdahl
General Manager
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Chairman of the Board
Partner, Blake, Cassels & Graydon

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

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Vice-president, Finance
Newmont Mining Corporation

Robert D. Lindberg
Vice-president, Mining

V. N. Mackiw
Executive Vice-president

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

†J. H. Parliament
President
Newmont Mines Limited

*David D. Thomas
President and
Chief Executive Officer

*†J. E. Thompson
President
Newmont Mining Corporation

*Audit Committee Members
†Compensation Committee Members

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Chairman of the Board

David D. Thomas
President and Chief Executive Officer

V. N. Mackiw
Executive Vice-president

Neil Colvin
Vice-president, Metal & Chemical Operations

J. A. Fraser
Vice-president, Marketing

Kenneth J. Harvey
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Robert D. Lindberg
Vice-president, Mining

Robert R. Topp
Vice-president, Corporate Development

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Corporate Secretary

Ian A. Shaw
Treasurer

Peter S. Bleach
Controller

John G. Norwood
Corporate Solicitor and Assistant Corporate Secretary

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Solicitors
Blake, Cassels & Graydon, Toronto

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Morgan Guaranty Trust Company of New York

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Canadian Imperial Bank of Commerce
Toronto
The Toronto-Dominion Bank
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Listing
Toronto Stock Exchange

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