Sherritt Inc.

1994 Annual Report

CORPORATE PROFILE

SHERRITT INC. IS A DIVERSIFIED PUBLIC COMPANY BASED IN ALBERTA. IT HAS FOUR MAIN BUSINESSES. SHERRITT FERTILIZERS IS THE LARGEST, LOWEST-COST NITROGEN AND PHOSPHATE FERTILIZER PRODUCER IN CANADA AND THE FIFTH LARGEST NITROGEN PRODUCER IN NORTH AMERICA. SHERRITT IS 50% OWNER OF A VERTICALLY INTEGRATED COMMODITY METALS BUSINESS WHICH MINES, REFINES, MARKETS AND SELLS NICKEL AND COBALT. CANADA NORTHWEST ENERGY LIMITED, SHERRITT'S WHOLLY OWNED SUBSIDIARY, PRODUCES AND SELLS OIL AND NATURAL GAS. SHERRITT ALSO ENGAGES IN THE DEVELOPMENT, PRODUCTION, MARKETING AND SALE OF ADVANCED INDUSTRIAL MATERIALS AND METALLURGICAL TECHNOLOGIES. THE COMPANY'S SHARES AND WARRANTS ARE TRADED ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOLS SE AND SE.W RESPECTIVELY.

Annual Meeting of Shareholders

The 1995 annual meeting of shareholders of Sherritt Inc. will be held in the auditorium of the Mackiw Materials Centre at the Company's plant site in Fort Saskatchewan, Alberta on Thursday, June 8 at 10:30 a.m.

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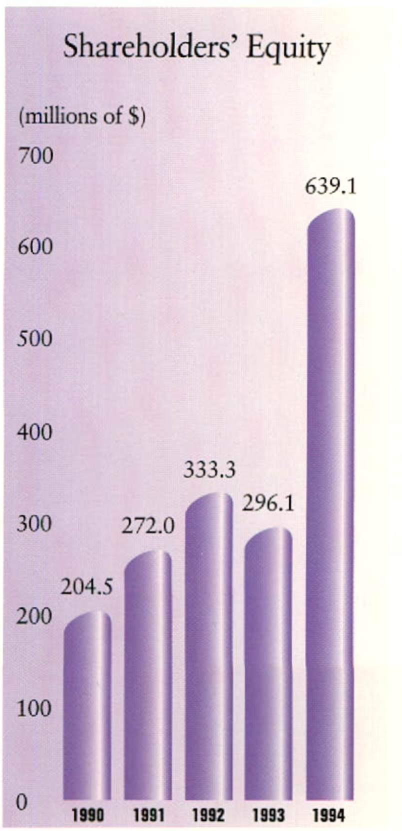
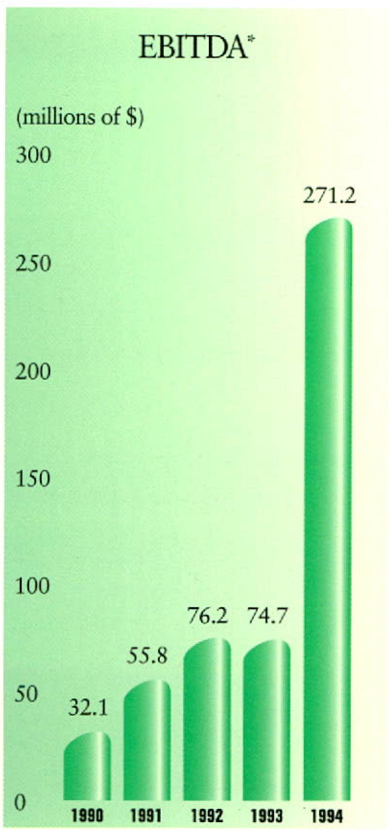
FINANCIAL HIGHLIGHTS

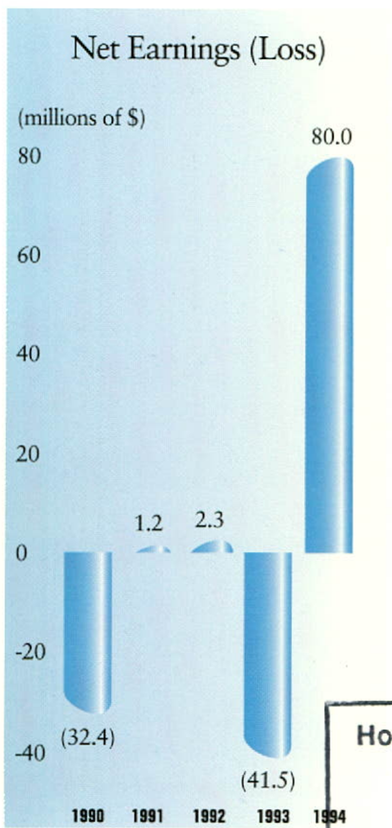
All dollar amounts in this annual report are in Canadian dollars unless otherwise indicated.

(In thousands of dollars, except per share amounts)	1994	1993
FINANCIAL RESULTS		
Revenue	$ 920,806	$ 410,796
Divisional earnings (loss)	195,449	(8,774)
Net earnings (loss)	79,976	(41,461)
EBITDA*	271,216	74,706
Capital expenditures	104,292	93,670
FINANCIAL POSITION		
Net cash (bank indebtedness)	$ 128,553	$ (6,181)
Net working capital	404,600	150,394
Total assets	1,528,035	885,194
Long-term debt (including current portion)	532,697	257,106
Shareholders' equity	639,104	296,064
EARNINGS (LOSS) PER SHARE		
Basic	$ 1.30	$ (0.97)
Fully diluted	$ 1.07	$ (0.97)

*EBITDA means earnings before interest expense, income taxes, depreciation, depletion, write-down of assets and provision for future site restoration costs.





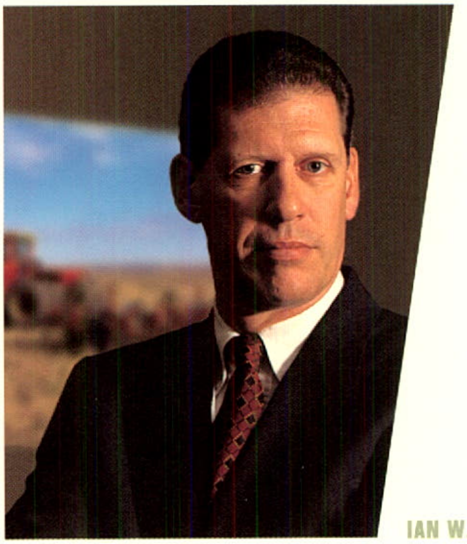


REPORT TO

Shareholders

1994 was a good year for your Company. Sherritt had greater revenues, greater output, greater productivity, and greater profits than any other year in our 67 year history. At year end we were in a strong financial position. Since 1990 Sherritt's market capitalization, the total value of its debt and equity, has grown more than five-fold.

For fiscal 1994, Sherritt reported net earnings of $80.0 million, or $1.30 per share on an average of 61.7 million shares outstanding versus a net loss of $41.5 million, or ($.97) per share on an average of 42.8 million shares outstanding in 1993.



IAN W. DELANEY

Performance in 1994 was a direct result of four years of aggressive growth and expansion.

The two principal areas of growth for your Company in 1994 were the fertilizer business and the commodity nickel and cobalt business. During 1994, the fertilizer business was expanded so that today we are one of the largest nitrogen/phosphate fertilizer manufacturers in North America with some of the highest quality production facilities in the world. Our nickel and cobalt refining business has been extended into a completely integrated mining/refining business in partnership with General Nickel S.A. of Cuba. This has resulted in a nickel/cobalt mining business that will be among the lowest cost producers in the world with reserves that will last for over 25 years at planned production rates.

All of Sherritt's major business segments performed well in 1994. Our oil and gas subsidiary, Canada Northwest Energy Limited (CNW) increased oil production by 19% in Canada and 85% in Cuba in 1994 versus 1993. In May 1994, CNW announced the discovery of a new offshore oil field in Cuba. Sherritt is now the largest independent oil operator in that country. Your Company has a 30% interest in a block of over 400,000 acres in Pakistan, where an exploratory well was drilled in 1994. Initial tests indicated flows up to 21 million cubic feet per day of natural gas, warranting further testing and evaluation.

Your Company had greater revenues, greater output, greater productivity, and greater profits than any other year in our 67 year history.

The record performance in 1994 is a direct result of a change in strategy and direction undertaken in 1990. It is the result of four years of employees, managers, directors, shareholders, bankers and bondholders all supporting an aggressive growth and expansion plan in spite of poor economic conditions and declining commodity prices.

I would like to extend my appreciation to all those groups and individuals who have loyally stood by us in recent years as Sherritt transformed itself into a truly multi-national company. Today, we enjoy a strong financial position, first class assets, professional management, and good market positions in most of our product lines. These strengths will serve us well as we continue to expand and develop your Company.

Yours very truly,

I. W. Delaney

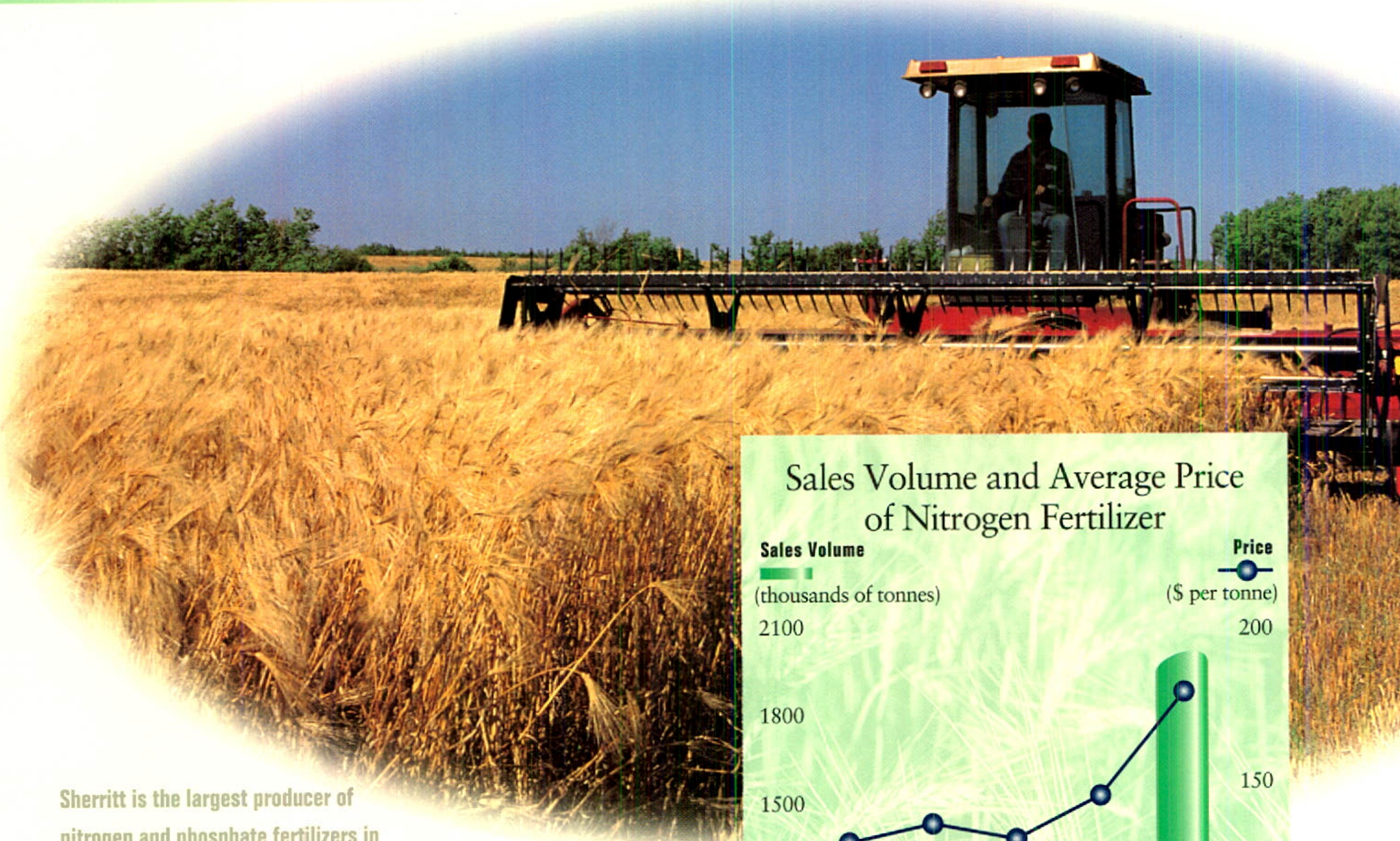
Ian W. Delaney
Chairman and
Chief Executive Officer

Sales revenue from new specialty powders, introduced in 1992 and 1993, increased twelve-fold by 1994. Production capacity was expanded to meet the demand. By 1994 new specialty powders became the largest revenue generator for Specialty Materials. In addition Specialty Materials successfully commercialized several other new products in 1994, and we expect further significant growth in this area in 1995.

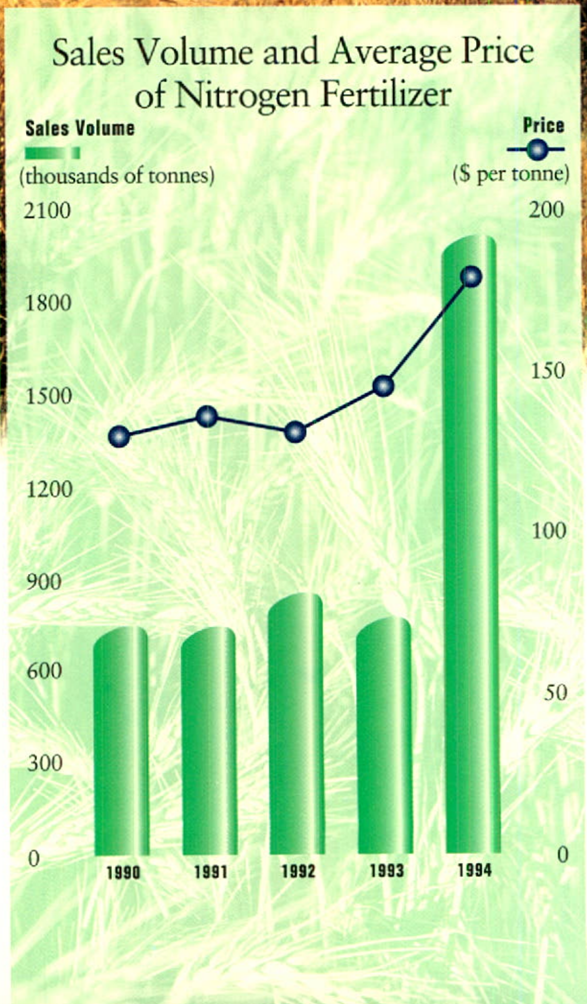
Your Company retains a leading position in the world of research and development. Our Westaim research subsidiary, a partnership with the Province of Alberta and the Federal Government, continued to make significant advances in 1994. During 1995 we expect to begin commercializing several exciting new products which, over the course of the next few years, could have a material impact on Sherritt's financial results.

Fertilizers

The Company expanded its fertilizer business by acquisition in 1994, and achieved record production and sales levels.



Sherritt is the largest producer of nitrogen and phosphate fertilizers in Canada and one of the largest producers of nitrogen fertilizers in North America.



The fertilizer industry experienced dramatic cyclical growth in 1994. Business activity was characterized by rising prices driven by exceptionally strong demand throughout the year. Sherritt Fertilizers achieved record 1994 divisional earnings of $137.4 million on $518.2 million of revenue, net of distribution costs, compared with divisional earnings of $9.9 million on net revenue of $159.6 million in 1993. Overall Sherritt Fertilizers contributed 56% of the Company's total revenue and 70% of its total divisional earnings. As a result of Sherritt's acquisition of fertilizer assets from Imperial Oil Limited and a strong demand year in 1994, Sherritt Fertilizers more than tripled its revenue over that of 1993.

Sherritt's successful integration of its new fertilizer assets, acquired in March of 1994, was the single most important contributor to this outstanding performance. In 1994 Sherritt became the largest nitrogen and phosphate fertilizer producer in Canada and one of the largest in North America. The Company worked quickly and effectively during the height of the spring season to create a unified organization from what had previously been two distinct operations.

Strong production and sales volumes enabled Sherritt to take full advantage of 1994's banner year. Total sales for 1994 were a record 2,623,000 tonnes, compared to 912,000 tonnes in 1993. The performance of the Fertilizers division was particularly strong during the second half of 1994. The fertilizers business is centred around two application seasons in North America, spring and fall, with spring normally being much busier than fall. Sherritt enjoyed a record spring season in 1994. However, the 1994 fall application season experienced higher prices than the 1994 spring season in response to unusually heavy demand. Offshore prices also continued to climb throughout the year.

In the last six months of 1994 total sales reached 1,308,000 tonnes, similar in size to the total sales volume in the first half of 1994 (which included the acquired fertilizer assets for only three months) and much higher than the 355,000 tonnes sold in the second half of 1993, before the acquisition. Divisional earnings for the second half of 1994 reached $69.0 million on revenue of $257.5 million, net of distribution costs, compared to a loss of $1.2 million on revenue of $62.4 million in the second half of 1993. Fourth quarter revenue reached $177.6 million in 1994, quadruple the $44.1 million for the same quarter of 1993.

During the 1994 fiscal year both the Redwater and Fort Saskatchewan production facilities set new production records. Sherritt's total production for 1994 was 2,309,000 tonnes, compared to 898,000 in 1993. (Production for 1994 does not include first quarter production from Redwater.) Several capital projects were successfully implemented in 1994 as part of a comprehensive plan to maximize production at both facilities.

As a result of the Redwater plant acquisition Sherritt Fertilizers now produces and sells a wider range of fertilizer products. This includes ammonia, urea, phosphates, sulphates, nitrates and liquid fertilizer solutions. The primary focus of Sherritt's business is the Western Canadian market, which accounts for approximately 65% of the Company's total sales. The Pacific Northwestern United States accounts for approximately 25% of sales. Sherritt also participates in selected offshore markets such as Australia, which require and value higher quality products.

Sherritt Fertilizers has developed a comprehensive package of agronomic services designed to strengthen its customer relationships.

The Redwater facilities provided Sherritt with an additional opportunity in the form of previously unutilized ammonia production capacity. In December of 1994 Sherritt restarted the Ammonia I plant at Redwater, which had ceased production in 1987, in order to add 220,000 tonnes of annual ammonia production capacity. Robust demand during 1994 led to dramatic price increases for ammonia and ammonia products. Favourable price levels for ammonia combined with a positive demand outlook for ammonia products made the restart of the plant attractive. The restarted plant will provide the Company with additional ammonia production for upgrade into products such as urea and nitrogen solutions. The project was completed in December 1994 ahead of schedule and under budget.

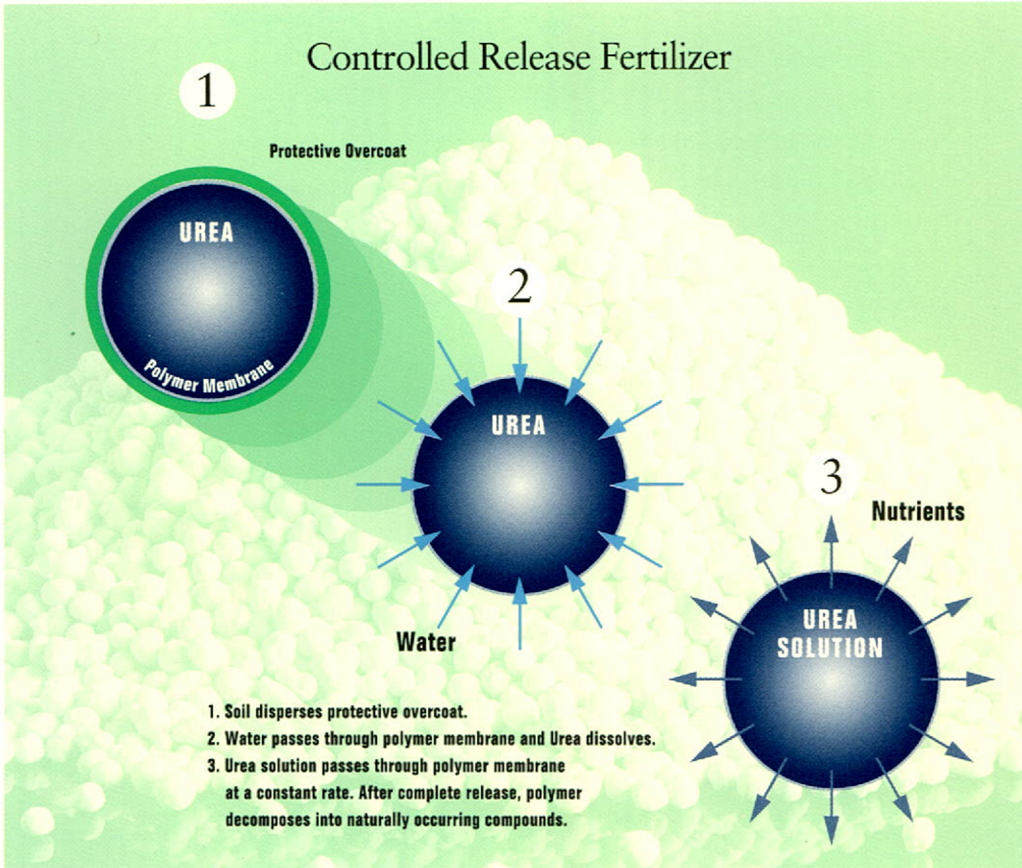
Sherritt also completed the expansion of its fertilizer solutions manufacturing facilities at Redwater during 1994, increasing annual production capacity from approximately 33,000 tonnes to 150,000 tonnes. The final phase of this expansion was the addition of storage tanks, which became operational for the 1995 spring season. Solutions are the fastest growing product line in Western Canada. They are complementary to newer farming techniques such as conservation tillage and help to reduce the loss of topsoil. They can also be incorporated with other products during application.

The task of integrating Sherritt's new fertilizer assets with those of its existing business was especially challenging because the date of the acquisition occurred at the outset of the busiest spring season in the Company's history. A special transition team was created immediately following the acquisition to consolidate all of Sherritt's fertilizer assets in the most effective manner. All aspects of the business, from production, plant services and distribution through marketing and sales, finance and human resources were thoroughly examined for operating efficiencies and business synergies, and the new expanded business was merged and restructured along these lines. The business consolidation was substantially completed in a matter of months with minimal disruption to Sherritt's greatly expanded customer base.

Dedication and professionalism were exhibited by Company employees in working together to meet short timeframes and high seasonal activity and to successfully forge a stronger and unified enterprise. This enabled Sherritt to take full advantage of 1994's favourable business environment, as reflected in the operating results for 1994.

Sherritt now possesses two major strengths as a result of its recent fertilizer assets acquisition. Sherritt's Redwater and Fort Saskatchewan fertilizer production facilities are two of the three lowest cost ammonia and urea plants in North America. Both are large, world-scale operations, which utilize fertilizer production technologies that are more modern and cost effective than the technologies employed by most North American fertilizer plants. The second factor is Sherritt's fertilizer distribution and terminal system, which is unmatched in Western Canada. There are large terminals in Redwater and Fort Saskatchewan, Alberta, Clavet and Watson, Saskatchewan, and Bloom, Manitoba. These facilities are complemented by twelve smaller distribution centres across Canada and the United States.

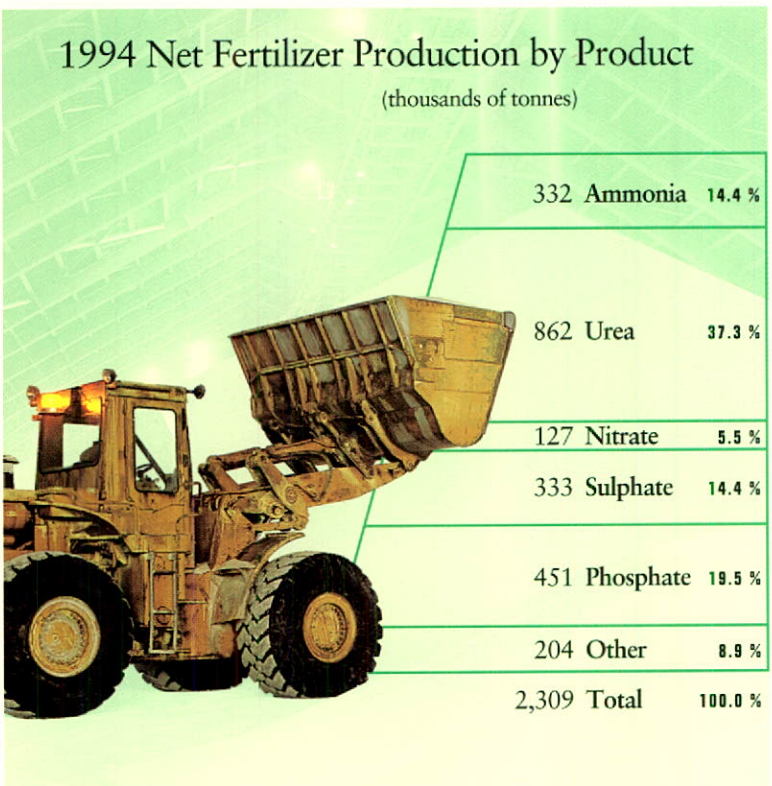
In the past Sherritt has achieved great success in the commodity fertilizers business as a result of the high quality of all its product grades, its competitive pricing, and its strong customer service focus. The Company believes that the best way to expand its leadership role in the fertilizers business while increasing its profitability is to provide specially engineered, high quality products and services that increasingly deliver more value to customers in relation to product price. The Company has consequently increased its levels of specialty products research and development.



Sherritt Fertilizers intends to direct a growing proportion of its business development efforts towards the commercialization of new products. Among the most exciting of Sherritt's new value-added fertilizer products are controlled release fertilizers. Through innovative fertilizer technology the rate of release of nutrients into the soil can be controlled within specific timeframes in order to achieve optimal results from the application of fertilizer. This technology involves spraying an ultra-thin polymer coating around Sherritt's high quality urea fertilizer granules. When applied to the soil, water penetrates the membrane and dissolves the coated urea, diffusing the nitrogen through the membrane into the soil. Depending on the intended use, the life of the product can be set anywhere from 60 days to 270 days by varying the thickness of the polymer coating.

Sherritt's controlled release fertilizer will be sold under the Duration trade name in the agricultural market, primarily for vegetable crops in the western United States. Product trials and test market sales have demonstrated that Duration contributes to higher crop yields and better crop quality than can be produced with conventional fertilizer practices. A similar product will be sold for turfgrass under the ESN trademark where its precision release of nitrogen has been shown to provide longer lasting, high quality turf with greater uniformity of growth and appearance. It is currently being used on prestigeous golf courses and on playing fields at other sports facilities. Controlled release fertilizers have also demonstrated additional environmental benefits. They provide better protection against groundwater contamination from leached nitrates than conventional products in certain applications.

The outlook for the fertilizers business is positive. Sherritt expects the current strong pricing and demand environment to continue into 1995. World food consumption is increasing in line with growth in world economies. Cereal crop inventories are at their lowest levels since the food crisis of 1972-73 as the world enters a period of relative prosperity. Poor fertilizer prices and slack international demand during the recent



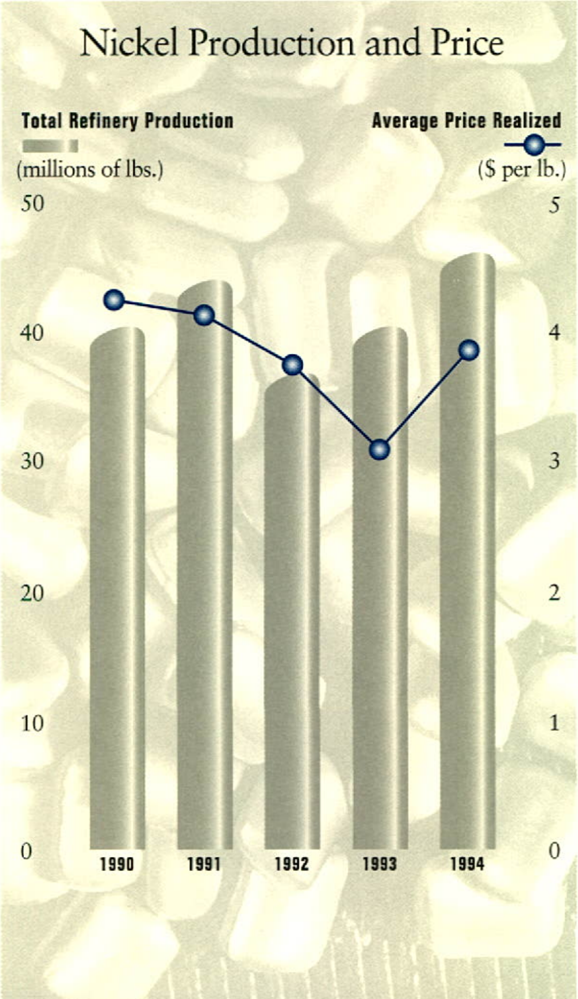
past led to industry rationalization and closure of inefficient plants. Ten companies now account for two-thirds of the nitrogen and phosphate production in Canada and the United States. Construction of new plants is constrained by high capital costs, and it takes several years from the start of construction to bring new plants into production. Therefore operating rates at current facilities are expected to remain high in the near future. International supply is tightening as China and India increase imports. High planting rates and good crops in the United States and Canada resulted in a major drawdown of nutrients from the soil. Replenishment through increased fertilizer application rates has already been occurring. This combined with improved farm incomes and the need to replenish food inventories will drive demand for fertilizers.

The longer term prospects for the fertilizers business will also be positively affected by environmental issues. As world population grows, the demand for food grows with it. Environmentally there are only two principal ways to increase food production: increase the total acreage under cultivation and/or increase the yields on current acreage under cultivation. Essentially all optimal lands for farming are already under cultivation. Further additions to cultivated acreage have been occurring in areas of marginal farming value such as arid lands or in areas of adverse environmental impact such as wetlands and rainforests. The only practical solutions relate to increasing yields and conserving soils. Application of fertilizers to farm soil is a crucial factor in increasing farm yields. New value-added products such as Sherritt's controlled release fertilizers are already demonstrating their potential benefits both for higher yields and for reducing some of the adverse environmental effects in certain applications.

Sherritt also produces a number of specialty chemicals for industrial and municipal customers, both in conjunction with its fertilizer production processes and at separate production facilities. The production and sale of specialty chemicals continued to be a profitable business for Sherritt in 1994, achieving earnings of $4.5 million, a 7% increase over 1993 earnings on similar revenues of $15.8 million. Contributing factors to this improved performance were reductions of operating and marketing costs and the discontinuance of marginally profitable products.

Metals

The new vertically integrated metals enterprise created by Sherritt and General Nickel Company S.A. is a key participant in world nickel and cobalt markets.



Metals

Sherritt Metals achieved important milestones during 1994. The creation by Sherritt and General Nickel Company S.A. of Cuba of a vertically integrated commodity metals enterprise, which started business in December 1994, positioned the Company to become a very important participant in world cobalt and nickel markets. One of the most significant benefits of this initiative is that the Fort Saskatchewan metals refinery has now been aligned with a massive orebody as a long-term source of cobalt and nickel feedstock. It will provide the refinery with the bulk of its feed requirements well into the future. This achievement addresses one of Sherritt's most critical strategic objectives of assuring the long-term viability of its metals refining business.

Operating results in 1994 exhibited a major turnaround in both earnings and production. The Metals division, which includes Specialty Materials and the Coinage and Rolling Mill operations, recorded divisional earnings of $44.5 million in 1994 on revenue of $322.9 million, compared to a divisional loss of $15.5 million in 1993 on revenue of $183.9 million. The main factors which contributed to this earnings turnaround were higher cobalt production and sales volumes, higher nickel sales volumes, higher production and sales volumes of Specialty Materials, lower production costs and significant improvement in commodity prices for cobalt and nickel compared to 1993.

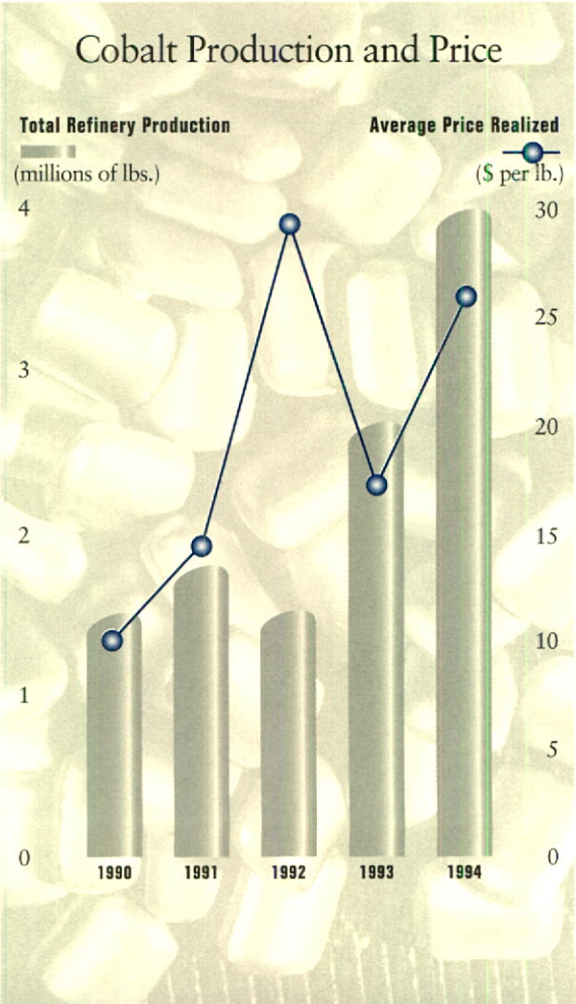
In 1994 the Metals refinery achieved record production in excess of 4 million pounds of cobalt.

Sherritt Metals' financial results reflect Sherritt's 100% ownership of the commodity metals refining business for 11 months of 1994 and its 50% share of the new metals enterprise for the month of December.

The recently modernized and expanded Fort Saskatchewan metals refining facilities achieved impressive results throughout the year. The Metals refinery achieved design capacity for certain periods during 1994, as production was ramped up following the completion of the expansion and modernization program. These modifications permit the refinery to process feedstock with high cobalt content, particularly the feed obtained from Cuba, more efficiently than was possible in the past. They will also allow the refinery to process a wider range of feeds in the future. The Metals refinery achieved record cobalt production in excess of 4 million pounds for 1994, which was nearly 50% higher than 1993's previous record level of 2.7 million pounds. Sherritt's portion of the total 1994 cobalt production was approximately 3.9 million pounds, reflecting eleven months of full production and Sherritt's 50% portion of the December 1994 production. The Fort Saskatchewan refinery produced a total of 46.1 million pounds of commodity nickel in 1994, a 14% increase over 40.4 million pounds in 1993. Nickel production net to Sherritt was 44.7 million pounds for 1994. Refinery output was limited somewhat towards the end of the year by feed availability.

Efficiency gains were realized in the refinery as a result of more advanced technology, implemented during the expansion project, and by management working more closely with employees through delegation of operating responsibility and authority. These measures, together with increased output, contributed to lower production costs and greater purity of cobalt and nickel products.

A strong resurgence in commodity prices for both cobalt and nickel was experienced in 1994. The Metal Bulletin average free market price for high grade cobalt was U.S. $24.62 per pound in 1994, an 80% increase over the 1993 price of U.S. $13.66. Improving world economies have resulted in stronger



demand for cobalt, and the continued deterioration of African production has led to a tightening of cobalt supplies. Cobalt consumers have been turning to Sherritt to replace the shortfall from traditional suppliers.

The London Metal Exchange (LME) average nickel price was U.S. $2.88 per pound in 1994, a 20% increase over the 1993 price of U.S. $2.40 per pound.

This increase follows five consecutive years of decline in LME nickel prices. The main contributing factor was a turnaround in world economies led by much improved demand for stainless steel, which is by far the largest single consumer of commodity nickel. The long-term outlook for increased consumption of nickel remains positive.

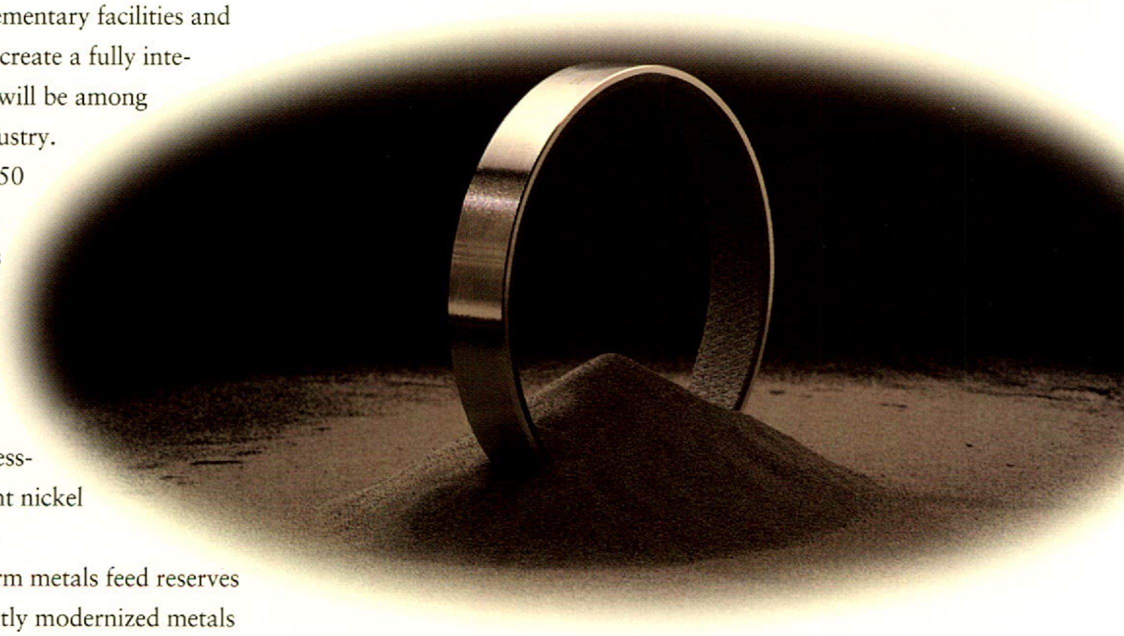
Sherritt continued to consolidate its position as a leader in the global cobalt market by selling a broader range of cobalt products, and by establishing a broader customer base for its increased cobalt production levels, especially in Japan and China. Sherritt is well positioned in the Far East, which is fast becoming a major growth market for metals products.

The new vertically integrated commodity metals enterprise, created by Sherritt and General Nickel Company S.A., began operating on December 1, 1994. It brings together complementary facilities and resources from both owners to create a fully integrated metals producer, which will be among the most competitive in the industry. The new enterprise, owned 50-50 by Sherritt and General Nickel, mines, refines, markets and sells nickel and cobalt products worldwide. Sherritt contributed the Fort Saskatchewan metals refinery, and General Nickel contributed an ore processing plant in Cuba and significant nickel and cobalt mining concessions.

The combination of long-term metals feed reserves with Fort Saskatchewan's recently modernized metals refining facilities creates opportunities and synergies for improving long-term profitability and for increasing the competitive presence and strength of the enterprise in world metal markets. The laterite orebody contributed by General Nickel holds approximately 60 million tonnes of proven and probable reserves, sufficient for 25 years of production at current rates. The mining concession entitles the enterprise to develop additional geological reserves sufficient to yield ore for a further 25 years of production.

A major rehabilitation of the mining and ore processing facilities in Cuba is planned over the next five years. Significant capital amounts will be spent by the enterprise to increase production in Cuba from its current level of approximately 13,000 tonnes of nickel plus cobalt, contained in a mixed sulphide feed, to 24,000 tonnes per year. The new enterprise is now positioned to become one of the lowest cost integrated nickel and cobalt producers in the world. It has both the reserves and the cost structure to expand production capacity in both Cuba and Canada.

Sherritt's high quality nickel is used in a wide variety of high-technology products.



Specialty Materials

Sherritt has built upon its worldwide reputation for industrial technology by expanding its role in the field of advanced specialty materials. The Company's entry into these markets evolved as a natural extension of its metals refining business. The Rolling Mill and Coinage operations were early examples of this development, as were specialty powders for the aerospace industry. As these markets matured the Specialty Materials division worked closely with Sherritt's Westaim division to identify new markets for advanced industrial materials and to develop new products to meet these needs. Special emphasis is placed on using advanced technology to produce high quality and value-added materials with improved profitability over commodity products. Sherritt continued to register success during 1994 in commercializing new, value-added, specialty products. Specialty Materials, including Coinage and the Rolling Mill, reported earnings of $8.8 million on revenue of $69.0 million, compared with earnings of $7.3 million on revenue of $45.7 million in 1993. New specialty cobalt and nickel materials, first introduced in 1992, significantly grew in sales volume during 1994. Their positive impact on earnings more than offset the decline in profitability of certain other traditional products.

Sherritt utilizes proprietary technology to produce ultrafine cobalt powders.

The aerospace industry, the largest customer group for Sherritt's traditional line of specialty materials products, remained in recession. Coinage business was also sluggish in 1994. However, new technology has been developed for bimetal coinage products, and a broader customer base is being sought for these products. Many new products, such as those for jet engine applications, are also being developed.

Sherritt's new advanced metal powders are experiencing rapid growth.

New advanced metal powders are an example of Specialty Materials' success in marketing and selling new products, which were developed from Sherritt's proprietary technology. Cobalt powders are used extensively in the manufacture of composite materials such as carbide and diamond cutting tools. In 1991 Westaim, Sherritt's research and development company, developed and demonstrated the process innovations necessary to produce finer and more spherical powder than was previously possible using established methods. Market research had identified a large potential market for these higher quality ultra-fine powders. These products were well received by customers in Asia and Europe, and sales have been experiencing rapid growth.

One of the most promising new markets for specialty nickel and cobalt powders is the burgeoning market for portable electronic equipment. Cellular telephones, laptop computers and video cameras are prime examples of the kinds of products that are fueling the demand for higher performance batteries. The multimillion dollar market for small rechargeable batteries is increasing at an annualized rate of 10 to 15%.

Two major new rechargeable battery technologies have emerged which use nickel and cobalt powders to support their systems. In 1994 Westaim completed the development of proprietary technology for the production of high density spherical nickel hydroxide to support one of the new battery systems, metal hydrides. It was subsequently transferred to Specialty Materials, where a continuous pilot scale process is currently producing spherical nickel hydroxide. Customer evaluations of the product have been positive, and a commercial scale plant is scheduled for late 1995.

Westaim has also developed a unique proprietary process to produce battery grade lithium cobalt dioxide powder in support of the other new battery technology, lithium ion systems. A pilot facility will be commissioned in 1995. This product has also been transferred to Specialty Materials for commercialization. Together with nickel hydroxide, lithium cobalt dioxide will provide a strong base for a portfolio of Sherritt products for the next generation of rechargeable battery technologies.

Specialty Materials was very active during 1994 in developing and commercializing other new specialty products as well. Nickel Welding Powder, which was commercialized in 1994, reached revenues exceeding $5 million. The success of Specialty Materials in marketing and selling new products, developed from Sherritt's proprietary technology, is expanding the Company's business activity in advanced materials markets. Markets for specialty materials are worldwide, with Asian markets expected to play a growing role.

Oil and Gas

During 1994, the most significant opportunities for Sherritt Oil and Gas were to improve its oil production in Canada, increase production at its enhanced recovery program in Cuba, and to continue to pursue exploration opportunities on its international property portfolio in Cuba, Indonesia, Pakistan and Spain.

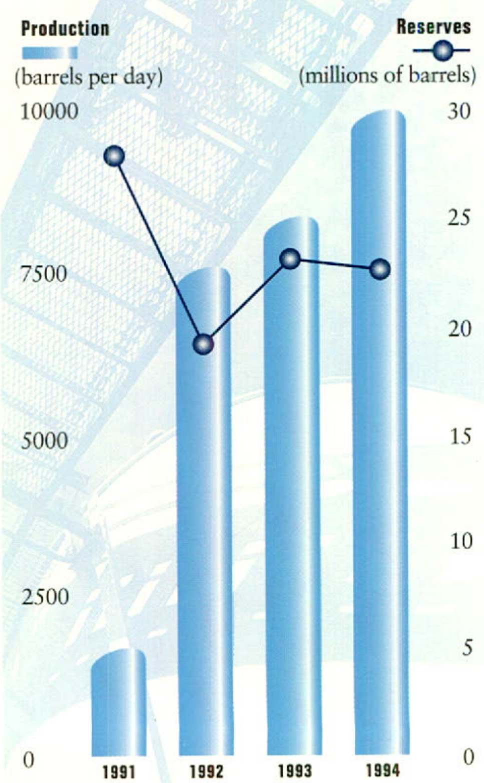
A successful development drilling program led to a 19% increase in Canadian oil production.

Oil production in 1994 averaged 9,952 barrels per day, up from 8,355 barrels per day for 1993. The success of a focused development drilling program in various oil fields was the key factor in an increase of 19% in Canadian oil production. Production from the Incremental Production Sharing Agreement in Cuba provided the Company an average of 2,788 barrels of oil per day in 1994 compared to an average of 1,507 for 1993. The success of this program reflects our improved ability to overcome the complexities of oil production in Cuba. The Vega field in Italy and the Casablanca field in Spain continued to produce with minor declines in 1994 from 1993 rates.

Production of natural gas declined to rates averaging 43 million cubic feet per day from 1993 rates of 50 million cubic feet of natural gas per day. The production decrease was due to the earlier than anticipated production decline in the Oldman field, the normal production decline of other natural gas fields and the sale of certain natural gas properties.

Sherritt's average realized price from oil sales increased in 1994 from 1993. Lower prices for the benchmark West Texas Intermediate (WTI) product were partially offset by the weaker Canadian dollar, with the effect of yielding a 1994 Canadian dollar WTI price similar to the price in 1993. In 1994 the price discount for crude oil of lower quality than WTI was significantly reduced. The Company benefited from this development in the price it received for its

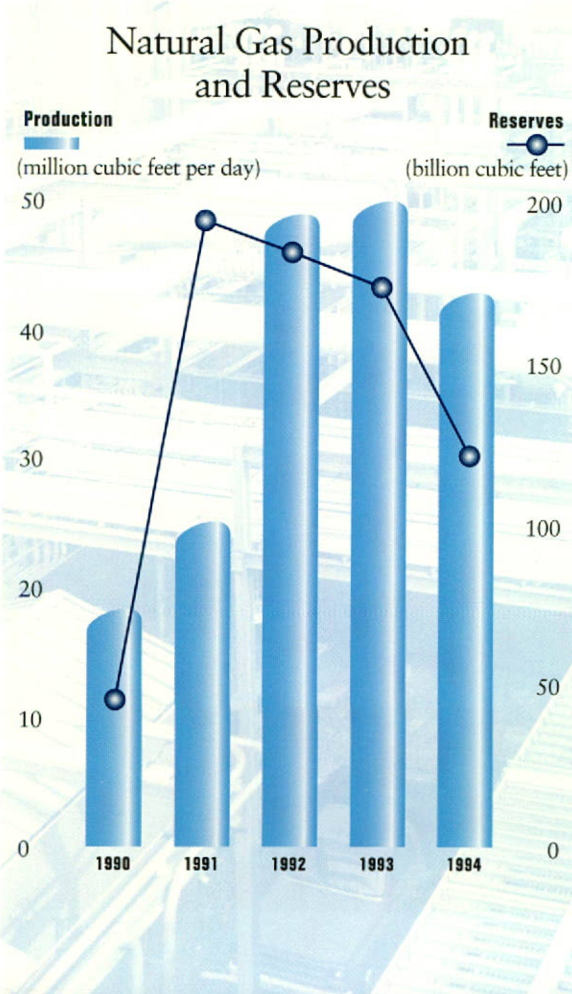
Oil Production and Reserves



oil production in Italy and Cuba. The Company's price risk management program also contributed positively to its realized price for oil in Canada.

The average prices received by the Company for its natural gas in 1994 were significantly higher than the average of the previous year, benefiting from the carry over of the tight demand and supply conditions that were experienced in late 1993. The supply of natural gas increased in 1994 as the industry drilled and tied-in wells in reaction to the high natural gas prices. Natural gas prices had declined significantly at the end of 1994 as a result of this increase in supply combined with unusually warm winter temperatures in North America.

Sherritt Oil and Gas realized revenues of $82.5 million in 1994, up from $71.4 million in 1993. These revenues include interdivisional sales of gas at market prices of $7.4 million in 1994 and $9.8 million in 1993. Increased oil production combined with stronger average oil and natural gas prices to offset the decline in natural gas production.



Sherritt Oil and Gas operates in Canada and abroad in Spain, Italy, Cuba, Indonesia and Pakistan.

Sherritt Oil and Gas recorded divisional earnings of $12.0 million in 1994, compared to a divisional loss of $5.5 million in 1993. The 1993 loss was attributable to a ceiling test write-down of oil and gas properties of $15.7 million. The ceiling test write-down in 1994 was $1.7 million.

At the end of 1994, Sherritt acquired the interests of its partner in the Incremental Production Sharing Agreement, Block 9 and Block 10, all in Cuba. As a result of this acquisition, the Company will continue to receive operating cash flow from the enhanced production project.

Early in 1995, the Company completed the sale of its Canadian noncore properties. The noncore properties consisted of over 550 scattered wells in which the Company held a nominal interest. The sale will reduce the Company's future administrative burden.

During 1994, the Company participated in three significant international hydrocarbon discoveries in Cuba, Indonesia and Pakistan. Work to further evaluate each of these discoveries will continue in 1995.

As at December 31, 1994, Sherritt Oil and Gas had proved and probable reserves of 22.5 million barrels of oil and 122.0 billion cubic feet of natural gas.

Canada

At December 31, 1994, total undeveloped land holdings in Canada were 339,891 net acres, with the majority of this acreage in Alberta. During 1994, natural gas production averaged 41.7 million cubic feet per day while oil production averaged 3,506 barrels per day. Sherritt had an interest in the drilling of 76 wells in 1994. This resulted in 39 oil wells, 23 natural gas wells and 14 dry holes.

OIL AND GAS RESERVES (1)

Oil (million barrels)	Canada	Spain	Italy	Cuba	Total
Proved	4.8	1.9	1.8	9.7	18.2
Probable	2.8	0.4	1.1	–	4.3
Proved and Probable	7.6	2.3	2.9	9.7	22.5

Gas (billion cubic feet)	Canada	Spain	Italy	Cuba	Total
Proved	76.5	–	2.9	–	79.4
Probable	38.3	–	4.3	–	42.6
Proved and Probable	114.8	–	7.2	–	122.0

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

As at December 31, 1994, Sherritt Oil and Gas had proved and probable reserves of 22.5 million barrels of oil and 122.0 billion cubic feet of natural gas.

Spain

Sherritt has a 14.5% interest in the Casablanca oil field, in the Gulf of Valencia. Production from the Casablanca field averaged 15,698 barrels of oil per day (2,272 net to the Company) in 1994 as compared to 16,598 barrels of oil per day for the field during 1993.

The Company holds a 60% interest in the 47,680 acre Golondrina Block, located southeast of the Casablanca oil field. An exploratory well will be drilled on the block in 1995.

Italy

The Company has a 20% interest in the Vega oil field, 20 kilometers off the southern coast of Sicily. During 1994, production from the Vega field averaged 6,935 barrels of oil per day (1,387 net to the Company) as compared to 7,684 barrels of oil per day for the field during 1993. Gas production, from other fields in Italy, averaged 1.2 million cubic feet per day in 1994, down from 1.6 million cubic feet per day during 1993.

Cuba

Under the terms of an agreement for enhanced crude petroleum production, the Company produces oil from the Varadero fields, the Boca de Jaruco field and the Pina field. The Company's share of production is sold to the Republic of Cuba at international market price. During 1994, Sherritt's portion of the production averaged 2,788 barrels of oil per day, up from 1,507 barrels of oil per day for 1993. Late in 1994, the Company purchased the interest of its Canadian partner in this project. This acquisition, combined with the benefit of further workovers, will provide the Company with a substantial increase in production for 1995.

Sherritt holds a 100% interest in three exploration blocks in Cuba: Block 10, covering the Bay of Cardenas; Block 9, to the south of the Bay of Cardenas; and Block 23 in central Cuba. The Cupey 1X oil discovery on Block 10, which completed drilling in June of 1994, tested flowing 3,750 barrels of oil per day through a ½" choke at a flowing tubing pressure of 1,488psi from a 135 metre interval at about 2,400 metres. The completion of further seismic studies, which commenced in 1994, will be used to determine the Company's future plans on Block 10. Late in 1994, the Company spudded the Cabaiguan 1X exploration well on Block 23.

Other Areas

In central Pakistan, Sherritt has a 30% interest in the 415,701 acre Ghauspur block. Badar #1, an exploratory well drilled on this block in 1994, tested flowing up to 21 million cubic feet per day of natural gas. A follow up seismic program to further delineate the discovery has been completed. A second well on the block began drilling in early 1995.

In Indonesia, the Company has a 5% interest in a 1.8 million acre Production Sharing Contract Area covering the eastern part of Seram Island. The Oseil #1 exploratory well, which finished drilling in 1994, tested production from two intervals totaling 7,250 barrels of oil per day. Future plans for the area continue to be evaluated.

The Company has a 12.5% interest in the United Kingdom Block 47/2 which is located in the southern portion of the North Sea. The York Field, discovered in 1993, is partially located under the block. The commercial potential of the accumulation is under evaluation.

Engineering and Consulting

During 1994 Engineering and Consulting dedicated a greater portion of its overall efforts towards meeting Sherritt's internal technical needs than it had in 1993. These efforts, combined with the sale of Rescan Environmental Services in 1993, resulted in a decline in revenue and earnings from outside sources compared to 1993. Engineering and Consulting provided extensive technical assistance prior to the formation of the new metals enterprise with General Nickel Company S.A.

Several important external activities occurred during 1994 which illustrate world recognition of Sherritt technology. Engineering and Consulting assisted other companies in setting up three commercial plants on three different continents by licensing Sherritt's proprietary metallurgical technology and by providing technical assistance. In 1994 Sherritt signed a contract to provide technology for a base metal refinery for Stillwater Mining Company in the United States. Outokumpu Oy, a large Finnish base metal producer, started construction on the expansion of its nickel refinery, which will utilize Sherritt's hydrogen reduction process. Engineering and Consulting also provided technical assistance to Bindura Nickel Corporation of Zimbabwe to improve recovery rates for nickel and platinum in its pressure leaching plant.

Anti-coking coatings for industrial sized tubing are a Westaim innovation that has attracted the interest of the furnace engineering business.

Westaim: Research and Development

Westaim, a wholly-owned subsidiary of Sherritt Inc., is dedicated to the development of advanced industrial materials businesses. Presently all Westaim projects fall within seven major research and development programs: Applied Research (where preliminary development is carried out), Powders, Electronics Materials, Ceramics, Coatings, Biomedical and Composite Materials.

Powders: Among Westaim's early commercial successes are the development of ultrafine cobalt powders for composite materials and cutting tools, and spherical nickel hydroxide for rechargeable batteries. These products have been transferred to Sherritt's Specialty Materials business for commercialization.

Ceramic Electronic Substrates: The trend towards miniaturization in the electronics industry is driving the need for better ways of removing heat from electronic devices. This U.S. $2 billion per year market is currently dominated by aluminum oxide substrates, but Westaim has developed a new technology to manufacture aluminum nitride substrates, which have a much higher thermal conductivity.

Anti-Coking Coatings: Ethylene generating furnaces experience downtime every year, costing an estimated U.S. $2 billion, due to problems related to coke formation in their tubing. Westaim has solved the problem of applying effective anti-coking coatings to the insides of industrial sized tubing, which can substantially reduce coking and associated downtime. Test results demonstrate superior coatings for ethylene pyrolysis applications. An alliance was recently formed with a major furnace engineering company in order to develop this technology for commercial application.

Ceramic Cutting Tools: Ceramic cutting tools are a U.S. $300 million per year market. Westaim has developed a new generation of ceramic cutting tools that retain their cutting edge much longer than conventional ceramic tools. Prototype tools used by customers have confirmed their outstanding performance features during actual use.

Electroluminescent Display Panels: The commercial market for electroluminescent (EL) flat panel display products is expected to reach U.S. $25 billion per year by the year 2000. Westaim has developed a new type of EL flat panel which features outstanding image quality and brightness, with no sensitivity to viewing angle, and a thin screen that is both robust and efficient in its use of electricity. Development of Westaim phosphor technology for full colour EL panels is planned.

Anti-Microbial Coatings: Every year in North America infections developed during medical treatment cause approximately 90,000 deaths and cost the health care system over U.S. $12 billion. Westaim has developed novel anti-microbial noble metal coatings which can be applied to the surface of medical devices and materials and be made to dissolve more slowly than conventional coatings, releasing anti-microbial agents that work over longer periods to prevent bacterial build up. Coatings for burn dressings have been targeted as initial products for this technology.

SHERRITT

Environmental Protection and Occupational Health and Safety

Programs: Sherritt's board of directors maintains an active committee to oversee the Company's environmental, health and safety activities. In addition Sherritt's Environment, Health and Safety Department provides functional leadership in these areas for all of the Company's business activities. The Department works with line managers to promote awareness of and compliance with Company policy. In 1994 Sherritt increased the resources dedicated to its environment, health and safety responsibilities to reflect the impact of the addition of the Redwater plant.

Environmental Protection Program: Sherritt continued to meet all established environmental standards in 1994. The Company spent approximately $1.0 million in 1994, before certain recoveries, for environmental items for work associated with soil remediation, groundwater contamination and Fox Lake, Manitoba tailings treatment. Also in 1994, a net provision of $13.0 million was established for the Redwater plantsite. As of December 31, 1994 the total corporate site restoration provision was $53.3 million.

Sherritt submitted proposals to Alberta Environmental Protection relating to zero contaminant discharge to the North Saskatchewan River for both the Fort Saskatchewan and Redwater plantsites. The submissions are in connection with the governmental operating licence approval process. Both proposals involve a staged approach in reducing effluent flows and contaminant levels to ensure compliance with the expectation of increasingly stringent water quality standards. In 1994 construction was started on facilities designed to remove residual ammonia from the Fort Saskatchewan plant effluent.

Occupational Health and Safety: In 1994 the lost time injuries to Sherritt employees per 200,000 exposure hours remained constant with 1993 levels at 0.9. Although person days lost per 200,000 exposure hours increased to 18.1 in 1994 from 7.4 in 1993, the 1994 figure was the second best performance in the past six years. During 1994 Sherritt began to measure a third indicator of safety performance commonly used in industry, the total recordable injury index, which includes lost time injuries, restricted work cases and incidents classified as medical aids. In 1994 recordable injuries to Sherritt employees per 200,000 exposure hours were 2.96.

Consolidated

Sherritt recorded net earnings for the year ended December 31, 1994 of $80.0 million, or $1.30 per common share, compared to a net loss of $41.5 million, or $0.97 per common share for the previous year. These net earnings are the highest ever achieved in the Company's 67-year history. Earnings before interest, income taxes, depreciation, depletion, write-down of assets and provision for site restoration costs (EBITDA) in 1994 were $271.2 million compared with $74.7 million in 1993. Fertilizer earnings in 1994 improved significantly reflecting the impact of expanded fertilizer production capacity following the March 31, 1994 acquisition of the Redwater fertilizer assets combined with strengthening fertilizer demand and pricing in North America. The earnings of the Company's Oil and Gas business improved considerably over the loss incurred in the previous year and were mainly attributable to increased production volumes of oil combined with improved prices for oil and natural gas. Increased sales volumes and improved prices in the Metals business resulted in a marked turnaround from a year ago. The Company's increased financing costs resulted from the long-term debt financing incurred to consummate the acquisition of the fertilizer assets. The loss for 1993 included the effects of lower commodity prices which resulted in write-downs of $15.7 million (which is the same before and after tax) for oil and gas properties under the ceiling test for carrying costs of producing properties and $13.1 million ($7.3 million after tax) for nickel and cobalt inventory, plus a foreign exchange charge of $8.1 million ($6.4 million after tax) in connection with the refinancing of the Company's long-term debt early in 1993.

On March 31, 1994, Sherritt completed the purchase of the fertilizer production assets of Imperial Oil Limited, establishing the Company as the largest nitrogen and phosphate fertilizer producer in Canada and one of the largest nitrogen fertilizer producers in North America. The Company's consolidated financial statements include the results from operation of these facilities since that date.

On December 1, 1994, Sherritt and General Nickel Company S.A. of Cuba (GNC) created a jointly-controlled and vertically-integrated Combined Enterprise which mines, refines and markets nickel and cobalt on a world scale based on long life ore reserves. The Company's consolidated financial statements include Sherritt's 100% ownership of its commodity metals refining business for eleven months and its 50% ownership of the Combined Enterprise for one month.

Total revenue in 1994 more than doubled to $920.8 million from $410.8 million in 1993. Revenue from Fertilizers more than tripled due to increased volumes from the acquisition of the Redwater fertilizer production facilities combined with improved prices. Oil and Gas revenues improved with increased volumes of oil production and higher oil and natural gas prices. Revenue in the Metals business improved significantly due to increased sales volumes combined with improved metals prices. Engineering and Consulting revenues were down, reflecting a lower level of external activity.

Operating costs in 1994 increased 89% to $610.3 million from $323.1 million in 1993 as a result of the significant increase in fertilizer sales volumes, the increase in nickel and cobalt sales volumes and feed costs associated with the higher nickel and cobalt prices, combined with the increased cost of natural gas for fertilizer production. Improved plant performance and productivity resulted in lower unit costs of production. Selling costs increased to $20.7 million in 1994 from $11.3 million in 1993 due to expansion of the fertilizer business plus the additional efforts directed toward specialty materials market growth. Depreciation and depletion charges in 1994 increased to $90.7 million from $84.1 million in 1993 because of the inclusion of the depreciation charges related to the acquired fertilizer assets combined with increased depreciation and depletion due to increased levels of oil production partially offset by a substantially higher ceiling test write-down included in 1993 depletion.

Research and development costs for 1994, net of government funding and other credits, amounted to $5.8 million, similar to 1993. Activities focused on the development of new or improved cobalt and nickel processes and products and technical and business development on all of the major projects in the Westaim initiative.

Corporate costs in 1994 were $11.2 million compared to $8.8 million in 1993. Expenses in 1994 included $3.3 million related to cash compensation paid to purchase share options of the Company that were surrendered for cancellation. Financing costs increased to $51.7 million in 1994 from $33.6 million in 1993 due to the interest costs on the additional $135 million 11% Notes due March 31, 2004 and U.S. $100 million 10 ½% Debentures due March 31, 2014, all issued in March 1994, and a one-time premium on redemption of the Company's Zero Coupon Convertible Subordinate Notes, partially offset by lower levels of operating loans. Financing costs for 1993 included a one-time foreign exchange loss of $8.1 million on repayment of U.S. denominated long-term debt.

Income taxes recorded in 1994 amounted to $46.8 million, an effective rate of 36.9% of the pre-tax earnings. Income taxes in 1993 showed a net recovery of $15.5 million, an effective rate of 27.3% of the pre-tax loss for that year. The effective tax rates are lower than Canadian basic statutory rates in part reflecting the use of unrecognized tax losses and tax pools acquired with Canada Northwest Energy Limited.

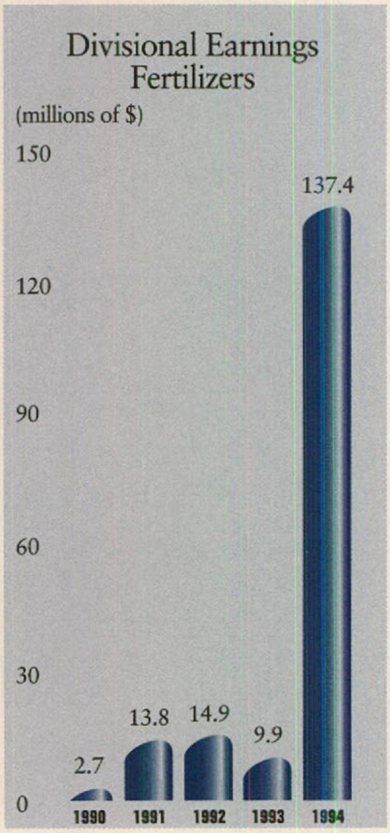
Operations

Sherritt Inc. is organized into four revenue generating business segments:

- Fertilizers – Fertilizers and Chemicals
- Oil and Gas
- Metals – Metals Refinery, until November 30, 1994; the Combined Enterprise from December 1, 1994; Specialty Materials; and Rolling Mill and Coinage
- Engineering and Consulting

Fertilizers

Fertilizers revenue in 1994 more than tripled to $518.2 million from $159.6 million in 1993 as a result of increased sales volumes and improved prices. Divisional earnings were $137.4 million in 1994 compared to $9.9 million in 1993 mainly due to the significant expansion of fertilizer production capacity following the acquisition of the Redwater fertilizer assets as of March 31, 1994 and improved plant performance in an environment of strengthening fertilizer demand and improved prices.

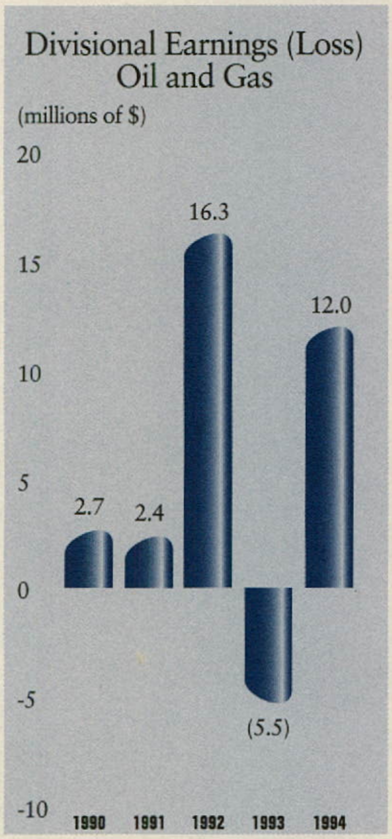


Results for 1994 include the operations of the Redwater fertilizer production facility for the period March 31 to December 31, 1994. The acquired fertilizer production facility consists primarily of an ammonia and urea plant and an ammonium phosphate plant having a combined annual capacity of 1.7 million tonnes. When added to Sherritt's Fort Saskatchewan operations, and with the early December re-start of the 220,000 tonne annual capacity Ammonia I plant at Redwater, which had been mothballed for several years, the combined operations have a production capacity in excess of 2.8 million tonnes of nitrogen and phosphate fertilizer annually.

Total fertilizer production for 1994 was 2,309,000 tonnes, more than two and a half times the 898,000 tonnes for the previous year. Fertilizer sales volumes in 1994 totaled 2,623,000 tonnes, a 188% increase over the 912,000 tonnes of 1993. Average product prices for

1994 were 24% higher than in 1993. This improvement was more than sufficient to offset the higher cost of natural gas. Production performance at both manufacturing sites, Redwater and Fort Saskatchewan, was excellent and contributed favourably to unit production costs.

Chemicals revenue in 1994 increased slightly to $15.8 million from $15.5 million in 1993. As a result of increased sales margins and continued cost control, earnings from this unit improved.



Oil and Gas

Revenues for the Oil and Gas business for 1994 increased 22% to $75.1 million from $61.6 million in 1993 after elimination of interdivisional sales of gas. Increased oil production and higher prices for both oil and natural gas more than offset the impact of reduced natural gas production. The Oil and Gas business recorded divisional earnings of $12.0 million in 1994, a considerable improvement over the operating loss of $5.5 million in 1993. Results for 1993 were adversely affected by the $15.7 million ceiling test write-down to carrying costs of producing oil and gas properties whereas the ceiling test write-down in 1994 was $1.7 million.

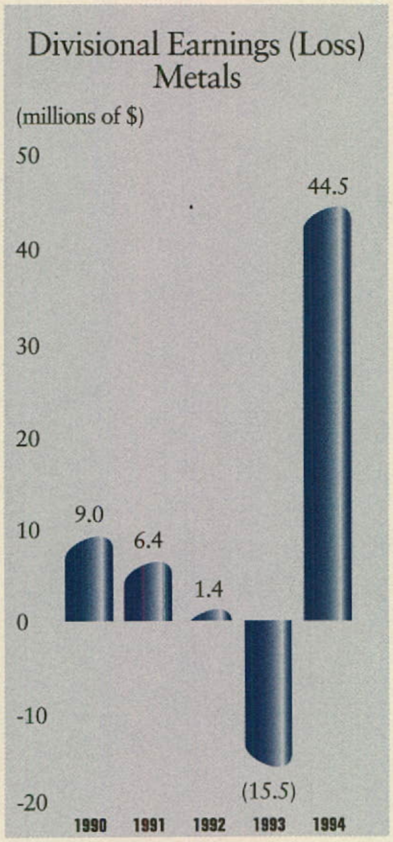
In 1994, the Company's oil and gas production in Canada, Spain, Italy and Cuba totaled an average 9,952 barrels of oil per day compared to an average 8,355 barrels per day for 1993. Production of natural gas, principally in Canada, averaged approximately 43 million cubic feet per day in 1994 compared to 50 million cubic feet per day in the previous year.

At December 31, 1994, the Company acquired the interests of its Canadian partner in three exploration blocks in Cuba and an incremental production sharing agreement in Cuba with working interests ranging from 15 to 40%.

Metals

Metals revenue in 1994 increased 76% to $322.9 million from $183.9 million in 1993. The Metals business recorded divisional earnings of $44.5 million in 1994, a major improvement from the divisional loss of $15.5 million recorded in 1993. Metals results reflect Sherritt's 100% ownership of the commodity metals refining business for 11 months of 1994 and its 50% share of the new nickel and cobalt Combined Enterprise for the month of December, 1994. Higher production and sales volumes of nickel, record production and sales volumes of cobalt, lower unit operating costs, higher nickel and cobalt prices and a weaker Canadian dollar contributed to the significant improvement in 1994 earnings. The 1993 operating loss included inventory write-downs of $13.1 million as a result of significantly lower nickel and cobalt prices.

Sherritt's share of nickel production in 1994 increased 11% to 44.7 million pounds from 40.4 million pounds in 1993. Production levels and unit production costs benefited from completion of the refinery expansion project which increased annual nameplate capacity to 55 million pounds of nickel and 4.5 million pounds of cobalt.



The average nickel price realization in 1994 was $3.84 per pound compared to $3.06 per pound in 1993. The cost of nickel feed, which, in certain supply contracts, is related to the selling price of finished nickel, was higher than in the previous year. The costs of operating the refinery, other than feed, are largely fixed so improved production volumes resulted in lower unit refining costs in 1994 than in 1993.

The cobalt refinery achieved record total production of just over 4 million pounds in 1994. Sherritt's share of cobalt production in 1994 increased 44% to a record 3.9 million pounds from 2.7 million pounds in 1993. The average price realized from customer sales of cobalt in 1994 increased to $25.89 per pound from $16.98 in 1993, which resulted in a corresponding increase in the cost of cobalt feed.

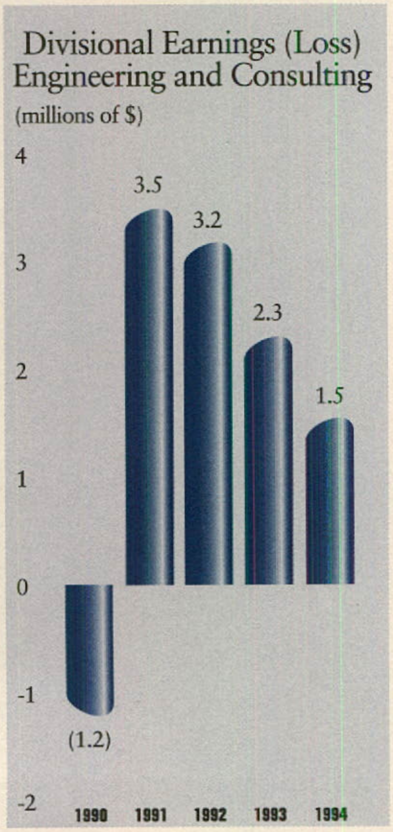
Specialty Materials is now included in the reported results of the Metals division, in line with the Company's strategy to expand the production and sale of value-added cobalt and nickel products. Specialty Materials earnings for 1994 improved significantly primarily due to the twelve-fold increase in sales of Sherritt's new specialty powders introduced in 1992 and 1993, reflecting the growing market demand for these new products. Sales revenue of the Specialty Materials unit increased by 121% in 1994 to $38.6 million from $17.5 million in 1993.

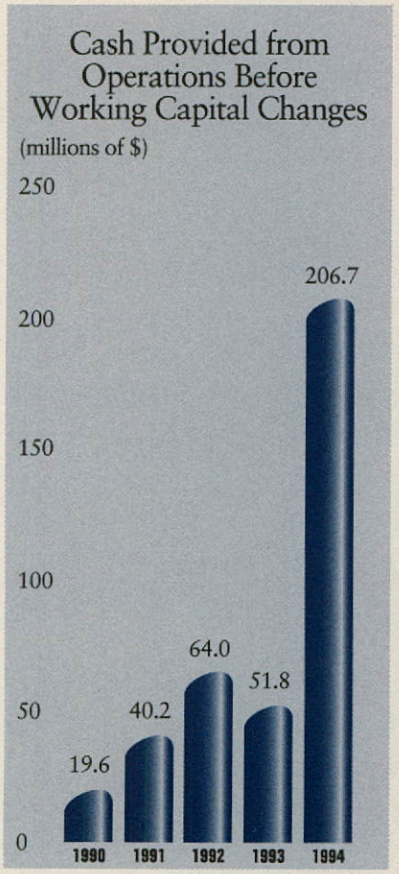
Lower sales volumes due to increased competition and reduced prices, net of metals values, resulted in decreased earnings in the Rolling Mill and Coinage business in 1994. Revenue from the Rolling Mill and Coinage business was $30.4 million in 1994, compared to $28.2 million in 1993.

The formation of the new nickel and cobalt Combined Enterprise with GNC should enhance the Company's long-term participation in the commodity metals business. The new business began operations on December 1, 1994 and will be one of the most efficient, low-cost producers of refined nickel and cobalt in the world. The Company and GNC have agreed that they will strive to have the Combined Enterprise mining and processing facility in Cuba attain an annual production capacity of 24,000 tonnes of contained nickel plus cobalt in sulphides by the year 2000. The Company and GNC estimate that attainment of this production profile will require capital investment by the Combined Enterprise of approximately U.S. $124 million over that period. The business has up to a 50-year supply of nickel and cobalt reserves.

Engineering and Consulting

Engineering and Consulting revenues declined by 19% to $4.6 million in 1994 from $5.7 million in 1993. Divisional earnings were $1.5 million for 1994, down from $2.3 million for 1993, reflecting a lower level of licensing and external activity.





Liquidity and Capital Resources

At December 31, 1994, the Company had cash and short-term investments of $128.6 million, a net improvement of $134.8 million compared to net borrowings of $6.2 million at December 31, 1993.

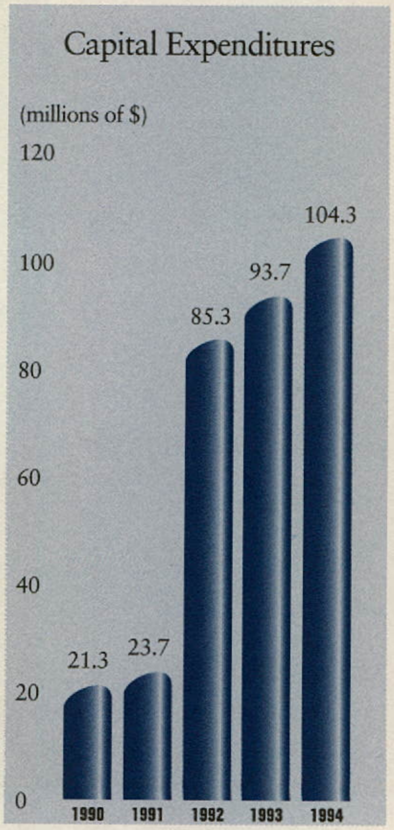
Cash provided from operations before working capital changes amounted to $206.7 million in 1994 compared to $51.8 million in 1993.

Capital expenditures in 1994 were $104.3 million compared to $93.7 million in 1993. Expenditures in 1994 included $14.0 million on acquiring a partner's interests in Cuban oil ventures, $57.5 million on other oil and gas property and equipment, $5.6 million on the restart of the 220,000 tonne annual capacity Ammonia I plant at Redwater, $4.0 million on an expansion of controlled-release fertilizer production capacity, $2.5 million on completion of the nickel and cobalt refinery upgrade and $20.7 million for projects to maintain the effective operation of the Company's facilities.

The increase in investments and deferred charges during 1994 was $13.4 million, compared to $4.0 million during 1993. Changes in 1994 included $7.9 million for a 25% indirect interest in a hospitality enterprise and $7.9 million of deferred issue costs on the 11% Notes due March 31, 2004 and the 10½% Debentures due March 31, 2014.

In February 1994, 18.5 million common shares were issued for a total consideration of $197.9 million, net of issue expenses, which was utilized to pay a portion of the acquisition cost of the Redwater fertilizer assets. In September 1994, all the outstanding Zero Coupon Convertible Subordinate Notes with a face value of $264.5 million and a book value of $58.6 million were redeemed by the Company for 5.4 million common shares of the Company. During the year, an additional 404,624 common shares were issued for a total consideration of $2.9 million pursuant to employee and directors' stock option, share purchase and incentive savings plans.

In March 1994, the Company issued $135 million 11% Notes, due March 31, 2004 and U.S. $100 million 10 ½% Debentures, due March 31, 2014, with the proceeds being used to complete the acquisition of the Redwater fertilizer production facilities. Long-term debt repayments in 1994 amounted to $1.1 million compared to $145.2 million in 1993. Total long-term debt outstanding at December 31, 1994 amounted to $532.7 million compared to $257.1 million at the end of 1993.



The Company has lines of credit available that are limited to the lesser of $125.0 million and percentages of eligible receivables and inventories which are pledged as collateral for any loan under these facilities. As at December 31, 1994, there were no drawdowns under these available lines of credit.

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

Dividends

The Company did not pay dividends in either 1994 or 1993 and has a policy of retaining its cash reserves to finance capital projects and business growth.

Risk and Uncertainties

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

The Company is a limited user of derivative instruments. Nickel, oil and natural gas options, futures and forward contracts are traded Over the Counter with counterparties under terms governed by New York Mercantile Exchange (NYMEX) and London Metal Exchange (LME) policies. Settlements are based on NYMEX and LME prices, unless other prices are negotiated. All dealings are conducted on the basis of unsecured lines of credit extended through counterparties which total U.S. $10.5 million. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to these contracts, but it assesses and monitors credit ratings of these counterparties and does not expect any of them to fail to meet their obligations.

To a limited extent and from time to time, trading positions are taken on nickel, oil and natural gas prices through the use of options, futures and forward contracts. Premiums on option contracts purchased are carried at the lower of cost and market and unrealized gains and losses are provided for on futures and forward contracts. Net trading gains and losses on these contracts are included in earnings. From time to time, the Company hedges its exposure to contracted nickel, oil and natural gas sales, raw materials purchases, certain produced inventory and foreign currency fluctuations through options, futures and forward contracts. These contracts are not recorded until the related hedged positions are settled, at which time, gains and losses on these contracts are recognized in earnings.

Sensitivities

The Company's operating results are affected by many factors. Based on 1994 results, the approximate sensitivity to fluctuations in prices for certain of the Company's products, the cost of natural gas, and the U.S./Canadian currency exchange rate are reflected in the following table.

Factor	Change to Factor	Approximate Change Cash Flow	Approximate Change Net Earnings
		(millions of dollars)	
Fertilizers			
Wholesale price of ammonia	$5.00 per tonne	$1.9	$1.2
Wholesale price of urea	$5.00 per tonne	4.5	2.7
Wholesale price of ammonium phosphate	$5.00 per tonne	2.7	1.6
Cost of natural gas consumed	$0.10 per gigajoule	5.0	3.1
Metals			
LME price of nickel	$1.00 per pound	8.2	5.7
Metal Bulletin price of cobalt	$1.00 per pound	1.1	0.8
Oil and Gas			
Price of West Texas Intermediate oil	U.S. $1.00 per barrel	3.4	3.4
NYMEX price of natural gas sold	$0.10 per gigajoule	1.3	1.3
Exchange Rate			
U.S. to Cdn. $	$0.01	1.9	1.4

MANAGEMENT REPORT

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

M.G. McKibbin

Michael G. McKibbin
Senior Vice President, Finance, and Chief Financial Officer
February 7, 1995

AUDITORS' REPORT

To the Shareholders of Sherritt Inc.

We have examined the consolidated balance sheets of SHERRITT INC. as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche, Chartered Accountants
Edmonton, Canada
February 7, 1995

SHERRITT INC. CONSOLIDATED BALANCE SHEETS

December 31 *(thousands of dollars)*	1994	1993
ASSETS		
Current		
Cash and short-term investments	$ 128,553	$ 67,834
Accounts receivable	226,924	98,666
Inventories *(note 5)*	214,778	135,836
Prepaid expenses	21,035	8,403
	591,290	310,739
Fixed assets *(note 6)*	891,072	545,574
Investments and deferred charges *(note 7)*	45,673	28,881
	$1,528,035	$ 885,194

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *(note 8)*	$ –	$ 74,015
Accounts payable	186,690	84,637
Current portion of long-term debt *(note 9)*	–	1,693
	186,690	160,345
Long-term debt *(note 9)*	532,697	255,413
Provision for site restoration and abandonment *(note 10)*	53,288	33,388
Deferred income taxes *(note 11)*	102,106	70,528
Convertible subordinated notes *(note 12)*	–	55,311
Minority interest in partnership *(note 2)*	14,150	14,145
	888,931	589,130
Shareholders' equity		
Capital stock *(note 13)*	478,026	214,962
Contributed surplus	71,168	71,168
Retained earnings	89,910	9,934
	639,104	296,064
	$1,528,035	$ 885,194

Approved on behalf of the Board

I. W. Delaney

Ian W. Delaney
Director

Daniel P. Owen

Daniel P. Owen
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years Ended December 31 *(thousands of dollars)*	1994	1993
Revenue	$ 920,806	$ 410,796
Costs		
Operating	610,286	323,093
Depreciation and depletion	90,726	84,056
Selling	20,743	11,271
Provision for site restoration and abandonment *(note 10)*	3,602	1,150
Divisional earnings (loss)	195,449	(8,774)
Expenses		
Research and development	5,766	5,775
Corporate	11,164	8,848
Financing *(note 9)*	51,720	33,604
Earnings (loss) before income taxes	126,799	(57,001)
Income taxes (recovered) *(note 11)*	46,823	(15,540)
Net earnings (loss)	$ 79,976	$ (41,461)
Earnings (loss) per common share		
Basic	$ 1.30	$ (0.97)
Fully diluted	$ 1.07	$ (0.97)
Weighted average number of shares outstanding (thousands)	61,686	42,765

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31 *(thousands of dollars)*	1994	1993
Balance at beginning of year	$ 9,934	$ 51,395
Net earnings (loss)	79,976	(41,461)
Balance at end of year	$ 89,910	$ 9,934

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31 *(thousands of dollars)*	1994	1993
Operating activities		
Net earnings (loss)	$ 79,976	$ (41,461)
Items not affecting cash		
Depreciation and depletion	90,726	84,056
Deferred income taxes	32,562	(14,035)
Provision for site restoration and abandonment	3,602	1,150
Interest on convertible subordinated notes	3,334	4,663
(Recovery of) provision for nickel inventory write-down	(8,980)	8,980
Other items	5,477	8,425
Cash provided before working capital changes	206,697	51,778
(Increase) decrease in non-cash working capital		
Accounts receivable	(101,309)	(2,424)
Inventories	2,723	(9,297)
Prepaid expenses	(12,548)	(1,768)
Accounts payable	92,695	(15,652)
Purchase of fertilizer working capital *(note 3)*	(107,930)	–
	(126,369)	(29,141)
Cash provided from operating activities	80,328	22,637
Investing activities		
Acquisition of fertilizer assets *(note 3)*	(295,821)	–
Acquisition of metals joint venture assets *(note 4)*	(464)	–
Sales of assets	–	2,401
Capital expenditures	(104,292)	(93,670)
Investments and deferred charges	(13,392)	(4,039)
Cash used for investing activities	(413,969)	(95,308)
Financing activities		
Issues of common shares	259,177	4,253
Conversion and redemption of subordinated notes *(note 13)*	(62,239)	(9)
Increase in long-term debt	272,552	251,820
Repayment of long-term debt	(1,115)	(145,151)
Cash provided from financing activities	468,375	110,913
Cash increase	134,734	38,242
Net bank indebtedness at beginning of year	(6,181)	(44,423)
Net cash (bank indebtedness) at end of year	$ 128,553	$ (6,181)

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

(all dollar amounts expressed in thousands of dollars except per share data)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Sherritt Inc., Sherritt Fertilizers Limited, Westaim Technologies Inc., Canada Northwest Energy Limited (CNW), and Sherritt's proportionate interest in the accounts of the metals joint venture (note 4).

(b) Translation of foreign currencies

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

(c) Inventory valuation

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

(d) Fixed assets

i) *Capitalization:*

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

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

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

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

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

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

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

Fertilizer, metals and technologies facilities – on the straight-line method based on estimated useful lives of up to twenty years.

Oil and gas properties and equipment – on the unit of production method based on the energy equivalent of gross proved reserves as determined by outside consultants for the respective producing cost centres. The Company includes twenty percent of the remaining balance of unproved properties in the costs subject to depletion each year.

Mine reserves – amortized over the estimated productive life of the mine using the unit of production basis.

(e) Site restoration and abandonment costs

Site restoration and abandonment costs are provided for when reasonably determinable by a systematic charge to earnings. The Company has an engineering approach to developing specific site restoration and abandonment plans and continues to review obligations which could result from new environmental regulations.

(f) Derivative financial instruments

Prices for nickel, oil and natural gas are hedged using nickel, oil and natural gas options, futures and forward contracts. These contracts are not recorded until the related production is sold or the sale is recognized, at which time gains and losses on these contracts are applied to offset revenues actually realized on the production or sale. Foreign currency fluctuations are hedged using foreign currency forward contracts. The gain or loss on these contracts is recognized when hedged positions are settled.

Trading positions are taken on nickel, oil and natural gas prices through the use of options, futures and forward contracts. Premiums on option contracts purchased are carried at lower of cost and market, and unrealized gains and losses are provided for on futures and forward contracts.

2 SHERRITT-UNOCAL OIL AND GAS PARTNERSHIP

The Company holds an 89% interest in a partnership with Unocal Canada Limited ("Unocal") that owns and operates oil and gas properties. The minority partner's share of earnings of the partnership for the year ended December 31, 1994 amounted to $1,185 (1993: $1,348).

3 FERTILIZER ASSET ACQUISITION

On March 31, 1994, the Company purchased Imperial Oil Limited's fertilizer production assets and assumed certain related liabilities for total consideration of $403,751. The assets acquired consist of production plants in Redwater, Alberta; distribution terminals in Bloom, Manitoba and Clavet, Saskatchewan; a 10% equity interest in Neptune Bulk Terminals (Canada) Ltd. which operates a salt-water shipping terminal in Vancouver, British Columbia; and the manufacturing facilities of Cascade Fertilizers (1990) Limited located in Alberta and British Columbia.

The net assets acquired at assigned values were:

Fixed assets	$ 305,421
Investment	3,400
Provision for site restoration and abandonment	(13,000)
	295,821
Working capital	107,930
Cash consideration given	$ 403,751

The following unaudited proforma financial information for 1994 gives effect to the acquisition as if the acquisition had occurred on January 1, 1994:

Revenue	$ 979,906
Net earnings	$ 73,935
Earnings per share	$ 1.20

4 METALS JOINT VENTURE

On December 1, 1994, the Company entered into an agreement with General Nickel Company S.A. of Cuba (GNC), to establish a jointly-controlled combined enterprise (Combined Enterprise) to mine, refine and market commodity nickel and cobalt. The Combined Enterprise is owned 50% by Sherritt and 50% by GNC or their wholly-owned subsidiaries.

The Combined Enterprise owns and operates a mine, ore reserves and associated processing facilities in Cuba which produce mixed sulphides containing nickel and cobalt and owns and operates a facility at Fort Saskatchewan, Alberta that refines nickel and cobalt and produces ammonium sulphate. The Combined Enterprise also markets commodity nickel and cobalt. Operations commenced on December 1, 1994.

The Company transferred net assets to the Combined Enterprise in exchange for its interest therein as follows:

Proportionate share of net assets acquired at assigned values	
Fixed assets	$ 61,357
Working capital	2,229
Provision for site restoration	(6,253)
	57,333
Less Sherritt's proportionate share of net assets transferred at net book values	
Fixed assets	36,042
Working capital	23,416
Provision for site restoration	(2,589)
	56,869
Cash consideration paid by Sherritt	$ 464

The Company's proportionate share of assets and liabilities as at December 31, 1994, and revenues, expenses and cash flows for the one month period then ended were as follows:

Consolidated Balance Sheet	
Current assets	$ 54,840
Fixed assets	93,752
Current liabilities	24,471
Long-term liabilities	9,117
Consolidated Statement of Earnings	
Revenues	$ 8,868
Expenses	8,530
Net earnings	338
Consolidated Statement of Changes in Financial Position	
Cash used by operating activities	$ 1,108
Cash used for investing activities	321
Cash provided from financing activities	464

5 INVENTORIES

	1994	1993
Fertilizers	$ 43,673	$ 21,588
Refined metals products	76,134	30,193
Raw materials and materials in process	45,060	62,077
Operating supplies	49,911	21,978
	$ 214,778	$ 135,836

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

6 FIXED ASSETS

1994	Cost	Accumulated depreciation and depletion	Net book value
Fertilizers	$ 805,061	$290,718	$514,343
Oil and Gas	391,945	149,790	242,155
Metals	124,540	38,029	86,511
Mine reserves	36,203	83	36,120
Engineering and Consulting	20,624	8,681	11,943
	$1,378,373	$487,301	$891,072

1993	Cost	Accumulated depreciation and depletion	Net book value
Fertilizers	$481,425	$255,981	$225,444
Oil and Gas	320,454	105,687	214,767
Metals	149,336	56,313	93,023
Engineering and Consulting	19,073	6,733	12,340
	$970,288	$424,714	$545,574

Net expenditures in the unproved and preproduction stage oil and gas cost centres amounted to $51,438 as at December 31, 1994 (1993: $39,034). These amounts are not subject to depreciation and depletion.

The Company's application of the ceiling test at December 31, 1994, using an average price realized by the Company during the year for uncontracted natural gas volumes and an average price realized during a period in January 1995 for oil, resulted in a write-down of $1,715 to carrying costs of producing oil and gas properties. The write-down was recorded as an increase in depreciation and depletion. If the ceiling test were applied using year-end prices for uncontracted volumes, the write-down would have been $34,197. At December 31, 1993, the ceiling test application resulted in a write-down of $15,663.

7 INVESTMENTS AND DEFERRED CHARGES

	1994	1993
Deferred charges – long-term notes *(a)*	$13,320	$ 6,619
Limited recourse promissory note *(b)*	11,935	11,935
Cubacanarias S.A. *(c)*	7,900	–
Investment in Neptune Bulk Terminals (Canada) Ltd. *(note 3)*	3,400	–
Fertilizer dealer loans	2,971	2,957
Other investments and advances	6,147	5,597
Investments in and advances to Albchem Industries Ltd. *(d)*	–	1,773
	$45,673	$ 28,881

(a) The deferred charges represent issue costs related to the 9¾% and 11% Notes and the 10½% Debentures (note 9) and are being amortized over the terms of these Notes and Debentures.

(b) The limited recourse promissory note bears interest at 12% per annum and is secured by Unocal's minority interest in the oil and gas partnership (note 2). Interest and principal amounts are due and payable upon the distribution of cash on account of Unocal's interest in the partnership.

(c) The Company has a 25% indirect interest in a hospitality enterprise managed by Cubacanarias S.A. which is accounted for using the equity method. A loss of $100 for the year ended December 31, 1994 was included in operating costs.

(d) The Albchem note receivable was repaid May 1, 1994.

8 BANK INDEBTEDNESS

Bank indebtedness is comprised of operating loans of nil (1993: $74,015) which are secured by pledges of inventories and receivables.

9 LONG-TERM DEBT

	1994	1993
9¾ % Notes (a)		
1994: U.S. $200,000 (1993: U.S. $200,000)	$ 280,360	$ 264,340
11% Notes (b)	135,000	–
10½ % Debentures (b)		
1994: U.S. $100,000	140,180	–
Other loans	3,232	4,347
Unrealized foreign exchange loss	(26,075)	(11,581)
	532,697	257,106
Deduct portion due within one year	–	1,693
	$ 532,697	$ 255,413

(a) 9 ¾% Notes

On April 1, 1993, the Company sold U.S. $200,000 9¾% Notes due April 1, 2003, resulting in net proceeds of $244,687 after deduction of issue costs of $7,133. A portion of the proceeds was used to repay the fertilizer project loan, the revolving term credit facility and certain bank indebtedness.

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

The Notes are unsecured obligations of the Company. The Notes' indenture contains certain quarterly covenants dealing with the Company's consolidated cash flow and interest coverage. These covenants were met in 1994.

(b) 11% Notes, 10½ % Debentures

On March 31, 1994, the Company sold $135,000, 11% Notes due March 31, 2004 and U.S. $100,000, 10½% Debentures due March 31, 2014, resulting in net proceeds of $264,688 after deduction of issue costs of $7,864.

Interest is payable on September 30 and March 31 of each year, commencing September 30, 1994. The Notes and Debentures are redeemable at the option of the Company, in whole or in part, at any time on or after March 31, 1999 and March 31, 2004 respectively, at specified redemption prices plus accrued interest.

The Notes and Debentures are unsecured obligations of the Company. The indentures relating to the Notes and Debentures contain certain quarterly covenants dealing with the Company's consolidated cash flow and interest coverage. These covenants were met in 1994.

(c) Financing

Financing expense for the year consisted of the following:

	1994	1993
Interest expense		
– short-term	$ 475	$ 3,807
– long-term	58,237	27,891
Less capitalized interest	(514)	(566)
	58,198	31,132
Foreign exchange losses	3,658	13,034
Interest income and other	(10,136)	(10,562)
	$ 51,720	$ 33,604

Foreign exchange losses for 1993 include a loss of $8,140 relating to the lump sum repayment on April 6, 1993 of the fertilizer project loan and the revolving term credit facility (note 9(a)).

10 PROVISION FOR SITE RESTORATION AND ABANDONMENT

Changes in the provision were as follows:

	1994	1993
Provision at beginning of year	$ 33,388	$ 34,393
Additional provisions required and charged against earnings	3,602	1,150
Site restoration expenditures incurred and charged against the provision, net of recoveries	(366)	(2,155)
Net site restoration and abandonment liability assumed on acquisitions *(notes 3 and 4)*	16,664	–
Provision at end of year	$ 53,288	$ 33,388

11 INCOME TAXES

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

	1994	1993
Earnings before income taxes	$ 126,799	$ (57,001)
Add: losses in subsidiaries not tax effected	1,093	15,889
	$ 127,892	$ (41,112)
Income tax at the combined basic rate of 44.4%	$ 56,798	$ (18,254)
Increase (decrease) in taxes resulting from:		
Large corporation and other taxes	3,205	1,562
Manufacturing and processing tax credit	(6,799)	–
Resource allowance and earned depletion	(7,768)	(2,634)
Non-deductible depreciation, depletion and crown charges	3,871	3,642
Utilization of acquired tax losses and pools	(3,681)	(1,695)
Difference between Canadian and foreign tax rates	(518)	(261)
Other items	1,715	2,100
Income taxes (recovered)	$ 46,823	$ (15,540)

At December 31, 1994, the Company's subsidiaries have timing differences and tax losses carried forward from predecessor entities that approximate $82,000 (1993: $80,000). Due to the differing tax laws under which the subsidiaries operate, the timing, ability to utilize and expiry of these items vary. Timing differences consist of oil and gas tax pools in excess of book values. No recognition has been given in these financial statements to any future benefit to be derived from these timing differences and losses carried forward.

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

12 CONVERTIBLE SUBORDINATED NOTES

The Zero Coupon Convertible Subordinated Notes due 2011 were convertible into common shares of the Company at any time before maturity, at a rate of 19.29 shares for each one thousand dollars of face value of the Notes. On September 1, 1994, all the outstanding Notes were redeemed through the issuance of 5,399,254 common shares of the Company (note 13 (b)). A premium on redemption amounting to $3,594 was expensed in the year.

The Notes accrued interest at a nominal 9% annual rate, compounded semi-annually. At maturity, the Notes redeemed would have represented an obligation of $264,492.

	Face Value		Book Value	
	1994	1993	1994	1993
Balance at beginning of year	$ 264,737	$264,783	$ 55,311	$50,657
Converted to common shares	(245)	(46)	(42)	(9)
Interest accrued for the year	–	–	3,334	4,663
Redeemed September 1, 1994	(264,492)	–	(58,603)	–
Balance at end of year	$ –	$264,737	$ –	$55,311

13 CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of common shares and 4,375,000 preferred shares, all without par value. There were no preferred shares outstanding at December 31, 1994 and 1993. Changes in the Company's common shares outstanding during 1994 and 1993 are as follows:

	Number		Stated Capital	
Common Shares	1994	1993	1994	1993
Balance at beginning of year	43,271,249	42,624,557	$213,136	$208,883
Public issue *(a)*	18,500,000	–	197,907	–
Conversion of Subordinate Notes *(b)*	4,724	887	42	9
Redemption of Subordinate Notes *(b)*	5,399,254	–	62,197	–
Employee and Director Stock Options, Share Purchase Plan and Other *(c)*	382,190	627,110	2,637	4,098
Incentive Savings Plan *(d)*	22,434	18,695	281	146
Balance at end of year	67,579,851	43,271,249	476,200	213,136
Warrants	3,750,000	3,750,000	1,826	1,826
			$478,026	$214,962

(a) In February 1994, the Company completed an issue of 18.5 million of its common shares at $11.00 per share. Net proceeds to the Company of $197,907 were utilized to pay a portion of the acquisition cost of the Redwater fertilizer assets (note 3). Expenses of the share issue, net of deferred income taxes of $3,887, amounted to $5,593.

(b) Conversion and redemption of Subordinated Notes – During the year ended December 31, 1994, holders of $245 face value Subordinated Notes converted their holdings into 4,724 common shares of the Company (1993: $46 face value Subordinated Notes for 887 shares). In addition, the remaining $264,492 face value Subordinated Notes were redeemed through the issuance of 5,399,254 common shares of the Company on September 1, 1994 (note 12).

(c) Employee and Director Stock Option Plans – Options to purchase an aggregate of 3,050,775 common shares of the Company at an average price of $8.59 per share were outstanding at December 31, 1994 (1993: 3,098,550 shares at $7.31 per share). During the year ended December 31, 1994, options on 352,325 shares were exercised at an average price of $6.73 per share (1993: 580,250 shares at $6.45 per share) and options to purchase 450,000 shares of the Company at a price of $6.125 per share were surrendered for cancellation in return for cash compensation of $3,319 which is included in corporate expenses. In addition, the Company has granted options on 35,747 common shares in substitution of outstanding options on common shares of CNW at prices which result in the same aggregate consideration payable by the optionees as would have been payable on the exercise of the CNW options averaging $196.00 per Company share. The outstanding stock options are exercisable up to various dates to 2005.

Employee Share Purchase Plan – Under the Employee Share Purchase Plan, employees with one year of service are entitled to subscribe for common shares of the Company, to a maximum value of five percent of their annual compensation. Payment for these shares may be made over a 24 month period at a price per share equal to the lesser of the average market price on the offering dates (June 21, 1994 and June 21, 1993) and the average market price on the completion dates of purchase. At December 31, 1994, there were outstanding purchase arrangements with employees having an aggregate value of $1,389 (1993: $244). During the year ended December 31, 1994, 29,865 shares were issued under this plan at an average price of $8.90 per share (1993: 46,860 shares at $7.58 per share).

(d) Incentive Savings Plan – During the year ended December 31, 1994, 22,434 shares were issued under this plan at an average price of $12.51 per share (1993: 18,695 shares at $7.83 per share).

(e) Other – During the year ended December 31, 1994, the Company purchased 4,540 of its common shares on the open market (1993: 5,155) for distribution to fertilizer dealers under a dealer incentive program.

(f) Shareholder Rights Plan – The Company has a Shareholder Rights Plan which provides for the issue of one right for each outstanding common share of the Company at an exercise price of $41.00. The rights expire on November 23, 1999 unless exchanged or redeemed on an earlier date. Such rights can only be exercised on the occurrence of certain triggering events, which include (i) a person (an "Acquiring Person") acquiring 20% or more of the common shares of the Company (except through a permitted bid or certain other limited exceptions) or (ii) the Company merging or amalgamating with or into any other person (other than a wholly-owned subsidiary) or (iii) the Company or one or more of its subsidiaries selling or transferring more than 50% of the Company's assets to another person. Upon the occurrence of the events described above, each right entitles the holder, other than an Acquiring Person, to purchase that number of common shares of the Company or other person, as the case may be, having an aggregate market price equal to twice the exercise price, for an amount in cash equal to the exercise price. The Plan was confirmed by shareholders at the Annual Meeting held April 19, 1990 and may be reconfirmed by shareholders after five years. It is not the Company's current intention to ask the shareholders to reconfirm the Plan.

14 PENSION PLANS

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

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

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

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

	1994	1993
Defined Benefits Plans		
Service cost of pension benefits earned	$ 689	$ 686
Interest cost on benefit obligation	1,987	1,876
Interest on plan assets	(1,898)	(1,766)
Other	41	(46)
	819	750
Defined Contribution Plans		
Accrued and paid during the year	3,424	2,496
	$ 4,243	$ 3,246

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

	1994	1993
Plan assets at market value	$ 26,515	$ 26,372
Actuarial present value of benefit obligation	(27,861)	(25,291)
Excess (deficiency) of plan assets over benefit obligations	(1,346)	1,081
Pension asset (liability) recognized	(32)	148
Unrecognized pension asset (liability)	$ (1,314)	$ 933

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

The actuarial determinations for the defined benefit plans were based on discount rates of 8%, expected long-term rates of return on plan assets of 8%, and rates of increase in future compensation levels of 5.75%.

15 GOVERNMENT ASSISTANCE

Westaim Technologies Inc. (Westaim), a wholly-owned subsidiary of the Company, was organized to manage a $140,000 research and development program in advanced industrial materials over an initial five-year period ending in March 1995. This agreement was amended on February 7, 1995 to end March 31, 1996. The program is being funded by the governments of Canada and Alberta, the Company and industry partners.

The government funding, to a maximum of $70,000, is in the form of grants which may be repayable if program expenditures or funding from industry partners do not reach prescribed levels, or if Westaim's retained earnings exceed specified amounts. The program expenditures reached the prescribed levels by December 31, 1994. The future liability, if any, to repay amounts received from the Government of Alberta is secured by a charge on the fixed assets of Westaim. To December 31, 1994, the Company has received $56,167 of the government funding.

During the year ended December 31, 1994, Westaim has accounted for government funding totaling $8,276 (1993: $9,592) which has been applied to the cost of the related program expenditures and assets as follows:

	1994	1993
Fixed assets	$ 832	$ 2,361
Research and development costs	9,657	8,650
Receivable	(2,213)	(1,419)
Total funding	$ 8,276	$ 9,592

16 DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative transactions include hedging and trading of nickel, oil and natural gas options, futures and forward contracts. The Company from time to time also uses forward contracts to hedge its foreign currency exposures. Options are contracts which give the acquirer, for a fee, the right, but not the obligation, to buy or sell within a limited time a financial instrument or foreign currency at a contracted price that may be settled in cash. Futures and forward contracts are commitments to buy or sell, at a future date, a financial instrument or foreign currency at a contracted price, and may be settled in cash or through delivery.

The Company is a limited user of derivative instruments. Nickel, oil and natural gas options, futures and forward contracts are traded Over the Counter with counterparties under terms governed by New York Mercantile Exchange (NYMEX) and London Metal Exchange (LME) policies. Settlements are based on NYMEX and LME prices, unless other prices are negotiated. All dealings are conducted on the basis of unsecured lines of credit extended through counterparties which total U.S. $10,500. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to these contracts, but it assesses and monitors credit ratings of these counterparties and does not expect any counterparties to fail to meet their obligations. No loss arising out of credit risk has been incurred under these contracts to December 31, 1994.

Trading

Net trading gains on nickel, oil and natural gas derivatives included in earnings totaled $1,640 for the year ended December 31, 1994, and consisted of:

Nickel	$759
Oil	953
Natural gas	(72)

The market value of unrealized trading positions at December 31, 1994 approximates cost. The trading positions expire on varying dates to March 31, 1995 and are subject to price fluctuations until maturity or settlement. During the year ended December 31, 1994, the average value (based on quoted market values) of unrealized trading positions was a gain of $540.

Unrealized Positions at December 31, 1994	Notional Volume
Natural gas futures	900 million British thermal units
Oil futures	450 thousand barrels
Sales of oil options	450 thousand barrels

Hedging

From time to time, the Company hedges its exposure to contracted nickel sales, raw material purchases and certain produced inventory which are at price risk. At December 31, 1994, the unrecognized losses on these hedges were $1,873 which are offset by unrecognized gains in physical inventory and raw material costs. These positions expire on varying dates to October 18, 1995.

Prices for contracted oil and natural gas production to be delivered between January and October 1995 have also been hedged through the purchase of oil and natural gas futures contracts which expire in the delivery months of the related production. At December 31, 1994, the unrecognized loss on these futures was $457 which will be offset by future contracted natural gas production. These positions expire on varying dates to September 25, 1995.

From time to time, the Company hedges its exposure to foreign currency fluctuations by entering into foreign currency forward transactions. Gains or losses are recognized upon realization and are included in financing expenses. There are no unrealized foreign exchange contracts at December 31, 1994.

17 COMMITMENTS

(a) GNC and the Company have agreed that they will strive to have the Combined Enterprise's mining and processing facility (note 4) attain an annual production capacity of 24,000 tonnes of contained nickel plus cobalt in sulphides by the year 2000. The Company and GNC estimate that attainment of this production profile will require a capital investment by the Combined Enterprise of approximately U.S. $124,000 over that period.

(b) The Company has agreed to arrange a maximum of U.S. $25,000 of working capital financing for the Combined Enterprise for the first four months of operations. Prior to implementation of third party financing, Sherritt will provide interim working capital financing on terms substantially similar to those which would be provided by an arm's length financing institution.

(c) The Company is committed to future annual payments under operating leases as follows: 1995: $3,166; 1996: $1,893; 1997: $1,431; 1998: $1,228; 1999: $960.

(d) At December 31, 1994, the Company was committed to capital expenditures amounting to approximately $11,860 (1993: $4,791).

18 SEGMENTED INFORMATION

1994

	Revenue	Divisional earnings	Depreciation and depletion	Capital expenditures	Assets
Fertilizers	$518,235	$137,423	$38,721	$ 20,401	$ 821,207
Oil and Gas	75,091	12,027	44,503	71,493	294,073
Metals	322,896	44,452	7,352	10,848	360,075
Engineering and Consulting	4,584	1,547	150	1,550	52,680
	$920,806	$195,449	$90,726	$104,292	$1,528,035

1993

	Revenue	Divisional earnings (loss)	Depreciation and depletion	Capital expenditures	Assets
Fertilizers	$159,612	$ 9,913	$22,982	$12,186	$361,853
Oil and Gas	61,612	(5,525)	54,285	53,874	240,927
Metals	183,878	(15,465)	5,626	25,460	243,520
Engineering and Consulting	5,694	2,303	1,163	2,150	38,894
	$410,796	$ (8,774)	$84,056	$93,670	$885,194

There are no significant foreign geographic segments in which the Company's operations are conducted. Direct export shipments from Canada, principally to customers in the United States and Europe, amounted to $311,130 for the year ended December 31, 1994 (1993: $144,620).

19 COMPARATIVE FIGURES

Certain of the figures for 1993 have been reclassified to conform to the presentation of the current year.

(in thousands of dollars except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1994					
Revenue	**$127,112**	**328,353**	**173,129**	**292,212**	**$920,806**
Net earnings	**$ 1,756**	**43,170**	**5,129**	**29,921**	**$ 79,976**
Earnings per common share ($ per share)	**$ 0.03**	**0.75**	**0.06**	**0.46**	**$ 1.30**
1993					
Revenue	$ 95,190	128,171	76,773	110,662	$410,796
Net earnings (loss)	$ (11,924)	2,203	(8,463)	(23,277)	$ (41,461)
Earnings (loss) per common share ($ per share)	$ (0.28)	0.05	(0.20)	(0.54)	$ (0.97)

(thousands of dollars except per share data)	1994	1993	1992	1991	1990
PRODUCTION (net to Sherritt)					
Fertilizer (thousands of tonnes)					
Nitrogen	1,717	807	800	827	800
Phosphates	592	91	78	65	99
Chemicals (thousands of tonnes)	62	158	111	78	92
Oil (thousands of barrels)	3,632	3,050	2,767	606	–
Natural gas (billions of cubic feet)	16	18	18	9	7
Nickel (thousands of pounds)	44,701	40,444	36,737	44,150	38,920
Cobalt (thousands of pounds)	3,856	2,686	1,511	1,810	1,517
Rolling mill products (thousands of pounds)	8,366	10,853	10,372	7,945	9,304
Specialty materials (thousands of pounds)	2,125	679	760	961	908

FINANCIAL INFORMATION

Statements of Earnings

	1994	1993	1992	1991	1990
Revenue					
Fertilizers	$518,235	$159,612	$158,617	$138,209	$131,864
Oil and Gas	75,091	61,612	65,477	19,149	8,698
Metals	322,896	183,878	193,838	208,405	192,357
Engineering and Consulting	4,584	5,694	17,823	18,490	12,331
	$920,806	$410,796	$435,755	$384,253	$345,250
Divisional earnings (loss)					
Fertilizers	$137,423	$ 9,913	$ 14,852	$ 13,772	$ 2,680
Oil and Gas	12,027	(5,525)	16,333	2,404	2,681
Metals	44,452	(15,465)	1,381	6,350	8,987
Engineering and Consulting	1,547	2,303	3,167	3,500	(1,210)
	195,449	(8,774)	35,733	26,026	13,138
Research and development	(5,766)	(5,775)	(4,324)	(5,838)	(3,969)
Corporate	(11,164)	(8,848)	(9,369)	(5,685)	(9,435)
Financing	(51,720)	(33,604)	(19,490)	(8,382)	(9,970)
Write-down of fixed assets	–	–	–	–	(14,408)
Provision for future site restoration	–	–	–	–	(23,900)
Earnings (loss) before income taxes	126,799	(57,001)	2,550	6,121	(48,544)
Income taxes (recovered)	46,823	(15,540)	276	4,971	(16,157)
Net earnings (loss)	$ 79,976	$ (41,461)	$ 2,274	$ 1,150	$ (32,387)
Earnings (loss) per common share:					
– Basic	$ 1.30	$ (0.97)	$ 0.06	$ 0.04	$ (1.29)
– Fully diluted	$ 1.07	$ (0.97)	$ 0.06	$ 0.04	$ (1.29)
Weighted average number of shares outstanding (thousands)	61,686	42,765	36,776	30,094	25,098

(thousands of dollars except per share data)	1994	1993	1992	1991	1990
Balance Sheets					
Assets	$1,528,035	$885,194	$866,036	$840,259	$548,057
Net bank indebtedness	$ –	$ 6,181	$ 44,423	$ 39,081	$ 51,945
Current portion of long-term debt	–	1,693	32,482	25,302	15,367
Long-term debt	532,697	255,413	109,402	175,160	95,799
	$ 532,697	$263,287	$186,307	$239,543	$163,111
Convertible subordinated notes	$ –	$ 55,311	$ 50,657	$ 46,390	$ –
Shareholders' equity	$ 639,104	$296,064	$333,272	$271,967	$204,513
Changes in Financial Position					
Cash provided before					
working capital changes	$ 206,697	$ 51,778	$ 63,965	$ 40,232	$ 19,600
Capital expenditures	$ (104,292)	$ (93,670)	$ (85,342)	$ (23,733)	$ (21,297)
Dividends					
Common	$ –	$ –	$ –	$ (4,904)	$ (3,265)
Per common share	$ –	$ –	$ –	$ 0.14	$ 0.13
Share Price					
High	$ 15.38	$ 11.38	$ 9.38	$ 8.38	$ 11.00
Low	$ 10.50	$ 5.75	$ 5.88	$ 5.75	$ 5.25
Warrant Price					
High	$ 6.88	$ 3.10	$ 0.80	–	–
Low	$ 2.75	$ 0.47	$ 0.42	–	–

Certain of the figures for prior years have been reclassified to conform to the presentation of the current year.

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