SHERRITT INTERNATIONAL CORPORATION

2011 Annual Report

OVERVIEW OF SHERRITT INTERNATIONAL CORPORATION

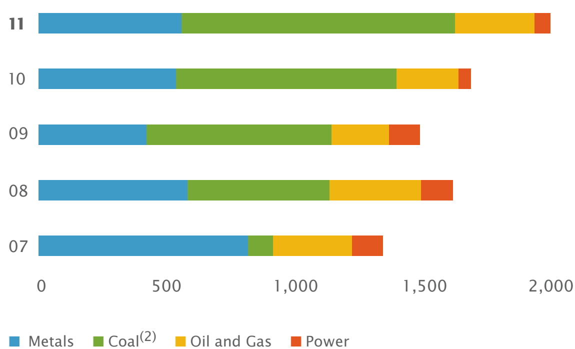
Sherritt is a world leader in the mining and refining of nickel from lateritic ores with projects and operations in Canada, Cuba, Indonesia and Madagascar. The Corporation is the largest coal producer in Canada and is the largest independent energy producer in Cuba, with extensive oil and power operations across the island. Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "S".

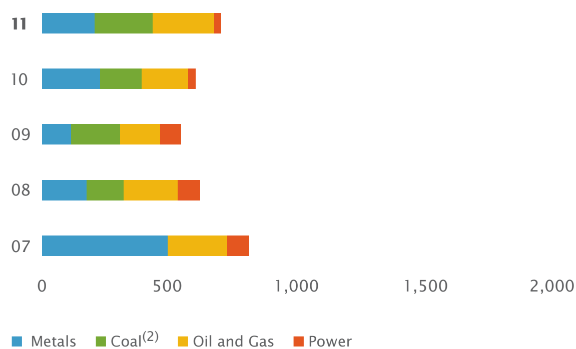
Financial highlights

$ millions, except per share amounts	**2011**	2010
Revenue	**$ 1,978.3**	$ 1,670.6
EBITDA[1]	**643.2**	546.0
Net earnings	**197.3**	144.8
Basic earnings per share	**0.67**	0.49
Net working capital[2]	**$ 1,016.7**	$ 1,112.6
Total assets	**6,497.5**	6,068.2
Weighted-average number of shares (millions)		
Basic	**295.1**	294.0
Diluted	**296.3**	296.3

(1) EBITDA is a non-IFRS measure. See the "Non-IFRS Measure" section of MD&A.

(2) Net working capital is calculated as total current assets less total current liabilities.



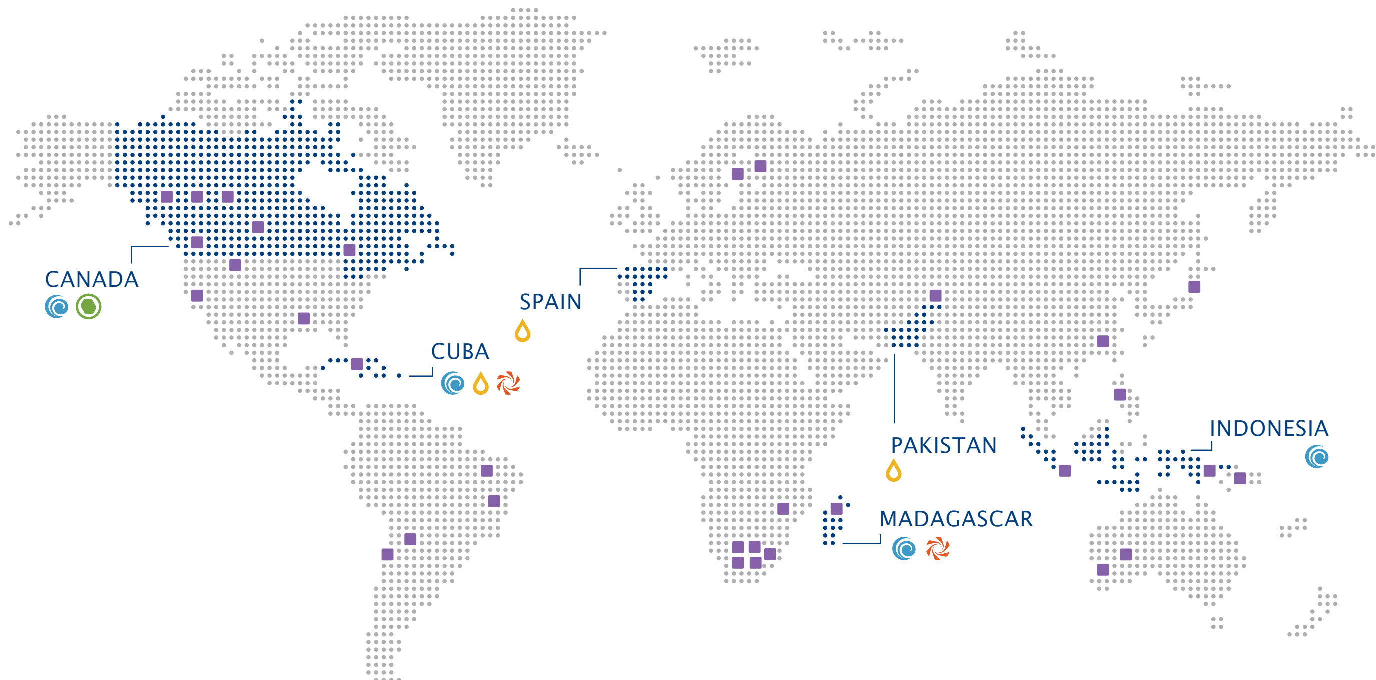


(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal years 2007 to 2009 are stated in accordance with Canadian GAAP, and the fiscal years 2010 and 2011 are stated in accordance with IFRS.

(2) Represents results from the Corporation's 100% interest in Coal Valley Partnership (CVP) from July 1, 2010. Prior to July 1, 2010, results represent the Corporation's 50% interest in CVP. Coal also includes the results of the Royal Utilities Income Fund from the date of acquisition, May 2, 2008.

Cover image: Laterite soil

Sherritt's global assets



REVENUE BY DIVISION[1]

(% of total revenue)

53%	28%	15%	3%
Coal	Metals	Oil and Gas	Power

[1] Excluding items listed as corporate and other.

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SHAREHOLDER INFORMATION inside back cover

Message from the Chairman

2011 was a good year financially. Earnings were up 36% from 2010, and EBITDA was 18% higher. Our company finished the year with a cash balance of $631 million.

The uncertain macroeconomic environment underpinned the price volatility in the commodity markets in 2011. Energy-focused commodities had a strong year, seen in the prices for thermal coal and oil, while base metals prices, like nickel and cobalt, ranged broadly during the year. Also during the year construction was completed at the Ambatovy Project in Madagascar and commissioning of the facility is well underway.

All of our commodity businesses were affected by the high price inflation for many inputs. In Metals, we maintained our position as a low-cost producer of nickel from lateritic ore, with the 2011 average net cash cost of nickel of US$4.35 per pound, well below the annual average reference price of US$10.36 per pound. The Coal business encountered production challenges during the year stemming from unplanned customer outages and severe weather in Western Canada, as well as general input inflation on the cost side. The business was able to overcome these by the end of the year, and was in a position to capitalize on an extremely strong pricing year in the export thermal coal business. Oil had a good year from a production standpoint and a very strong year from a pricing standpoint.

While 2011 was characterized by our strong performance in the face of challenges, 2012 will be a transformative year for our company. In late November of last year I announced my retirement from the position of chief executive officer of the company, after having been with Sherritt and its predecessor companies for more than 21 years. It has been an exciting and challenging experience.

While I will continue as non-executive Chairman of the Board of Directors, I will leave the executive office, confident that Sherritt is in good hands with David Pathe as the new chief executive. David's impressive qualifications include his strong background in mergers and acquisitions and international finance as well as his successful execution of the roles he has had at Sherritt, most recently as the Chief Financial Officer. He has both the knowledge and the experience to lead our company forward in its future endeavours.

Ian W. Delaney
Chairman
Sherritt International Corporation

Message to shareholders

I am very excited about assuming the role of chief executive officer at a time when we are poised to capitalize on the significant achievements of our company over the past year.

We have made enormous progress at our Ambatovy Project in Madagascar, completing construction in late 2011. Today, work continues on commissioning and ramping up of the facility towards reaching commercial production. Ambatovy will be one of the largest lateritic nickel mining and refining operations in the world, with approximately 30 years of reserves and an annual production capacity of 60,000 tonnes of finished nickel and 5,600 tonnes of finished cobalt. Our growing strength in lateritic nickel inspired the photography on the cover of this report.

Financially, we have a strong balance sheet and are well placed to manage the inherent volatility of the commodity business and pursue development opportunities. Strong performances from all of our operating businesses and the refinancing of a series of debentures in 2011 further enhanced our liquidity position. We have limited our full recourse debt and do not face a public maturity until 2014.

We entered 2012 in a position of strength – both operationally and financially. In 2012 we will continue to pursue the development opportunities currently underway in our Metals and Power businesses and will look to advance our new project in Sulawesi. We will also look for new ways to capitalize on our inherent strengths for the benefit of our shareholders. As always, our emphasis on safety, cost management and social responsibility will be unrelenting.

I would like to express my gratitude to Ian Delaney and the Board of Directors for their work for Sherritt and for the opportunity to lead our company. I would also like to thank our employees, partners, business associates and other stakeholders for their ongoing support and dedication to Sherritt. Their support was crucial to our success this past year and will prove invaluable to us going forward.

David V. Pathe
President and Chief Executive Officer
Sherritt International Corporation

Metals mixed sulphides from Cuba, Fort Saskatchewan

Sherritt cobalt

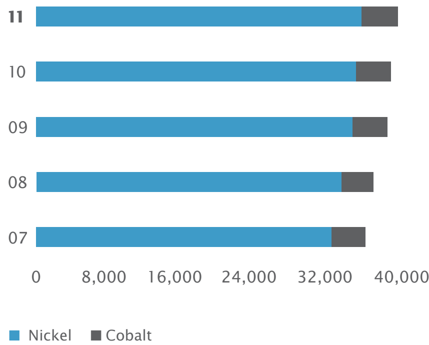
METALS

Metals power house boiler, Fort Saskatchewan

Metals mixed sulphides warehouse, Fort Saskatchewan

Metals ammonia recovery, Fort Saskatchewan

Metals power house boiler, Fort Saskatchewan



34,572 TONNES

of nickel produced in 2011

3,853 TONNES

of cobalt produced in 2011

SHERRITT METALS IS A WORLD LEADER IN THE MINING AND REFINING OF NICKEL AND COBALT FROM LATERITIC ORES. IN 2011, SHERRITT METALS SET PRODUCTION RECORDS FOR MIXED SULPHIDES, FINISHED NICKEL AND FINISHED COBALT AT ITS MOA JOINT VENTURE, AND COMPLETED CONSTRUCTION AT AMBATOVY, THE LARGEST LATERITIC FINISHED NICKEL AND COBALT OPERATION IN THE WORLD.

International nickel and cobalt portfolio of businesses

Sherritt Metals consists of three lateritic nickel and cobalt ventures: a 50% interest in the Moa Joint Venture, which operates a nickel and cobalt mine and processing facility in Cuba and a refinery in Fort Saskatchewan, Alberta; a 40% interest in the Ambatovy Joint Venture, a large-scale nickel and cobalt project in Madagascar; and the opportunity to acquire a controlling interest in the Sulawesi Project in Indonesia.

Sherritt Metals' portfolio leverages off its technological knowledge, surface mining experience, and expertise in lateritic nickel mining, processing and refining operations. The portfolio contains operations and projects with similar technical characteristics but at various stages of development. The rated capacity of the current Metals portfolio exceeds 100,000 tonnes (100% basis) of finished nickel and finished cobalt annually. In addition, the Moa Joint Venture partners are reviewing options for a further expansion of production capacity.

Moa Joint Venture

The Moa Joint Venture demonstrates the successful application of hydrometallurgical process technologies to the processing and refining of nickel and cobalt from lateritic ore. In 2011, the Moa Joint Venture achieved record production of 38,641 tonnes (100% basis) of nickel and cobalt in mixed sulphides, 34,572 tonnes of finished nickel (100% basis) and 3,853 tonnes of finished cobalt (100% basis).

World-leading technologies

From its operating base in Alberta, Sherritt has pioneered the development and commercialization of hydrometallurgical processes, which are particularly effective in the refining of nickel and cobalt from lateritic ores. Lateritic ore bodies represent the majority of the world's nickel resources. Sherritt has nearly 60 years of technical and operational expertise and experience in lateritic mining and refining that have been gained at the Moa Joint Venture facilities in Cuba and Canada, as well as at the more than 35 commercial facilities worldwide that have adopted the Sherritt technology and contracted its technical expertise.

Ambatovy Joint Venture

The Ambatovy Joint Venture in Madagascar has an annual design capacity of 60,000 tonnes of finished nickel and 5,600 tonnes of finished cobalt. In late 2011, construction of Ambatovy was completed, and it is currently progressing through a staged commissioning and start-up process. The mine has been operational since third-quarter 2010. The mine, ore processing plant and slurry pipeline are all operating within design parameters. At the Plant Site, commissioning is complete on many ancillary operations, including the acid plants, air separation plant, hydrogen plant, hydrogen sulphide plant and limestone plant. The power plant is operating reliably and will provide sufficient steam for power generation, start-up activities and operations.

Sulawesi Project

In December 2010, Sherritt signed an earn-in arrangement to acquire a 46% economic interest in a nickel and cobalt project on the island of Sulawesi in the Republic of Indonesia. Preliminary activities commenced in 2011. Building upon its experience in Ambatovy, Sherritt will be working closely with local communities in Sulawesi to maximize their overall economic and social benefit while minimizing and remediating potential adverse impacts of the project.

Obed Mountain mine, Alberta

Sherritt coal

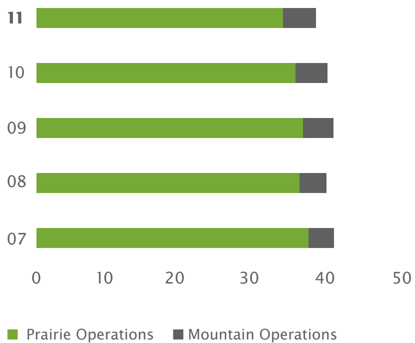
COAL

Poplar River dragline, Alberta

Coal Valley plant view, Alberta

Poplar River maintenance, Alberta

Poplar River maintenance, Alberta



32.7 MILLION TONNES

of thermal coal produced by Prairie Operations in 2011

4.4 MILLION TONNES

of thermal coal produced by Mountain Operations in 2011

SHERRITT COAL IS THE LARGEST COAL PRODUCER IN CANADA, ACCOUNTING FOR OVER 95% OF THE COUNTRY'S THERMAL COAL PRODUCTION. IN 2011, SHERRITT COAL PRODUCED OVER 37 MILLION TONNES OF THERMAL COAL AND SURPASSED $1 BILLION IN REVENUE.

Sherritt Coal's Prairie Operations consists of seven surface mines, which primarily produce coal for dedicated supply to power plants in Alberta and Saskatchewan. The majority of the electricity produced in Alberta and Saskatchewan is currently generated by power plants utilizing thermal coal at mine-mouth operations. In 2011, Prairie Operations produced approximately 32.7 million tonnes of thermal coal primarily for delivery to the mine-mouth power plants of its utilities customers. The coal is supplied under long-term contracts with index-adjusted pricing provisions. Prairie Operations also produces coal for other domestic customers, as well as char and activated carbon, which are value-added coal products. Char is used in the production of barbeque briquettes. Activated carbon is used in the reduction of mercury in flue gas emissions of coal-fired power plants.

Sherritt Coal also produces thermal coal for export in its Mountain Operations from two surface mines in Alberta. Most of this higher value thermal coal is transported by rail to port facilities in British Columbia for shipping and delivery to customers located primarily in Pacific Rim countries. In 2011, Mountain Operations produced and sold 4.4 million tonnes of thermal coal, mostly for export. Pricing for export thermal coal contracts is driven by market reference prices, which experienced a buoyant market in 2011.

With over 1.4 billion tonnes of coal reserves and resources at its current mining operations, Sherritt Coal is well positioned to continue to provide customers with a long-term, dependable, low-cost supply of fuel. Sherritt also owns 0.2 billion tonnes of coal resources and 1.8 billion tonnes of potash reserves and resources.

In addition to the operating business, Sherritt has a 50% interest in the Carbon Development Partnership (CDP), which holds in excess of 13 billion tonnes of non-producing coal reserves and resources in Western Canada and more than 2 billion tonnes of potash resources in Saskatchewan.

Environmental commitment

Land reclamation is an ongoing process. Sherritt Coal is a recognized leader in post-mining site reclamation. In 2011, Sherritt Coal's mining operations disturbed 943 hectares of land, leveled and contoured 1,143 hectares in connection with reclamation efforts, and completed reclamation of 992 hectares. Completion includes providing the contoured land with topsoil in accordance with mining licenses. By the end of 2011, Sherritt Coal had completed reclamation of approximately 74% of the total area disturbed since mining operations began.

Activated carbon

Sherritt has a 50% interest in a joint venture that produces activated carbon and sources coal from Sherritt's Bienfait mine site in Saskatchewan. In 2011, the Activated Carbon plant completed its first full year of operation, producing and selling 13,367 tonnes (100% basis) of product, or over 98% of its annual capacity.

Oil rig in Cuba, Yumuri

Sherritt oil

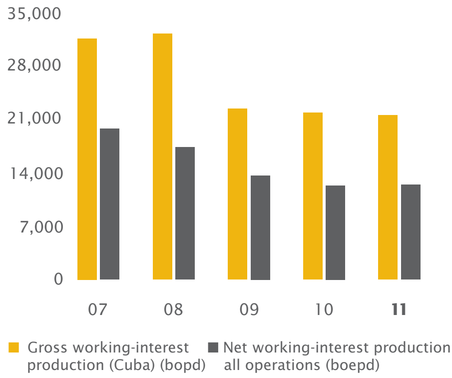
OIL AND GAS

POWER

Heat recovery steam generators, Varadero power plant, Cuba

OIL AND GAS PRODUCTION

(barrels of oil equivalent per day)



20,888 BOPD

gross working-interest oil produced in Cuba in 2011

12,057 BOEPD

global net working-interest production in 2011

SHERRITT OIL IS THE LARGEST INDEPENDENT OIL PRODUCER IN CUBA, POSSESSING EXTENSIVE EXPERIENCE WITH THE COMPLEX FOLD AND THRUST BELT GEOLOGY ALONG CUBA'S NORTHERN COAST.

Operational expertise

Since 1992, Sherritt Oil has drilled more than 200 oil wells and produced over 180 million barrels of oil in Cuba. Sherritt's engineers, geoscientists and operations professionals have expertise in exploration and drilling as well as heavy oil production.

In Cuba, Sherritt currently operates three commercial oil fields – Puerto Escondido, Yumuri and Varadero West – in two separate blocks. In 2011, Sherritt Oil produced 20,888 gross working-interest barrels of oil per day, representing approximately 43% of Cuba's oil production. Approximately 94% of Sherritt's oil and gas production originates in Cuba. Sherritt also has several oil and gas interests in Spain, Pakistan and the United Kingdom.

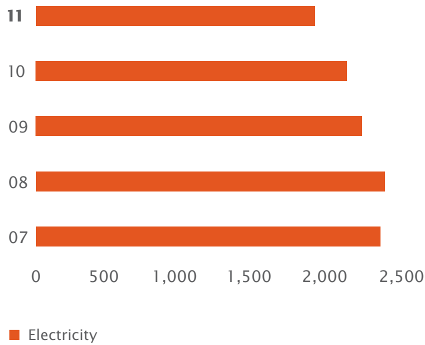
Drilling in 2011 was concentrated in Cuba. Eight development wells were initiated and seven development wells were completed. Of the seven development wells completed in 2011, four are in production.

Ongoing projects

In 2012, Sherritt will continue to develop existing fields in Cuba, leveraging its engineering, technical and production expertise at its current operations. Applications have been made for additional exploration blocks. Sherritt also continues work on interests outside of Cuba. In 2011, Sherritt initiated the technical analysis of blocks in the United Kingdom and in the Alboran Sea, off the southern coast of Spain. In 2012, activity planned with respect to those interests will mainly relate to seismic acquisition as well as interpretation and analysis of the seismic and other data obtained.

Oil rig in Cuba, Yumuri

Oil rig in Cuba, Yumuri



1,853 GWh

of electricity sold (100% basis) in 2011

SHERRITT POWER PIONEERED NATURAL GAS-FIRED ELECTRICITY PRODUCTION IN CUBA WITH FACILITIES THAT HAVE THE CAPACITY TO PRODUCE 356 MW OF ELECTRICITY.

Power generation from natural gas

Sherritt Power operates in Cuba through its one-third interest in Energas S.A. (Energas), a Cuban joint venture. Energas processes and utilizes natural gas from oil fields along the northern coast of Cuba between Varadero and Boca de Jaruco to generate power. The use of clean gas to generate electricity ensures the utilization of a valuable source of energy and mitigates the environmental impact that occurs when natural gas high in sulphur is flared in producing oil fields. The gas-fired generation of electricity also provides an economic benefit by correspondingly reducing the country's energy importation requirements and costs.

In 2011, Energas produced 1,853 GWh of electricity, representing approximately 10% of Cuba's electricity production.

Sherritt Power continued development of the 150 MW Boca de Jaruco Combined Cycle Project at Energas. Engineering for the Project is nearing completion and most of the equipment has been ordered and delivered to the site. The new, expanded power generation facility at Boca de Jaruco is expected to be operational in the first half of 2013, increasing Energas' power generating capacity by 42% to 506 MW.

Management and operational expertise

To meet the challenge of filling the technical and operating roles required by the power business in Cuba with local employees, Sherritt has developed and maintained a long-standing program of affiliation with Alberta-based technology institutes that train Cuban millwrights, electricians, gas plant operators and power engineers to become accredited with the equivalent certification to a Canadian Journeyman.

Boilers, Boca de Jaruco power plant, Cuba

Moa mine reforestation, Cuba

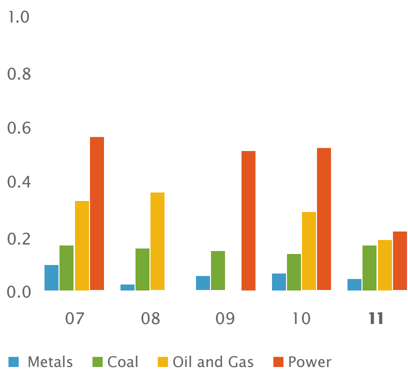
Moa mine reforestation, Cuba

TAKING RESPONSIBILITY

Havana vegetable garden, Cuba

LOST TIME INJURY (LTI) INDEX[(1)]

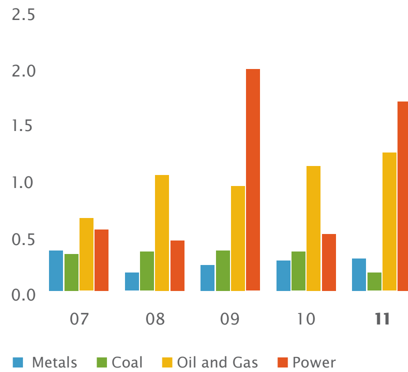
(12-month rolling average as at December 31, 2011)



[(1)] The LTI index is calculated by multiplying the number of total LTIs by 200,000 and then dividing by total exposure hours. This index provides a measure that is comparable across industries and businesses of varying size.

TOTAL RECORDABLE INJURY (TRI) INDEX[(2)]

(12-month rolling average as at December 31, 2011)



[(2)] The TRI index is calculated by multiplying the number of TRIs by 200,000 and then dividing by the total exposure hours. This index provides a measure that is comparable across industries and businesses of varying size.

Workforce

Sherritt's goal is to ensure that each worker in its global operations returns home safely after work. This goal is reflected in the safety performance of Sherritt's divisions, affiliates and subsidiaries, which compares well with other industrial companies. The Corporation sets a Lost Time Injury (LTI) index target of zero and a Total Recordable Injury (TRI) index target of less than 0.75. For 2011, Sherritt achieved an average LTI index of 0.05 and a TRI index of 0.32.

Several Sherritt Coal operations reached safety milestones in 2011 for years of operation without an LTI, including the Genesee mine with 23 years, the Sheerness mine with 16 years and the Boundary Dam mine with seven years. In Sherritt Metals, the operations at Fort Saskatchewan achieved over two million hours of work with no TRIs. Also in 2011, Ambatovy received an award from the International Association of Emergency Managers for its emergency management program.

In August 2011, members of the Northeast Region Community Awareness Emergency Response took part in Sherritt's training exercise at the Fort Saskatchewan site that successfully tested and evaluated Sherritt's emergency response systems. The August exercise was a fully simulated emergency and response, which is undertaken every five years. It included participation from municipal and local agencies as well as response teams from other companies in the vicinity.

In 2011, Sherritt employed, directly or through a subsidiary or affiliate, a workforce of approximately 7,670 people. Once Ambatovy is fully operational, the workforce there will number approximately 6,000 employees and permanent contractors, and Sherritt's global workforce will reach approximately 11,500 people.

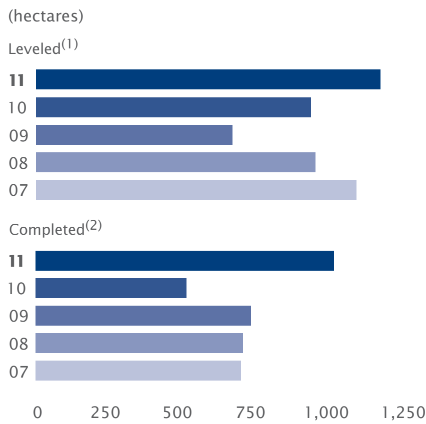
As at December 31, 2011, approximately 85% of the construction personnel have been demobilized from Ambatovy. In April 2011, Ambatovy began a program to facilitate the transition of demobilized Malagasy construction workers to other types of employment. Four redeployment offices were established and training and assistance programs were implemented, some of which were developed with government agencies. The program provides short-term monthly payments and also offers training in agriculture as well as job search assistance.

Sherritt's focus on professional development and staff retention has enabled it to maintain a stable, experienced workforce. The average length of service for Canadian salaried employees was approximately nine years in 2011.

Moa employees, Cuba

Training centre, Madagascar

Metals, daily maintenance meeting, Fort Saskatchewan



(1) Leveled land has been returned to the contour specified as the provincial standard and outlined in Mining Licenses.

(2) Completed land includes placement of all topsoil.

Environment

Sherritt's businesses work with local experts and blend their expertise with internationally recognized methods to produce a unique approach under the overall umbrella of Sherritt's environmental operating integrity management system for each jurisdiction where it operates.

The Corporation's land reclamation programs focus on returning formerly mined land to traditional uses such as productive farmland, or creating new wildlife habitats. In 2011, reclamation of the final earthworks and demolition of the facilities portion at the former Gregg River coal mine were completed, concluding reclamation of the 1,300-hectare site. Also during the year, the Alberta Chapter of the Canadian Land Reclamation Association toured portions of the Gregg River site in conjunction with their annual fall meeting.

Sherritt's greenhouse gas (GHG) offset project in Cuba continues to operate at Energas S.A.'s Varadero facility. By the end of 2011, Sherritt had documented 1,222,023 tonnes of carbon dioxide (CO_2) emission reductions for the United Nations' Kyoto credits. Of these, credits were issued for 343,125 tonnes. Verification of 648,295 tonnes was completed in 2011 and is currently under review. In 2011, 230,603 tonnes were documented on a preliminary basis.

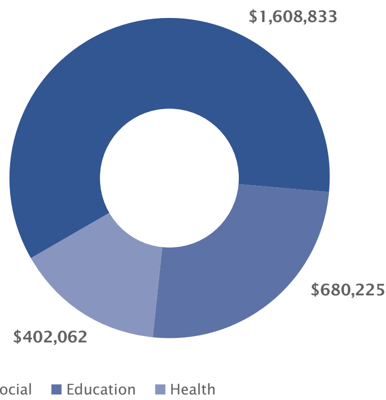
Ambatovy follows the successful framework approach used in other Sherritt operations, developing principles that use established external codes as reference points. For Ambatovy, the basis is the comprehensive Malagasy environmental policy and programs established under Madagascar's decree on compatibility of investments with the environment. In addition, Ambatovy follows guidelines from the International Finance Corporation of the World Bank, the Equator Principles, the Business and Biodiversity Offset Program and the Principles of the International Council of Mining and Metals.

In 2011, Sherritt and Ambatovy, in conjunction with Malagasy authorities, arranged for Asity Madagascar, a Malagasy non-governmental organization, to assist with the updating of the management plan for the Torotorofotsy wetland, which has been classified as a wetland of international importance under the Ramsar Convention on Wetlands.

Water sampling, Coal Valley, Alberta

Re-vegetation in Madagascar

2011 DONATIONS AND SPONSORSHIPS



Social Education Health

Communities

Sherritt works with its stakeholders to maintain its social license, placing a high priority on mutually beneficial relationships with local, regional and national governments. Sherritt's business divisions maintain ongoing communications with local communities to ensure that information is shared effectively and transparently.

Sherritt's community investment programs provide a solid foundation for its stakeholder engagement. Investment is directed in consultation with local authorities to facilitate the providing of assistance where it is most effective. In addition, Sherritt encourages its employees to provide support for local initiatives.

Each year, Sherritt and its workforce raise funds for United Way campaigns in local communities. Sherritt contributed to the success of over 100 different organizations by providing funds, materials or time, totalling almost $2.7 million in 2011, including $50,000 to various Salvation Army programs.

In May 2011, Sherritt donated $100,000 as part of a $500,000 commitment to the Fort Saskatchewan Community Hospital Foundation to help fund the purchase of the community's first computed tomography (CT) scanner. In recognition of this donation, the Health Services Centre wing of the new hospital will be named the "Sherritt Health Services Centre".

Southern Saskatchewan experienced severe flooding in June 2011. Sherritt Coal employees and the United Mine Workers of America raised $120,000 at the Bienfait and Boundary Dam mine locations for employees affected by the floods. In addition, Sherritt also donated $150,000 towards support of flood victims.

In March 2011, Sherritt donated $500,000 in support of recovery efforts for victims of the earthquake that struck Japan. And in December 2011, the Corporation provided assistance to victims of flash floods near its Sulawesi nickel project in Indonesia.

In Cuba, Sherritt implements social infrastructure projects in co-operation with local authorities. In 2011, Sherritt donated materials to re-establish air conditioning in wards and operating rooms at the main hospital in Moa, Cuba, and is helping to establish a market garden facility there. In other Cuban communities, Sherritt provided assistance for basic services including materials and equipment for public sanitation, freezers for health care institutions and the development of urban vegetable gardens.

Sherritt continued its work with the Seva Canada Society in 2011 to improve eye care in Madagascar, donating $34,000 for the purchase and installation of essential ophthalmology equipment, including an operating microscope, at the hospital in Toamasina.

Ambatovy completed construction of a new market in the city of Toamasina, called the Anjoma Market, which was inaugurated in February 2011. Ambatovy also continues to work with local companies and suppliers to maximize the availability of local materials needed for its business through the Ambatovy Local Business Initiative.

Public lighting project, Cuba

Sherritt Cultural Pavilion, Fort Saskatchewan

Local market in Madagascar

2011 FINANCIAL REVIEW

Coal stockpiles at Ambatovy Plant Site, Madagascar

2011 Financial review

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Management's discussion and analysis

For the year ended December 31, 2011

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of February 21, 2012 should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2011. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

As of January 1, 2011, Sherritt International Corporation adopted International Financial Reporting Standards (IFRS), and the following disclosure, as well as associated audited consolidated financial statements has been prepared in accordance with IFRS. Sherritt's date of transition to IFRS is January 1, 2010, to accommodate 2010 IFRS comparative figures. The Corporation has provided information throughout this document and other publicly filed documents to assist a user in understanding Sherritt's transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP). A comprehensive summary of all of the significant changes including the various reconciliations of Canadian GAAP financial statements to those prepared under IFRS is included in the Transition to IFRS note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

References to "Sherritt" or "the Corporation" refer to Sherritt International Corporation and its share of consolidated subsidiaries and joint ventures, unless the context indicates otherwise. All amounts are in Canadian dollars, unless otherwise indicated. References to "US$" are to United States dollars.

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This discussion contains statements about Sherritt's future financial condition, results of operations and business. See the end of this report for more information on forward-looking statements.

KEY FINANCIAL AND OPERATIONAL DATA

$ millions, for the years ended December 31		2011		2010	Change
Financial highlights					
Revenue	**$**	**1,978.3**	$	1,670.6	18%
EBITDA[1]		**643.2**		546.0	18%
Earnings from operations and associate		**410.7**		342.7	20%
Net earnings		**197.3**		144.8	36%
Comprehensive income		**244.0**		46.7	422%
Net earnings per share, basic ($ per share)		**0.67**		0.49	37%
Net earnings per share, diluted ($ per share)		**0.67**		0.49	37%
Cash flow					
Cash provided by operating activities	**$**	**354.8**	$	413.8	(14%)
Spending on capital and intangible assets[2]	**$**	**235.6**	$	185.5	27%
Production volumes					
Nickel (tonnes) (50% basis)		**17,286**		16,986	2%
Cobalt (tonnes) (50% basis)		**1,927**		1,853	4%
Coal – Prairie Operations (millions of tonnes)		**32.7**		34.4	(5%)
Coal – Mountain Operations (millions of tonnes)[3]		**4.4**		3.3	33%
Oil – Cuba – net working-interest production (barrels per day)		**11,286**		11,128	1%
Electricity (gigawatt hours) (33 1/3% basis)		**618**		689	(10%)
Unit costs[4]					
Nickel (US$ per pound)[5]	**$**	**4.35**	$	3.35	30%
Coal – Prairie Operations ($ per tonne)[6]		**13.87**		12.23	13%
Coal – Mountain Operations ($ per tonne)		**79.61**		71.32	12%
Oil – Cuba ($ per barrel)		**12.07**		10.66	13%
Electricity ($ per megawatt hour)		**20.05**		14.46	39%
Averaged-realized sales prices[4]					
Nickel ($ per pound)	**$**	**10.14**	$	10.11	–
Cobalt ($ per pound)		**15.82**		18.68	(15%)
Coal – Prairie Operations ($ per tonne)[6]		**16.31**		14.18	15%
Coal – Mountain Operations ($ per tonne)		**101.61**		84.21	21%
Oil – Cuba ($ per barrel)		**68.47**		52.24	31%
Electricity ($ per megawatt hour)		**41.00**		42.42	(3%)

$ millions, except as noted, as at December 31		2011		2010	Change
Financial condition[7]					
Current ratio		**3.73:1**		4.22:1	(12%)
Net working capital balance	**$**	**1,016.7**	$	1,112.6	(9%)
Cash, cash equivalents and short-term investments		**631.4**		759.8	(17%)
Total assets		**6,497.5**		6,068.2	7%
Total loans and borrowings		**1,744.7**		1,563.6	12%
Shareholders' equity		**3,731.7**		3,528.3	6%
Long-term debt to total assets[8]		**28%**		27%	4%

(1) For additional information see the Non-IFRS measure – EBITDA section.

(2) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Project.

(3) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.

(4) Management uses unit cost and average-realized price statistics to monitor the performance of the Corporation's operating divisions. These non-IFRS measures do not have a standardized meaning under IFRS and may not be comparable to similar measures provided by other companies. Average-realized price is calculated by dividing revenue by sales volume for the given product. For additional information on unit cost calculation, see the Review of operations section for each division.

(5) Net direct cash cost is inclusive of by-product credits and third-party feed costs.

(6) Excludes royalties, activated carbon and char operating costs and revenue.

(7) The Corporation was required to change how it accounts for the Ambatovy Joint Venture and Energas under IFRS. As a result, there were significant changes to most accounts in the statement of financial position compared to those prepared under Canadian GAAP.

(8) Calculated as total loans and borrowings divided by total assets excluding goodwill. This leverage ratio is monitored by management and lenders.

OVERVIEW OF THE BUSINESS

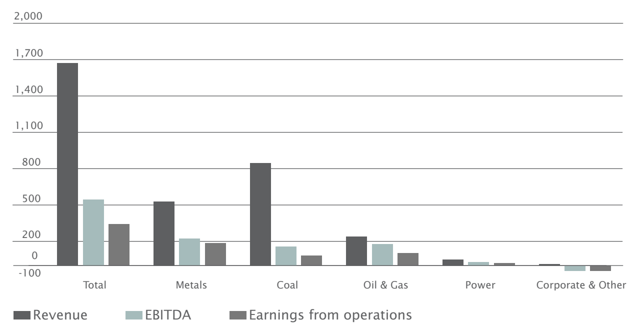
Sherritt is a leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba, Indonesia and Madagascar. The Corporation is the largest coal producer in Canada and is the largest independent energy producer in Cuba, with extensive oil and power operations across the island. Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide. The common shares of the Corporation are listed on the Toronto Stock Exchange, trading under the symbol "S". Sherritt's operations are decentralized, having significant management autonomy at the business level with certain strategic, financing, administration, consolidation and reporting activities managed from the head office in Toronto, Canada.

The Corporation remains focused on the long-term objective of effectively capitalizing on opportunities to grow its asset base through the expansion of existing businesses and strategic acquisitions. It also remains focused on maintaining a strong financial position, enhancing capacity, focusing on the cost of operations, and balancing the needs of partners and shareholders. Sherritt is committed to the highest standards of environmental, health and safety practices at all of its operations, while making valuable contributions to local communities.

Revenue, EBITDA[(1)] and Earnings from Operations by division are as follows:

2011
REVENUE, EBITDA[(1)] AND EARNINGS FROM OPERATIONS BY DIVISION
($ millions, for the year ending December 31)

2010
REVENUE, EBITDA[(1)] AND EARNINGS FROM OPERATIONS BY DIVISION
($ millions, for the year ending December 31)



(1) For additional information see the Non-IFRS measure – EBITDA section.

Metals

Metals is an industry leader in mining, processing and refining nickel and cobalt from lateritic ore bodies. Sherritt has a 50/50 partnership with General Nickel Company S.A. (GNC) of Cuba (the Moa Joint Venture or Moa JV), and a 40% indirect interest in two companies (together the Ambatovy Joint Venture) that own a significant nickel development project in Madagascar (the Ambatovy Project), which is expected to be operational in 2012.

The Corporation also owns and operates fertilizer, sulphuric acid, utilities and storage facilities in Fort Saskatchewan, some of which provide additional sources of income and enhance the security of supply of certain inputs and services required by the Moa JV's refining operations.

The Moa JV mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa JV has mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and an international marketing and sales organization.

Continuous optimization of production facilities combined with the implementation of innovative technologies at the Moa JV assists Metals in continuing to be one of the world's lower-cost producers of nickel and cobalt from lateritic ore bodies and contributed to record finished nickel, cobalt and mixed sulphides production levels in 2011. Metals' experienced and knowledgeable workforce and management team, combined with good on-stream time and equipment reliability, have been the key to the safe and responsible utilization of production assets.

At the Moa JV, the Phase 2 Expansion remains an important growth initiative that will continue to use proven process technologies that have successfully processed nickel and cobalt for nearly 60 years. The expansion would take advantage of the significant infrastructure in place at both Moa and Fort Saskatchewan and, once completed, is expected to increase production from Moa Nickel to a total of 46,000 tonnes of nickel plus cobalt contained in mixed sulphides annually with a corresponding expansion of the refinery in Fort Saskatchewan.

The Ambatovy Project is expected to be one of the world's largest lateritic nickel mining, processing and refining operations. Sherritt is the operator of this project and has as its partners, Sumitomo Corporation, Korea Resources Corporation and SNC-Lavalin Inc. (collectively referred to as the Ambatovy Partners). The Ambatovy Project is a large tonnage nickel and cobalt project with two nickel deposits located near Moramanga (eastern central Madagascar) which are planned to be mined over a 20-year period. Additionally, reclaim of low-grade ore stockpiles will extend project life by nine years. The ore from these deposits will be delivered via pipeline to a processing plant and refinery located near the Port of Toamasina. The Ambatovy Project has proven and probable reserves of 169.9 million tonnes grading 0.95% nickel and 0.08% cobalt. Annual production capacity is estimated at 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt.

Coal

Sherritt is Canada's largest coal producer, operating nine surface mines in Alberta and Saskatchewan. Sherritt supplies domestic utilities and international companies with thermal coal for electricity generation and has abundant, high-quality and strategically located reserves in Canada that are suited to providing customers with a stable, low-cost, long-term fuel supply.

Coal consists of three distinct groups:

→ Prairie Operations

→ Mountain Operations

→ Coal Development Assets

Prairie Operations consists of a 100% interest in Royal Utilities Income Fund (Royal Utilities). Royal Utilities indirectly owns and operates the Paintearth, Sheerness, Genesee (50% interest), Poplar River, Boundary Dam and Bienfait mines and operates the Highvale mine under contract. Prairie Operations also indirectly owns a 50% joint venture interest in the Bienfait Activated Carbon Joint Venture, which produces activated carbon for the removal of mercury from flue gas. In 2011, the plant completed its first full year of production. Prairie Operations also produces and sells char to the barbeque briquette industry from the Bienfait Char facility. In addition, Prairie Operations holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal, potash and other minerals.

Mountain Operations consists of a 100% interest in Coal Valley Resources Inc. (CVRI). In November 2011, Sherritt dissolved Coal Valley Partnership (CVP), transferred its ownership interest in CVRI to a wholly-owned subsidiary of Sherritt, and amalgamated the wholly-owned subsidiary of Sherritt with CVRI. Any reference to CVP throughout this MD&A should be understood to mean CVRI after November 2011. On June 30, 2010, the Corporation purchased the 50% interest in CVP it didn't already own. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in CVP. CVRI owns the Coal Valley mine, Obed Mountain mine, Gregg River mine and Coleman properties. The Coal Valley and Obed Mountain mines are the only active mines in the group. The majority of coal from Mountain Operations is sold in the export market to overseas customers.

Coal's development assets include Carbon Development Partnership (CDP), a general partnership that is 50% indirectly owned by Sherritt, whose purpose is to undertake initiatives aimed at monetizing its significant undeveloped coal reserves.

The foundation of Coal is its experienced management team whose philosophy encourages a safe and productive work environment, enduring relationships with customers and partners, and mutually beneficial relationships with the communities at each mine site.

Oil and Gas

Sherritt explores for and produces oil and gas, primarily from fields situated in Cuba, from which the Corporation produced approximately 94% of its net oil production during 2011. Sherritt holds an interest in two production-sharing contracts in Cuba. The exploration period for a third production-sharing contract expired in early 2012. All of Sherritt's oil sales in Cuba in 2011 were to an agency of the Government of Cuba. Under the production-sharing arrangements, Sherritt recovers approved costs from gross production and is also entitled to 45% of the remaining production. The pricing for oil produced by Sherritt in Cuba is based on Gulf Coast Fuel Oil Number 6 reference prices.

Oil and Gas has developed expertise in the exploration and development of fold-and-thrust geological plays along the north coast of Cuba. Reservoirs are located offshore, but in close proximity to the coastline. As a result, specialized long reach directional drilling methods have been developed to economically exploit the reserves from land-based drilling locations. Sherritt has also implemented state of the art production technology to optimize the production of heavy oil in Cuba.

Sherritt also holds working interests in several oil fields located in the Mediterranean Sea off the coast of Spain, and a working interest in a natural gas field in Pakistan. Sherritt holds exploration permits in the United Kingdom North Sea and in the Alboran Sea off the southern coast of Spain. The Corporation is currently completing initial geological and geophysical evaluations for these exploration properties.

Power

The majority of Sherritt's power generating assets are located in Cuba at Varadero, Boca de Jaruco and Puerto Escondido. These assets are held by Sherritt through its one-third interest in Energas S.A. (Energas), which is a Cuban joint arrangement established to process raw natural gas and generate electricity for sale to the Cuban national electrical grid. Cuban government agencies Union Electrica (UNE) and Union Cubapetroleo (CUPET) hold the remaining two-thirds interest in Energas.

Raw natural gas that would otherwise be flared is supplied to Energas by CUPET free of charge, where it is then processed and used to power gas turbines. By-products produced by Energas in processing the raw natural gas, including condensate and liquefied petroleum gas, are purchased by CUPET at market-based prices. All of Energas' electrical generation is purchased by UNE under long-term fixed-price contracts. Sherritt provides the financing for the construction of the Energas facilities and is repaid from the cash flows generated by the facilities.

The facility at Varadero includes a combined cycle operation which increases the efficiency of the facility by capturing waste heat from the gas turbines and converting it to steam which is then used to produce additional power from a steam turbine. A similar combined cycle project is currently under construction at Boca de Jaruco and will increase Energas' electrical generating capacity by 150 MW to 506 MW. This project is scheduled for completion in the first half of 2013.

Sherritt also owns a 25 MW thermal power facility in Madagascar. The operation of the facility is contracted to the local electricity utility which is entitled to all of the electricity generated and for which Sherritt receives a fixed monthly fee. As a result, Sherritt recognizes leasing revenue, but no production or sales volumes from this facility.

Corporate and Other

TECHNOLOGIES

Sherritt Technologies' primary focus is on hydrometallurgical technologies for the recovery of non-ferrous metals as well as technologies for cleaning coal prior to combustion in power stations and coal gasification plants. In addition to supporting the Corporation's divisions, more than 30 commercial plants worldwide currently employ Technologies' hydrometallurgical processes. Technologies' operations consist of approximately 65 project managers, scientists, engineers, technologists and support staff.

Technologies develops processes for the treatment of nickel and cobalt-bearing laterites, nickel, copper and cobalt-bearing concentrates, mattes, intermediates and residues, zinc and bulk zinc-lead concentrates, refractory gold ores and concentrates and is involved in the development of hydrometallurgical and associated technologies for application in other resource-based industries.

The division is evaluating, adapting and developing coal beneficiation (the removal of non-energy components of coal before use) and coal gasification technologies. Several cost-effective coal beneficiation technologies have been identified that could economically reduce greenhouse gas emissions. These technologies could also reduce the cost of installing carbon capture and emission reduction technologies at existing coal-fired power plants and at new gasification facilities. Emerging gasification technologies are also under evaluation. These clean energy technologies, successfully demonstrated by others, have tremendous potential to support the long-term utilization of Sherritt's deep, currently un-mineable coal resources.

SULAWESI NICKEL PROJECT

In 2010, Sherritt entered into an earn-in and shareholders' agreement with a subsidiary of Rio Tinto Limited (Rio Tinto) pursuant to which Sherritt could acquire a 57.5% interest in the holding company that owns the Sulawesi Nickel Project (Sulawesi Project) in Indonesia. The Sulawesi Project is located on the island of Sulawesi in the Republic of Indonesia. Based on exploration completed to date, the project includes a large, high-grade resource. Identification of further mineralization will be achieved through additional exploration and completion of a feasibility study.

Sherritt is the operator and will license its commercially proven, proprietary technology to the project. Work on drilling to define the resource is expected to begin in the second quarter of 2012.

EXECUTIVE SUMMARY

Highlights

The following are highlights from 2011:

RESULTS

- Revenue for the year ended December 31, 2011 of $1,978.3 million established an annual record. Revenue in the prior year was $1,670.6 million. Higher revenue was primarily a result of higher export coal prices and export sales volumes at Mountain Operations, higher oil prices, and higher coal mining revenue at Prairie Operations. In addition, fertilizer revenue increased at Metals due to higher fertilizer prices that more than offset a decrease in fertilizer sales volume. The increase in revenue was partially offset by the overall impact of a stronger Canadian dollar relative to the U.S. dollar during 2011 compared to the prior year.
- EBITDA[(1)] for the year ended December 31, 2011 was $643.2 million compared to $546.0 million in the prior year. Higher EBITDA was primarily a result of higher revenue and was partially offset by higher operating costs at each of the Corporation's operating divisions primarily due to higher costs at Prairie and Mountain Operations and an increase in input commodity prices at Metals.
- Net earnings for the year ended December 31, 2011 were $197.3 million compared to $144.8 million in the prior year. In addition to the impact of revenue and operating costs described above, net earnings were reduced as a result of higher net finance expense, which was $123.0 million compared to $81.5 million in the prior year. Higher net finance expense was primarily due to an early redemption premium paid on the redemption of Sherritt's 7.875% Senior Unsecured Debentures (2012 Debentures) in December 2011, higher interest expense and accretion on higher average loans and borrowings balances, lower net gains on financial instruments, and lower interest income on lower average investment and loan balances.
- Operating cash flow for the year ended December 31, 2011, was $354.8 million compared to $413.8 million in the prior year, primarily as a result of changes in non-cash working capital and higher cash taxes paid.
- Comprehensive income of $244.0 million was $197.3 million higher compared to the prior year. In addition to the impact of higher net earnings, comprehensive income was higher as a result of the recognition of foreign currency translation gains on foreign operations resulting from a stronger Canadian dollar relative to the U.S. dollar.

AMBATOVY PROJECT

- The Ambatovy Project continued to progress with US$1.1 billion ($1.1 billion) (100% basis) of project capital spending in 2011.
- The pressure acid leach circuits continued the start-up sequencing, with a successful three-day test run on the first autoclave. All utilities are either operational or in start-up, including the acid plant, hydrogen plant and the hydrogen sulphide plant. The first ammonia shipment was received and sent to the ammonia storage facility during the fourth quarter of 2011. First metal is scheduled for the first quarter of 2012. Assuming no significant negative events during the start-up process or production ramp-up, the Ambatovy operations are expected to be cash-flow neutral and reach commercial production by the end of 2012 or early 2013, and achieve full production in 2013.

SULAWESI PROJECT

- The Sulawesi Project progressed with US$9.3 million of expenditures in 2011 related to prefeasibility work. The Corporation also advanced work on permitting related to the next phase of the resource drilling program, environmental and social baseline studies, and the project prefeasibility study.

(1) For additional information, see the Non-IFRS measure – EBITDA section.

PRODUCTION

→ Finished nickel, cobalt and mixed sulphide production at Metals each established an annual production record primarily due to ongoing process improvements and stable plant operation.

→ Production at Prairie Operations decreased primarily due to lower customer demand at the Highvale mine, an unscheduled maintenance shutdown at the generating station served by the Genesee mine in the fourth quarter, and extreme wet weather and flooding at the Boundary Dam mine in the second quarter of 2011. Production at Mountain Operations exceeded those of the prior year primarily due to the impact of Sherritt acquiring the remaining 50% interest in CVP on June 30, 2010.

→ Gross working-interest oil production at Oil and Gas was relatively unchanged as the reduction in production resulting from natural reservoir declines was mostly offset by production from new wells and optimization of production from existing wells.

→ Production at Power was lower due to continued gas supply shortages and the impact of two turbine failures that occurred early in 2011 that reduced available capacity.

FINANCIAL POSITION

→ At December 31, 2011, total available liquidity was approximately $1.1 billion. Total debt at December 31, 2011 was $1.7 billion including $800.7 million related to non-recourse Ambatovy Partner loans to Sherritt. The Corporation's liquidity profile includes a current ratio of 3.73:1, a net working capital balance of $1.0 billion, and cash, cash equivalents, and short-term investments of $631.4 million. The Corporation's long-term debt to total assets ratio was 28%.

DEBENTURE OFFERING

→ In the fourth quarter of 2011, Sherritt completed an offering of $400.0 million principal amount of 8% Senior Unsecured Debentures Series 1 due November 15, 2018. The net proceeds of $391.1 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 2012 Debentures that were due for redemption in November 2012; the remainder is available for general corporate purposes. This transaction improved Sherritt's overall debt maturity and liquidity profile.

TRANSITION TO IFRS

This is Sherritt's first annual MD&A prepared under IFRS. The Corporation has provided information throughout this document and other publicly filed documents in an effort to assist users in understanding Sherritt's transition from Canadian GAAP. A comprehensive summary of all of the significant changes including the various reconciliations of Canadian GAAP financial statements to those prepared under IFRS is included in the Transition to IFRS note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

Adopting IFRS did not impact the cash the Corporation generates or how it conducts its various businesses; however, primarily as a result of the unique nature of Sherritt's agreements and arrangements, the adoption of IFRS did have a substantial impact on the Corporation's statement of financial position and statement of comprehensive income.

For the vast majority of accounting policy choices, Sherritt did not change its accounting policies under Canadian GAAP if it was not required to under IFRS. In some instances, an accounting policy change was required. The following summarizes the most significant changes to the Corporation's consolidated statement of financial position on January 1, 2010:

→ At Metals, primarily due to the interpretation of the Ambatovy Joint Venture shareholders' agreement under IFRS, the Corporation was required to account for its 40% interest in the project as an equity investment, presented as a single-line item on the statement of financial position and the statement of comprehensive income. IFRS differs from Canadian GAAP as it places greater emphasis on governance and decision making when determining whether an entity controls another entity on a basis other than voting interest. Under Canadian GAAP, Ambatovy was accounted for as a variable interest entity which was fully consolidated with non-controlling interest in the net assets reported separately. As a result of deconsolidating Ambatovy from the statement of financial position, total assets (net of a new financial statement line item for investment in an associate of $1.0 billion) decreased by $4.1 billion, and total liabilities and non-controlling interest decreased by $4.1 billion. Sherritt is the operator of the Ambatovy Joint Venture.

→ At Power, it was determined that under the terms of the shareholders' agreement the Corporation has joint control with its partners and is required to proportionately consolidate its 33⅓% investment in Energas S.A. on a line-by-line basis on the consolidated statement of financial position and statement of comprehensive income. IFRS differs from Canadian GAAP as it places greater emphasis on governance and decision making when determining whether an entity controls another entity on a basis other than voting interest. Under Canadian GAAP, Energas S.A. was accounted for as a variable interest entity which was fully consolidated with non-controlling interest in the net assets reported separately. As a result, net assets decreased by $204 million and non-controlling interest decreased by $204 million.

→ At Prairie Operations, it was determined that coal supply arrangements related to the operations of the 50%-owned Genesee mine and the Highvale contract mine, as well as certain agreements to operate draglines and other assets at other mines, were leasing arrangements. It was determined that Sherritt contributed assets to these arrangements; however, the utility customer had the primary right to use those assets. In effect, Sherritt performs leasing services and is reimbursed with a return on its investment in these assets. As a result, Sherritt was required to reclassify assets of approximately $239 million previously recognized in property, plant and equipment to finance lease receivables since Sherritt is considered the lessor. In the statement of comprehensive income, coal revenue earned from these lease arrangements is presented as finance lease income and depreciation is no longer recorded as the related assets are not considered property, plant and equipment. Earnings from operations will be lower as it does not include finance lease income related to these arrangements.

→ At Power, the Boca de Jaruco and Puerto Escondido facilities were determined to be operating under service concession arrangements. A service concession arrangement is one whereby a private enterprise provides a service to a public sector entity. For Sherritt, it constructs infrastructure used to provide a public service and also operates and maintains that infrastructure for a fee for a specified period of time. At the end of the service concession arrangement, the residual interest in the infrastructure is transferred to the Cuban government. As a result of these service concession arrangements, Sherritt was required to derecognize the property, plant and equipment and other assets of $73 million related to these facilities and record an equivalent amount as an intangible asset.

The following is a reconciliation of previously reported 2010 Canadian GAAP net earnings to 2010 IFRS net earnings:

For the year ended December 31	Reference	2010
Net earnings under Canadian GAAP		$ 214.0
Borrowing costs related to Ambatovy	(a)	(50.5)
Foreign exchange loss on Ambatovy subordinated loan	(b)	(28.4)
Gain on acquisition of CVP	(c)	15.6
Stock-based compensation expense	(d)	(3.1)
Other	(e)	(2.8)
Net earnings under IFRS		$ 144.8

a) Under IFRS, Sherritt's investment in Ambatovy Joint Venture is accounted for as an equity investment. As a result, Sherritt is no longer permitted to capitalize interest costs related to the funds it has borrowed from the Ambatovy Joint Venture partners or the amortization of the cross-guarantee fee asset related to the Ambatovy Project.

b) Sherritt has provided a U.S. dollar denominated subordinated loan to Ambatovy to finance the development of the project. Under IFRS, as repayment of the loan is expected to occur in the foreseeable future it cannot be included as part of the net investment in Ambatovy as was the case under Canadian GAAP. The loan is now included in advances, loans receivable and other assets on the statement of financial position and unrealized foreign exchange gains and losses are recognized in net earnings as the loan is revalued each period.

c) Under IFRS, on the acquisition of CVP, Sherritt was required to re-measure its previously held 50% equity interest to its fair value, resulting in most of the gain. Under Canadian GAAP, previously held interests are not re-measured and no gain is recorded on acquisitions.

d) Sherritt was required to change how it accounted for certain stock options under IFRS and now uses the Black-Scholes model to value these options each reporting period. The amount of expense or recovery for these stock options is primarily determined by movement in the price of Sherritt's publicly traded shares.

e) The items included in Other were not significant on an individual basis. Some of these items related to accounting for environmental rehabilitation provisions, employee benefits, income taxes, foreign exchange fluctuations and the impact of leasing arrangements at Coal and service concession arrangements at Power, as described above, and are not expected to cause significant volatility in net earnings in the future. The impact of the change related to fair valuing the Ambatovy call option did not have a significant impact on 2010 net earnings; however, the valuation of this option may cause volatility in future net earnings.

At December 31, 2010, the effective tax rate under IFRS is higher than under Canadian GAAP primarily due to the borrowing costs and foreign exchange losses (as described in a) and b), respectively), both of which are not deductible, and the accounting gain on the acquisition of CVP described in c) above, which is not taxable.

Consolidated financial results

$ millions, except per share amounts, for the years ended December 31	2011	2010	Change
Revenue by segment			
Metals	**$ 550.4**	$ 529.0	4%
Coal	**1,050.5**	846.3	24%
Oil and Gas	**304.9**	238.2	28%
Power	**60.0**	47.0	28%
Corporate and other	**12.5**	10.1	24%
	1,978.3	1,670.6	18%
EBITDA[1] by segment			
Metals	**$ 200.4**	$ 221.8	(10%)
Coal	**224.2**	159.9	40%
Oil and Gas	**235.9**	177.0	33%
Power	**25.1**	29.7	(15%)
Corporate and other	**(42.4)**	(42.4)	(0%)
	643.2	546.0	18%
Earnings (loss) from operations and associate			
Metals	**$ 166.3**	$ 185.0	(10%)
Coal	**104.5**	81.2	29%
Oil and Gas	**170.0**	101.2	68%
Power	**14.5**	18.7	(22%)
Corporate and other	**(44.6)**	(43.4)	3%
	410.7	342.7	20%
Net finance expense[2]	**123.0**	81.5	51%
Income taxes	**89.2**	101.7	(12%)
Loss from discontinued operation, net of tax	**1.2**	14.7	(92%)
Net earnings	**$ 197.3**	$ 144.8	36%
Net earnings per share			
Basic	**$ 0.67**	$ 0.49	37%
Diluted	**$ 0.67**	$ 0.49	37%
Effective tax rate	**31%**	39%	(21%)

[1] For additional information see the Non-IFRS measure – EBITDA section.

[2] Net finance expense includes interest income or expense, gain or loss on financial instruments, net foreign exchange losses or gains, and other charges.

Detailed information on the performance of each division can be found in the Review of operations sections. In summary:

- → Metals' earnings from operations and associate of $166.3 million for the year ended December 31, 2011 were $18.7 million lower than in 2010 as higher average-realized prices for nickel and fertilizers were more than offset by higher input commodity prices, lower average-realized price for cobalt, and the impact of a stronger Canadian dollar relative to the U.S. dollar;
- → Coal's earnings from operations of $104.5 million for the year ended December 31, 2011 were $23.3 million higher than in 2010 primarily due to higher export thermal coal prices, higher sales volumes in Mountain Operations as a result of acquiring the additional 50% of CVP on June 30, 2010 and higher coal mining revenue at Prairie Operations; this was partially offset by higher operating costs at both Prairie and Mountain Operations and the impact of a stronger Canadian dollar relative to the U.S. dollar at Mountain Operations. Mountain Operations' earnings from operations in 2010 included a $15.6 million gain primarily related to the re-measurement of the Corporation's previously held 50% equity interest when it acquired the remaining 50% of CVP;
- → Oil and Gas' earnings from operations of $170.0 million for the year ended December 31, 2011 were $68.8 million higher than in 2010 primarily due to an increase in the average-realized price for oil produced in Cuba;
- → Power's earnings from operations of $14.5 million for the year ended December 31, 2011 were $4.2 million lower than in 2010 primarily due to lower sales volumes, higher operating costs and a lower average-realized sales price;
- → Net finance expense of $123.0 million for the year ended December 31, 2011 was $41.5 million higher compared to the prior year. Finance expense was $28.9 million higher than the prior year primarily due to an early redemption premium paid on the redemption of the 2012 Debentures in December 2011 and higher interest expense and accretion on higher average loan and borrowing balances. Finance income was $12.6 million lower than the prior year primarily due to lower net gains on financial instruments and lower interest income on lower average investment and loan balances;

→ In 2010, the Corporation closed the Mineral Products division, which included a talc mine and plant. Mineral Products is reported as a discontinued operation. See the Review of operations – Other section for more information; and

→ The effective consolidated tax rate for the year ended December 31, 2011 was 31%, compared to 39% in the same period in the prior year. The 2010 comparative tax rates were impacted primarily by two significant items. Firstly, a tax benefit was not recognized on either the loss incurred by Mineral Products or on the impairment of the property in Turkey, as it was uncertain whether those losses could be used in a future period to reduce taxable income. Secondly, a $15.9 million deferred tax expense was recognized on the Cuban tax contingency reserve. Specifically, in prior years Oil and Gas and Power deducted a 5% contingency reserve in computing current taxes under Cuban tax legislation. During the second quarter of 2010, the Corporation determined it was probable the contingency reserve would be taxable in a future period and recorded a deferred tax expense. After adjusting for these two items, the normalized effective tax rate for the year ended December 31, 2010, was 30%. The difference between the normalized 2010 effective tax rate and the effective tax rate of 31% for the year ended December 31, 2011, is primarily the result of changes in the relative mix of earnings and losses, including foreign exchange gains and losses that were incurred by the various divisions in different tax rate jurisdictions.

Significant factors influencing operating results

As a commodity-based, geographically diverse company, Sherritt's operating results are influenced by many factors, the most significant of which are: commodity prices, operating costs and foreign exchange rates.

COMMODITY PRICES

Results for the year ended December 31, 2011 were significantly impacted by market-driven commodity prices for nickel, cobalt, export thermal coal, oil and gas. A significant portion of domestic coal prices and electricity prices are established at the beginning of a negotiated supply contract period and are therefore less susceptible to commodity price fluctuations during the term of the agreement.

Nickel, export thermal coal and oil commodity prices were higher in 2011 compared to 2010 while the price for cobalt was lower. Average reference prices for nickel increased in 2011 primarily reflecting improved global demand in the first half of 2011. The average cobalt reference price decreased compared to the prior year primarily due to an increase in cobalt supply relative to the global demand for superalloys, rechargeable batteries and other cobalt-bearing products. The average thermal coal and oil reference prices increased in 2011 due to higher demand. A sensitivity analysis of 2011 earnings to changes in significant commodity prices is provided in the Supplementary information – Sensitivity analysis section.

OPERATING COSTS

Sherritt's success depends in part on maintaining a competitive cost-profile at each division. Each division has been able to maintain its competitive advantage through a combination of operating expertise, progressive labour relations and the effective use of technology.

The main operating cost drivers for all divisions are prices for commodity inputs such as electricity, fuel oil, diesel, natural gas, sulphur and sulphuric acid and for maintenance and labour. These costs are all driven by market forces. A sensitivity of the 2011 earnings to changes in significant commodity input costs is provided in the Supplementary information – Sensitivity analysis section.

FOREIGN EXCHANGE RATE

As Sherritt reports its results in Canadian dollars, the fluctuation in foreign exchange rates has the potential to cause significant volatility in those results. Most commodity prices are quoted in U.S. dollars. In addition, many of Sherritt's trade accounts receivable, accounts payable and loans payable are denominated in U.S. dollars. A significant appreciation or depreciation in the exchange rate can have a significant impact on earnings and on the statement of financial position. During 2011, the Canadian dollar strengthened relative to the U.S. dollar such that the average Canadian dollar cost to purchase one U.S. dollar decreased to $0.99, compared to $1.03 in 2010.

For the year ended December 31, 2011, a strengthening or weakening of the Canadian dollar relative to the U.S. dollar of $0.05 would have decreased or increased 2011 annual net earnings by approximately $35 million, respectively. The majority of this decrease (increase) is related to the net impact of foreign exchange on commodity prices at the divisions. The foreign exchange losses (gains) arising from the revaluation of U.S. dollar denominated advances and loans receivable are mostly offset by foreign exchange gains (losses) arising from the revaluation of U.S. dollar denominated loans payable.

REVIEW OF OPERATIONS

Metals

2011 HIGHLIGHTS

→ Annual production records achieved for both nickel and cobalt production at the Fort Saskatchewan refinery and for mixed sulphide production in Moa.

→ Annual sales volume record achieved for nickel and cobalt.

FINANCIAL REVIEW

$ millions, for the years ended December 31	**2011**	2010	Change
Revenue			
Nickel	**$ 386.2**	$ 376.8	2%
Cobalt	**67.2**	76.3	(12%)
Fertilizers	**82.5**	63.8	29%
Other	**14.5**	12.1	20%
	550.4	529.0	4%
Cost of sales[1]			
Mining, processing and refining	**243.3**	205.3	19%
Third-party feed costs	**5.7**	10.0	(43%)
Fertilizers	**59.5**	54.2	10%
Selling costs	**13.6**	14.2	(4%)
Other	**21.2**	17.9	18%
	343.3	301.6	14%
Administrative expenses[1]	**6.7**	5.6	20%
EBITDA[2]	**200.4**	221.8	(10%)
Depletion, depreciation and amortization	**30.6**	31.2	(2%)
Share of loss of associate	**3.5**	5.6	(38%)
Earnings from operations and associate	**$ 166.3**	$ 185.0	(10%)

[1] Excluding depletion, depreciation and amortization.

[2] For additional information see the Non-IFRS measure – EBITDA section.

The change in earnings from operations and associated entity between 2011 and 2010 is detailed below:

$ millions, for the year ended December 31	**2011**
Higher realized nickel prices, denominated in U.S. dollars	**$ 16.6**
Lower realized cobalt prices, denominated in U.S. dollars	**(9.0)**
Higher fertilizer prices	**19.4**
Higher metal sales volumes net of lower fertilizer sales volumes	**5.2**
Higher mining and processing costs net of lower third-party feed costs	**(34.6)**
Stronger Canadian dollar relative to the U.S. dollar	**(17.5)**
Other	**1.2**
Change in earnings from operations, compared to 2010	**$ (18.7)**

METAL PRICES

Prices, for the years ended December 31	**2011**	2010	Change
Nickel – average-realized ($/lb)	**$ 10.14**	$ 10.11	–
Cobalt – average-realized ($/lb)	**15.82**	18.68	(15%)
Nickel – average-reference (US$/lb)	**10.36**	9.89	5%
Cobalt – average-reference (US$/lb)[1]	**16.44**	18.74	(12%)

[1] Average low-grade cobalt published price per Metals Bulletin.

The average nickel reference price increased by US$0.47 per pound compared to the prior year reflecting improved global demand in the first half of 2011. The average cobalt reference price decreased by US$2.30 per pound compared to the prior year due to an increase in cobalt supply relative to the global demand for superalloys, rechargeable batteries and other cobalt-bearing products. Average-realized prices in 2011 were negatively impacted by a stronger Canadian dollar relative to the U.S. dollar.

Fertilizer revenue increased by $18.7 million compared to the prior year primarily due to higher fertilizer prices that more than offset a decrease in fertilizer sales volume.

PRODUCTION AND SALES

PRODUCTION (TONNES) (50% BASIS)

For the years ended December 31	2011	2010	Change
Mixed sulphides	**19,320**	18,873	2%
Finished nickel	**17,286**	16,986	2%
Finished cobalt	**1,927**	1,853	4%

SALES

For the years ended December 31	2011	2010	Change
Finished nickel (thousands of pounds) (50% basis)	**38,088**	37,253	2%
Finished cobalt (thousands of pounds) (50% basis)	**4,249**	4,086	4%
Fertilizer (tonnes)(1)	**165,208**	196,090	(16%)

(1) 100% basis except Moa JV refinery by-product fertilizers included at 50%.

Production of 38,641 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides established an annual production record and was 896 tonnes (100% basis) higher than in the prior year reflecting the impact of ongoing process improvements and stable plant operation. Finished nickel production of 34,572 tonnes (100% basis) and finished cobalt production of 3,854 tonnes (100% basis) both established annual production records and were 600 tonnes (100% basis) and 147 tonnes higher, respectively, than in the prior year. Higher finished metals production reflected the increased availability of Moa mixed sulphides.

In 2011, finished nickel and cobalt sales volumes were higher than in 2010 primarily due to increased production. Fertilizer sales volumes in 2011 were 30,882 tonnes lower than in 2010 as a result of poor spring weather conditions.

UNIT COSTS

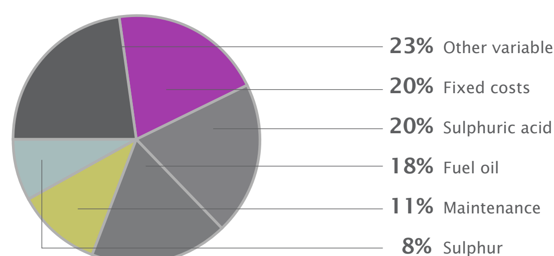
NET DIRECT CASH COST

For the years ended December 31	2011	2010	Change
Mining, processing and refining costs	**$ 6.12**	$ 5.04	21%
Third-party feed costs	**0.15**	0.26	(42%)
Cobalt by-product credits	**(1.78)**	(1.99)	(11%)
Other(1)	**(0.14)**	0.04	(450%)
Net direct cash cost (US$/lb of nickel)(2)	**$ 4.35**	$ 3.35	30%
Natural gas costs ($/gigajoule)	**3.50**	3.96	(12%)
Sulphur (US$/tonne)	**238.79**	141.80	68%
Sulphuric acid (US$/tonne)	**190.00**	135.97	40%

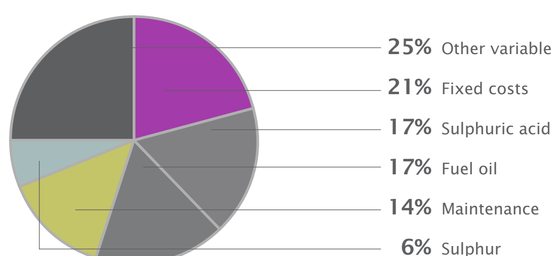
(1) Includes fertilizer profit or loss, marketing costs, premiums, and other by-product credits.

(2) Net direct cash cost is a non-IFRS measure. Net direct cash cost is calculated by dividing cost of sales per the Financial review table (adjusted for the following items: cobalt by-product, fertilizer and other revenue per the Financial review table above and other costs of $15.2 million primarily related to the impact of opening and closing inventory values (2010 – $20.9 million)) by the number of finished nickel pounds sold, translated to U.S. dollars using an average 2011 exchange rate of $0.99 U.S. dollars to Canadian dollars (2010 – $1.03).

2011
COMPONENTS OF MINING, PROCESSING AND REFINING COSTS(1)



2010
COMPONENTS OF MINING, PROCESSING AND REFINING COSTS(1)



(1) Approximate breakdown of mining, processing and refining costs based on a breakdown of production costs for the period excluding the impact of opening and closing inventory values on the cost of sales.

Net direct cash cost of nickel increased US$1.00 per pound in 2011 compared to the prior year primarily due to higher mining, processing and refining costs and lower cobalt by-product credits, partially offset by lower third-party feed costs and higher fertilizer by-product credits. Increased mining, processing and refining costs primarily reflected higher commodity input prices. Third-party feed costs decreased as higher production at Moa made it possible for the refinery to reduce its third-party feed levels and increase its feed of more profitable Moa mixed sulphides.

SPENDING ON CAPITAL

$ millions, for the years ended December 31	2011	2010	Change
Moa Joint Venture[1]			
Sustaining[2]	**$ 40.9**	$ 35.2	16%
Expansion	**3.8**	7.0	(46%)
Total	**$ 44.7**	$ 42.2	6%

[1] Spending on capital related to the Corporation's 50% interest in the Moa Joint Venture, and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

[2] Includes leased expenditures for the year ended December 31, 2011 of $3.0 million (2010 – $2.1 million).

Capital spending for the Moa Joint Venture primarily focused on sustaining activities. Expansion spending for the Moa Joint Venture includes capitalized interest related to financing of the Phase 2 Expansion and the Moa acid plant.

AMBATOVY PROJECT UPDATE

- → Project capital spending was US$148.9 million ($152.4 million) and US$1.1 billion ($1.1 billion) (100% basis) for the three months and year ended December 31, 2011, respectively;
- → Project capital spending of US$148.9 million (100% basis) in the fourth quarter of 2011 was lower compared to previous quarters primarily due to the completion of construction;
- → Cumulative capital spending on the project at December 31, 2011 was US$5.2 billion (100% basis);
- → Approximately US$352.0 million ($363.7 million) (100% basis) in funding was provided by the Ambatovy Joint Venture partners in the fourth quarter of 2011 with Sherritt funding its US$140.8 million ($145.5 million) share directly. During the year a total of US$1.1 billion ($1.1 billion) (100% basis) was provided by the Ambatovy Joint Venture partners. Sherritt funded its US$430.9 million ($427.0 million) share by using $381.3 million of cash on hand and borrowing the remaining $45.7 million under the Ambatovy Joint Venture additional partner loans;
- → Primary construction of the project is complete with all 56 major process plant modules turned over to the commissioning teams. All areas of the project are either in commissioning, start-up or operations;
- → As of December 31, 2011, 85% of the construction personnel have been demobilized including over 3,000 people in the fourth quarter of 2011. The remaining construction resources will continue to be demobilized in a staged manner, coinciding with the commissioning and start-up activities;
- → In the fourth quarter of 2011, the third and final coal-fired boiler on the Plant Site was commissioned as scheduled. With the successful installation of the supplemental diesel power generation (30 MW) during the quarter, the total installed generation capacity within the Plant Site is 178 MW. Total power requirements at full production capacity range from 65 to 75 MW.
- → The start-up sequencing continues on the first systems of the pressure acid leach circuits, including the second autoclave and the ammonia storage facility. Commissioning is complete and start-up is in progress on many ancillary operations and systems including the acid plants, hydrogen plant and hydrogen sulphide plant;
- → The three-day trial test run on the first autoclave was completed by processing ore, steam and acid with no issues identified either during or in the post-run inspections;
- → During the fourth quarter of 2011, the first ammonia shipment was received at the port and offloaded to the ammonia storage facility;
- → Commissioning work at the mine site is complete and 36,437 tonnes of ore have been fed through the ore preparation plant with slurry densities consistent with design. Slurry has been pumped down the pipeline to the plant site at Toamasina and the pipeline is operating within design parameters;
- → The project experienced a labour disturbance in the first quarter of 2011 resulting in a 13-day disruption at the refinery. There were no labour disturbances during the remainder of the year;
- → The estimated project capital cost remains US$5.5 billion, excluding financing charges, working capital and foreign exchange. The current estimate for the financing charges, working capital and foreign exchange ("other net project costs") is US$900 million and may vary until commercial production is declared, which is dependent on a number of factors.

The US$900 million includes certain financing costs of US$128 million that were previously included in the US$5.5 billion (100%) capital cost estimate prior to the third quarter of 2011. The most significant variability in the other net project costs is likely to arise from the working capital component and the production revenue which are netted from these costs.

- The variability in the other net project costs is anticipated to arise primarily from three categories of potential risk.
  - Parts and equipment. There still remains an inherent risk that parts and equipment may fail during early operation, and this risk will become apparent during the start-up process. In addition, if a critical part fails during start-up and replacement is not readily available, a ramp-up delay is possible.
  - Construction quality risk. As disclosed in December 2010, Sherritt identified and replaced certain contractors who had been performing inadequately at both the Power Plant and Refinery. The Power Plant is now operational and can provide sufficient power for start-up and ongoing operations. In the Refinery and in certain areas of the High Pressure Acid Leach, programs have been implemented to rectify all known quality deficiencies, but latent issues may still exist that could affect metal recoveries during start-up.
  - Operational risk. The pace of the start-up process and production ramp-up will be directly affected by the performance of core operators and maintenance teams. The commissioning process has been utilized to train and familiarize the new operators with the facility. However, their performance in an operating plant remains untested. Supplementary operators and maintenance personnel, experienced in both start-up activities and steady-state operations, are being mobilized to assist further in the training and start-up to mitigate the short-term risks. In addition, a system has been instituted that will monitor the qualifications and performance of this group and mitigate issues over the medium and long term.

  Revenue from sales of nickel and cobalt in the pre-production phase offset estimated working capital requirements during that same period. As a result, estimated other net project costs may increase or decrease depending on the market price of nickel and cobalt and the volume of output during the pre-commercial production period. An estimate of 2012 production is provided in the Metals – Outlook section.
- First metal is scheduled for the first quarter of 2012. Assuming no significant impacts arise from the risks outlined above to the start-up process or production ramp-up, the Ambatovy operations are expected to be cash-flow neutral by the fourth quarter of 2012 and reach commercial production by the end of 2012 or early 2013, and achieve full production in 2013. Ambatovy is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity.
- There continue to be no material disruptions to the project due to the political situation in Madagascar. Since the third quarter of 2011, there has been progress on the implementation of the "Roadmap" designed by the Southern African Development Community to facilitate Madagascar's return to democratic rule although several key milestones are outstanding. The project continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. The project continues to have active working relations with relevant Malagasy Ministries to facilitate the commissioning and start-up of operations.

OUTLOOK FOR 2012

PRODUCTION VOLUMES AND SPENDING ON CAPITAL AND PROJECT

For the years ended December 31	**Actual 2011**	Projected 2012
Production		
Mixed sulphides (tonnes, 100% basis)		
Moa Joint Venture	**38,641**	38,000
Ambatovy Joint Venture	**–**	9,000 – 14,500
	38,641	47,000 – 52,500
Finished nickel (tonnes, 100% basis)		
Moa Joint Venture	**34,572**	33,900
Ambatovy Joint Venture	**–**	8,000 – 13,000
	34,572	41,900 – 46,900
Finished cobalt (tonnes, 100% basis)		
Moa Joint Venture	**3,854**	3,375
Ambatovy Joint Venture	**–**	800 – 1,300
	3,854	4,175 – 4,675
Spending on capital ($ millions)		
Moa Joint Venture (50% basis), Fort Saskatchewan[1]	**45**	60
Project spending (US$ millions, 100% basis)		
Ambatovy Joint Venture	**1,064**	250

[1] Spending on capital relates to the Corporation's 50% share of the Moa Joint Venture and to the Corporation's 100% interest in the fertilizer and utilities assets in Fort Saskatchewan.

For the Moa Joint Venture, full-year 2012 production of contained nickel and cobalt in mixed sulphides is expected to be 2% (641 tonnes, 100% basis) lower than 2011, reflecting a change in ore grade. Finished metal production is also expected to reflect the mixed sulphides production trend. Spending on capital for 2012 is expected to be approximately 33% ($15 million, 50% basis) higher than in 2011, reflecting the timing of replacement of equipment and the impact of longer haul distances on mine infrastructure. The Moa Joint Venture partners continue to review options and update costs pertaining to the completion of the Phase 2 Expansion and construction of a sulphuric acid plant at Moa. Guidance for spending on capital does not include any expansion-related expenditure, other than capitalized interest.

For the Ambatovy Joint Venture, first metal is scheduled for the first quarter of 2012. Guidance for full-year 2012 production of contained nickel and cobalt in mixed sulphides is 9,000 – 14,500 tonnes (100% basis). Finished metal production guidance for full-year 2012 (100% basis) is 8,000 – 13,000 tonnes of nickel and 800 – 1,300 tonnes of cobalt. With the completion of construction in 2011, spending on capital is expected to be US$250 million (100% basis) for 2012.

Coal

2011 HIGHLIGHTS

→ Coal achieved record revenue of $1.1 billion and earnings from operations of $104.5 million primarily due to stronger export thermal coal pricing and record production at Mountain Operations.

→ In Prairie Operations, 10-year coal supply agreements were extended with customers at the Paintearth and Highvale mines.

→ In Prairie Operations, the Activated Carbon plant completed its first full year of operations with 6,513 (50% basis) tonnes of product sold.

FINANCIAL REVIEW

$ millions, for the years ended December 31	2011	2010	Change
Prairie Operations			
Mining revenue[1]	**$ 547.5**	$ 505.8	8%
Coal royalties	**39.3**	44.1	(11%)
Potash royalties	**18.9**	12.8	48%
	605.7	562.7	8%
Cost of sales[2]	**463.9**	434.5	7%
Administrative expenses[2]	**7.1**	8.5	(16%)
EBITDA[3]	**134.7**	119.7	13%
Depletion, depreciation and amortization[1]	**64.4**	62.8	3%
Earnings from operations	**$ 70.3**	$ 56.9	24%
Mountain Operations and coal development assets[4]			
Revenue	**$ 444.8**	$ 283.6	57%
Cost of sales[2]	**349.0**	238.2	47%
Administrative expenses[2]	**6.3**	5.2	21%
EBITDA[3]	**89.5**	40.2	123%
Depletion, depreciation and amortization	**55.3**	31.5	76%
Gain on acquisition of CVP	**–**	15.6	(100%)
Earnings from operations	**$ 34.2**	$ 24.3	41%

(1) The Corporation determined certain coal supply agreements in Prairie Operations were leasing arrangements. As a result, coal revenue earned on specified assets from these arrangements was reclassified to finance income, and depreciation is no longer recorded since the related assets are not considered property, plant and equipment. Finance lease income is not included in EBITDA or earnings from operations.

(2) Excluding depletion, depreciation and amortization.

(3) For additional information see the Non-IFRS measure – EBITDA section.

(4) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest. The Corporation proportionately consolidates its 50% interest in coal development assets.

The change in earnings from operations between 2011 and 2010 is detailed below:

$ millions, for the year ended December 31	2011
Prairie Operations	
Higher mining revenue, net of cost of sales	**$ 12.3**
Higher potash royalties, net of lower coal royalties	**1.3**
Other	**(0.2)**
Change in earnings from operations, compared to 2010	**$ 13.4**
Mountain Operations and coal development assets	
Higher export coal prices, denominated in U.S. dollars	**$ 81.8**
Higher export sales volumes	**15.0**
Higher mining costs	**(36.2)**
Higher depletion, depreciation and amortization	**(23.8)**
Gain on acquisition of Sherritt's 50% interest in CVP in 2010	**(15.6)**
Stronger Canadian dollar relative to the U.S. dollar	**(12.8)**
Other	**1.5**
Change in earnings from operations, compared to 2010	**$ 9.9**

COAL PRICES

PRICES ($ PER TONNE)

For the years ended December 31		2011		2010	Change
Prairie Operations – average-realized[1][2]	**$**	**16.31**	$	14.18	15%
Mountain Operations – average-realized		**101.61**		84.21	21%

(1) Excludes royalties, char and activated carbon revenue.

(2) As described above under Financial review, coal revenue under certain supply agreements was reclassified from coal revenue to finance income and, therefore, is not included in the average-realized price calculation.

In Prairie Operations, the average-realized price increased $2.13 per tonne compared to the prior year primarily due to higher revenue earned at the Highvale mine on lower sales volumes. The average-realized price was also higher as a result of the sale of stockpiled inventory from Bienfait mine to Boundary Dam mine's main customer and lower sales volumes at the Boundary Dam mine as a result of lower production in the second quarter of 2011. A significant portion of Boundary Dam mine's revenue is fixed.

In Mountain Operations, the average-realized price increased $17.40 per tonne compared to the prior year due to stronger thermal export coal pricing, partially offset by a stronger Canadian dollar relative to the U.S. dollar.

ROYALTY REVENUE

$ millions, for the years ended December 31		2011		2010	Change
Prairie Operations					
Coal royalties	**$**	**39.3**	$	44.1	(11%)
Potash royalties		**18.9**		12.8	48%

Coal royalties were lower compared to the prior year due to the timing of mining activities in royalty assessable areas. Potash royalties were higher compared to the prior year due to higher potash market prices and higher production.

PRODUCTION AND SALES

PRODUCTION (MILLIONS OF TONNES)

For the years ended December 31	2011	2010	Change
Prairie Operations	**32.7**	34.4	(5%)
Mountain Operations[1]	**4.4**	3.3	33%

SALES (MILLIONS OF TONNES)

For the years ended December 31	2011	2010	Change
Prairie Operations	**32.0**	34.5	(7%)
Mountain Operations[1]	**4.4**	3.3	33%

(1) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.

In Prairie Operations, production and sales volumes were lower compared to the prior year mainly at the Highvale mine as a result of the shutdown of two older coal-fired generating units in January 2011. A new coal-fired generating plant that opened in September is expected to largely offset the shutdown of these two older units. Production and sales volumes were also affected by an unscheduled maintenance shutdown of a power plant unit at the Genesee mine during the fourth quarter and extremely wet weather and flooding during the second quarter at the Boundary Dam mine.

In Mountain Operations, production and sales volumes in 2011 includes the impact of Sherritt acquiring the remaining 50% of CVP on June 30, 2010. On an annualized basis, production was 4.4 million tonnes compared to 4.2 million tonnes in the prior year (100% basis). Production was higher compared to the prior year due to improved dragline availability and lower strip ratios at the Obed Mountain mine.

UNIT COSTS

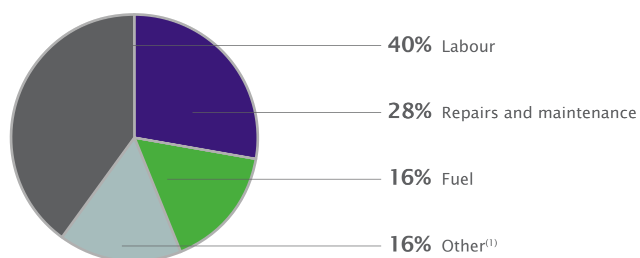
UNIT COST ($ PER TONNE)

For the years ended December 31	**2011**	2010	Change
Prairie Operations[1]	**$ 13.87**	$ 12.23	13%
Mountain Operations[2]	**79.61**	71.32	12%

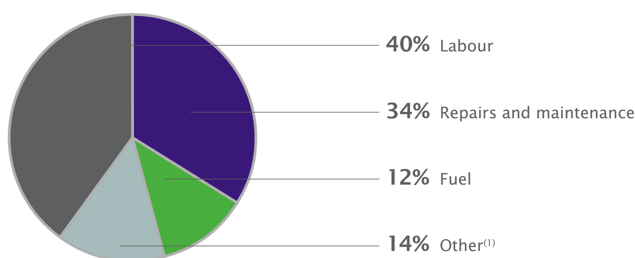
[1] Unit cost is a non-IFRS measure. The unit cost is calculated by dividing cost of sales from the Financial review table above (adjusted to exclude costs of $19.9 million related to royalties, activated carbon and char (2010 – $15.3 million)) by the number of tonnes sold (adjusted for the 0.1 million tonnes of activated carbon and char sold in both 2011 and 2010).

[2] Unit cost is a non-IFRS measure. The unit cost is calculated by dividing cost of sales from the Financial review table above by the number of tonnes sold.

2011
PRAIRIE OPERATIONS – COMPONENTS OF OPERATING COSTS

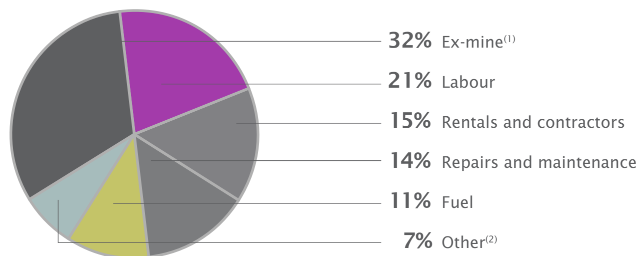


2010
PRAIRIE OPERATIONS – COMPONENTS OF OPERATING COSTS

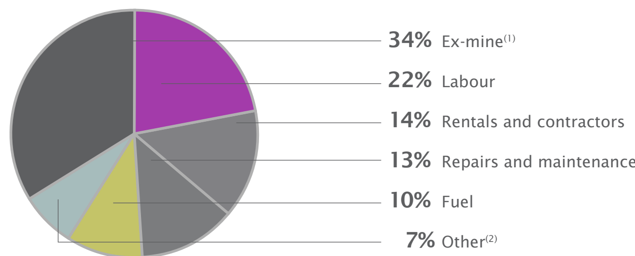


[1] Composed of rentals, subcontractors, explosives, power, taxes, tires, licenses and other miscellaneous expenses.

2011
MOUNTAIN OPERATIONS – COMPONENTS OF OPERATING COSTS



2010
MOUNTAIN OPERATIONS – COMPONENTS OF OPERATING COSTS



[1] Primarily composed of commissions, royalties, freight and port fees.

[2] Composed of tires, explosives, power, taxes, licenses and other miscellaneous expenses.

In Prairie Operations, unit costs increased $1.64 per tonne compared to the prior year mainly due to lower sales volumes on increased fixed costs at the Highvale mine and as a result of the issues at the Genesee and Boundary Dam mines, as discussed in the Production and sales section.

In Mountain Operations, unit costs increased $8.29 per tonne compared to the prior year primarily due to longer haul distances, lower loading equipment availability and higher equipment repair costs at the Coal Valley mine.

SPENDING ON CAPITAL

$ millions, for the years ended December 31	2011	2010	Change
Prairie Operations			
Sustaining[1][2]	**$ 86.9**	$ 43.9	98%
Growth (50% basis)	**–**	14.4	(100%)
Mountain Operations[3]			
Sustaining[4]	**34.9**	23.6	48%
Total	**$ 121.8**	$ 81.9	49%

(1) Includes leased expenditures for the year ended December 31, 2011 of $54.6 million (2010 – $27.7 million).

(2) Prairie Operations capital expenditures for the year ended December 31, 2011 include $31.5 million of sustaining capital spending related to assets that are categorized as finance lease receivables (2010 – $18.7 million).

(3) Capital spending reflects the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.

(4) Includes leased expenditures for the year ended December 31, 2011 of $19.5 million (2010 – $10.6 million).

Coal leases the majority of its mobile equipment under long-term mine-support equipment agreements entered into in 2004. During 2011, in addition to the acquisition of $54.6 million of leased equipment, Prairie Operations incurred $32.3 million for infrastructure development and capital repairs on mobile equipment, of which $12.8 million related to replacement of a dragline component at the Paintearth mine. Capital spending in Coal was significantly higher than 2010 due largely to extended equipment delivery schedules that deferred equipment deliveries from 2010 into 2011.

In Prairie Operations, 2010 growth capital spending was related to the Activated Carbon plant at the Bienfait mine, which commenced start-up activities in June 2010. Production for the year ended December 31, 2011 was 6,683 tonnes (50% basis) of activated carbon, exceeding outlook projections of 6,500 tonnes (50% basis). The plant is currently operating at design capacity and achieved record monthly production of 684 tonnes (50% basis) in December 2011.

In Mountain Operations, in addition to the acquisition of $19.5 million of leased equipment, it incurred $15.4 million of expenditures primarily related to the wash plant, exploration drilling programs, and permitting and infrastructure costs for future mining areas at the Coal Valley mine.

REGULATORY UPDATE

The status of the draft regulations published by the federal government on August 27, 2011, "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity" (the Draft Regulations), remains uncertain. The Draft Regulations would require, among other things, that new and certain refurbished coal-fired plants commissioned on or after July 1, 2015, achieve an emissions intensity performance standard of 375 tonnes of CO_2 per gigawatt hour. In general, for units commissioned prior to that date, the same standard would take effect 45 years from the unit's commissioning date or upon the expiration of the unit's power purchase agreement, whichever comes later. Coal provided written comments to the federal government within a prescribed 60-day comment period. Coal has also continued to actively engage with key stakeholders, including provincial and federal governments, to express its concerns with the Draft Regulations.

OUTLOOK FOR 2012

PRODUCTION VOLUMES, ROYALTIES AND SPENDING ON CAPITAL

For years ended December 31	Actual 2011	Projected 2012
Production		
Prairie Operations (millions of tonnes)	**33**	33
Mountain Operations (millions of tonnes)	**4.4**	4.3
Royalties ($ millions)		
Coal	**39**	39
Potash	**19**	19
Spending on capital ($ millions)		
Prairie Operations	**87**	97
Mountain Operations	**35**	65

For Prairie Operations, full-year 2012 production is expected to be 33 million tonnes, consistent with the prior year. Full-year 2012 spending on capital at Prairie Operations is expected to be 11% ($10 million) higher than the prior year, largely due to the timing of major dragline capital replacement work at the Bienfait mine.

For Mountain Operations, full-year 2012 production is expected to be marginally lower (2% or 0.1 million tonnes) than in 2011, as production between the two mines is adjusted to optimize the characteristics of the coal delivered to customers. Spending on capital for 2012 is expected to be approximately 80% ($30 million) higher due to the purchase of major pieces of loading and mining support equipment as well as to an augmented exploratory drilling program and infrastructure development to further define future mining areas at the Coal Valley mine.

Oil and Gas

2011 HIGHLIGHTS

→ Oil and Gas achieved record earnings from operations of $170.0 million primarily due to higher oil prices.

→ Sherritt commenced drilling eight development wells, seven of which were completed and four are currently producing oil. The drilling results of the three remaining wells are being assessed.

FINANCIAL REVIEW

$ millions, for the years ended December 31	2011	2010	Change
Revenue			
Cuba	**$ 282.1**	$ 212.2	33%
Spain	**16.7**	13.9	20%
Pakistan[1]	**1.1**	1.1	–
Processing and other	**5.0**	11.0	(55%)
	304.9	238.2	28%
Cost of sales[1][2]	**63.4**	59.4	7%
Administrative expenses[1][2]	**10.4**	10.8	(4%)
Add: Impairment losses[3]	**(4.8)**	(9.0)	(47%)
EBITDA[4]	**235.9**	177.0	33%
Depletion, depreciation and amortization	**61.1**	66.8	(9%)
Less: Impairment losses[3]	**4.8**	9.0	(47%)
Earnings from operations	**$ 170.0**	$ 101.2	68%

(1) For 2010, certain costs previously categorized as revenue and general and administrative were reclassified to cost of sales to agree with the current year presentation.

(2) Excluding depletion, depreciation and amortization.

(3) For additional details see the Spending on capital section.

(4) For additional information see the Non-IFRS measure – EBITDA section.

The change in earnings from operations between 2011 and 2010 is detailed below:

$ millions, for the year ended December 31	2011
Higher realized oil and gas prices	**$ 72.4**
Higher cost recovery spending	**7.1**
Lower gross working-interest volumes	**(5.9)**
Stronger Canadian dollar relative to the U.S. dollar	**(7.4)**
Other	**2.6**
Change in earnings from operations, compared to 2010	**$ 68.8**

OIL PRICES

PRICES

For the years ended December 31	2011	2010	Change
Average-realized prices			
Cuba ($/bbl)	**$ 68.47**	$ 52.24	31%
Spain ($/bbl)	**110.16**	81.73	35%
Pakistan ($/boe)[1]	**8.03**	8.26	(3%)
Reference price (US$/bbl)			
Gulf Coast Fuel Oil No. 6	**95.41**	69.76	37%
Brent	**112.14**	79.89	40%

[1] Average-realized price for natural gas production is stated in barrels of oil equivalent (boe), which is converted at 6,000 cubic feet per boe.

The average-realized price for oil production in Cuba increased by $16.23 per barrel compared to the prior year as a result of higher oil reference prices, partially offset by a stronger Canadian dollar relative to the U.S. dollar. The average-realized price for oil produced in Spain was higher for the same reasons.

PRODUCTION AND SALES

DAILY PRODUCTION VOLUMES[1]

For the years ended December 31	2011	2010	Change
Gross working-interest oil production in Cuba[2][3]	**20,888**	21,204	(1%)
Net working-interest oil production[4]			
Cuba (heavy oil)			
Cost recovery	**3,430**	3,910	(12%)
Profit oil	**7,856**	7,218	9%
Total	**11,286**	11,128	1%
Spain (light/medium oil)[4]	**416**	466	(11%)
Pakistan (natural gas)[4]	**355**	362	(2%)
Total	**12,057**	11,956	1%

[1] Oil production is stated in barrels per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.

[2] In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commercial viability has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.

[3] Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net working-interest production', includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.

[4] Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net working-interest production equals 100% of gross working-interest production.

Gross working-interest (GWI) oil production in Cuba decreased 316 bopd compared to the prior year primarily due to natural reservoir declines that were partially offset by production increases from new wells drilled and optimization of production from existing wells.

Cost recovery oil production in Cuba decreased 480 bopd compared to the prior year primarily due to higher oil prices partially offset by an increase in cost recovery expenditures. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, increased by 638 bopd in 2011.

Production in Spain and Pakistan was lower than the prior year due to natural reservoir declines.

UNIT COSTS

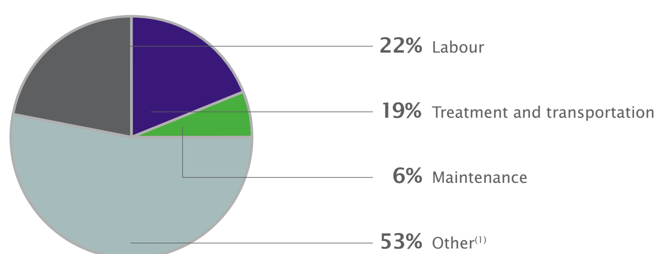
UNIT COST ($ PER NET BOE)[1]

For the years ended December 31	2011	2010	Change
Cuba	$ 12.07	$ 10.66	13%
Spain	46.51	32.12	45%
Pakistan	3.44	2.01	71%
Weighted-average[2]	$ 13.01	$ 11.24	16%

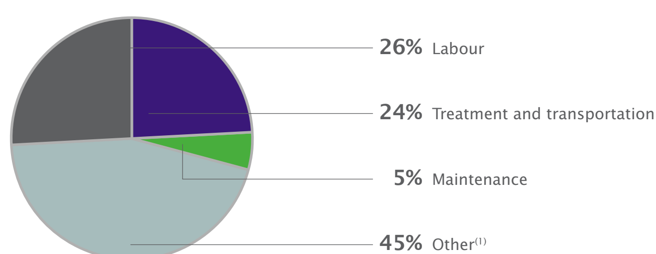
(1) The 2010 unit costs have been adjusted to reflect the reclassification between administrative expense and cost of sales as previously discussed.

(2) Unit cost is a non-IFRS measure. The unit cost is calculated by dividing cost of sales from the Financial review table above (adjusted to exclude impairment losses of $4.8 million (2010 – $9.0 million) and other costs of $1.2 million not related to oil production (2010 – $1.3 million)) by the total number of barrels of oil sold (total barrels of oil sold is calculated as boepd times the number of days in the year).

2011
COMPONENTS OF OPERATING COSTS – CUBA



2010
COMPONENTS OF OPERATING COSTS – CUBA



(1) Composed of all other operating costs, the most significant of which are chemicals, insurance, yard maintenance costs and fuel.

Unit costs in Cuba increased $1.41 per barrel compared to the prior year primarily due to increased well workover costs, inventory provisions and higher input prices for various components of maintenance and other operating costs.

Unit costs in Spain increased $14.39 per barrel compared to the prior year primarily due to well workover costs incurred in 2011.

SPENDING ON CAPITAL

$ millions, for the years ended December 31	2011	2010	Change
Development and facilities	$ 59.4	$ 51.5	15%
Exploration[1]	3.2	3.9	(18%)
Total	$ 62.6	$ 55.4	13%

(1) Exploration and evaluation spending incurred after determination of proven and probable reserves but before the establishment of technical feasibility and commercial viability for extracting the resource is accounted for as an intangible asset.

Development and facilities capital spending primarily includes $40.7 million for development drilling activities, $7.0 million related to facility improvements and $6.6 million for equipment and inventory purchases. Sherritt commenced drilling eight development wells, seven of which were completed and four are currently producing oil. The drilling results of the three remaining wells are being assessed.

Exploration spending in 2011 was primarily focused on the United Kingdom North Sea prospect area.

During 2011, the Corporation discontinued further exploration in the vicinity of a well drilled in the Cuban Block 8 prospect area resulting in an impairment loss of $2.0 million. The expiry of a Cuban production-sharing agreement related to an enhanced oil recovery project resulted in additional impairment losses of $2.8 million in 2011. In 2010, the Corporation discontinued exploration in the Boca de Jaruco prospect area in Cuba and the North Thrace prospect area of Turkey resulting in impairment losses of $1.1 million and $7.9 million, respectively.

OUTLOOK FOR 2012

PRODUCTION VOLUMES AND SPENDING ON CAPITAL

For the years ended December 31	**Actual 2011**	Projected 2012
Production		
Gross working-interest oil (Cuba) (bpd)	**20,888**	20,000
Net working-interest production, all operations (boepd)	**12,057**	11,780
Spending on capital ($ millions)		
Cuba	**55**	51
Other	**8**	18

Full-year 2012 GWI oil production in Cuba is expected to be marginally lower than in 2011 (4% or 888 bopd), reflecting natural reservoir decline rates, partially offset by expected production resulting from the 2011 drilling program. Total net working-interest production for 2012 is expected to reflect this trend. Spending on capital for 2012 is expected to increase 10% ($6 million), with a small decline in spending on capital in Cuba (7% or $4 million) being more than offset by an expanded program in other jurisdictions. The $10 million increase over 2011 spending on capital in other jurisdictions mainly relates to maintenance spending in Spain as well as seismic acquisition in respect of the North Sea.

Power

2011 HIGHLIGHT

→ The 150 MW Boca de Jaruco Combined Cycle Project in Cuba is currently on schedule for completion in the first half of 2013.

FINANCIAL REVIEW

$ millions[1], for the years ended December 31	**2011**	2010	Change
Revenue			
Electricity sales	**$ 25.3**	$ 29.2	(13%)
By-products and other	**7.7**	7.4	4%
Fixed-price lease contracts[2]	**5.3**	5.3	–
Construction activity[3]	**21.7**	5.1	325%
	60.0	47.0	28%
Cost of sales[4][5]	**12.4**	9.9	25%
Cost of construction[3]	**21.7**	5.1	325%
Administrative expenses[4][5]	**0.8**	2.3	(65%)
EBITDA[6]	**25.1**	29.7	(15%)
Depletion, depreciation and amortization	**10.6**	11.0	(4%)
Earnings from operations	**$ 14.5**	$ 18.7	(22%)

(1) The Corporation's 33 1/3% interest in Energas is proportionately consolidated.

(2) Composed of fixed lease payments received for the operation of a 25 MW power plant in Madagascar.

(3) The revenue recognized in respect of construction, enhancement or upgrading activity is equal to the costs recorded in cost of construction for the Boca de Jaruco and Puerto Escondido facilities. The contractual arrangements related to these facilities are treated as service concession arrangements.

(4) Excluding depletion, depreciation and amortization.

(5) Certain costs previously categorized as general and administrative were reclassified to cost of sales. The 2010 figures have been adjusted accordingly.

(6) For additional information see the Non-IFRS measure – EBITDA section.

The change in earnings from operations between 2011 and 2010 is detailed below:

$ millions, for the year ended December 31	**2011**
Lower electricity volumes	**$ (2.7)**
Higher realized by-product prices	**1.6**
Turbine failure costs and higher scheduled maintenance costs	**(1.7)**
Stronger Canadian dollar relative to the U.S. dollar	**(1.5)**
Other	**0.1**
Change in earnings from operations, compared to 2010	**$ (4.2)**

ELECTRICITY PRICES

PRICES ($ PER MWH)(1)

For the years ended December 31	2011	2010	Change
Average-realized price	**$ 41.00**	$ 42.42	(3%)

(1) Megawatt hours (MWh).

The average-realized price of electricity was $1.42 per MWh lower compared to the prior year primarily due to a stronger Canadian dollar relative to the U.S. dollar.

PRODUCTION AND SALES

PRODUCTION/SALES (33¹/₃% BASIS)

For the years ended December 31	2011	2010	Change
Electricity sold (GWh)(1)	**618**	689	(10%)

(1) Gigawatt hours (GWh).

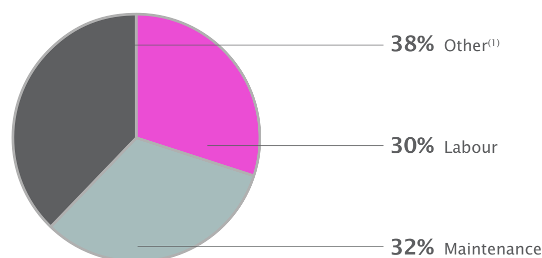
Production decreased by 71 GWh compared to the prior year primarily due to continued gas supply shortages, scheduled maintenance activities and two turbine failures that reduced available capacity. These turbines were returned to service during the year.

UNIT COSTS

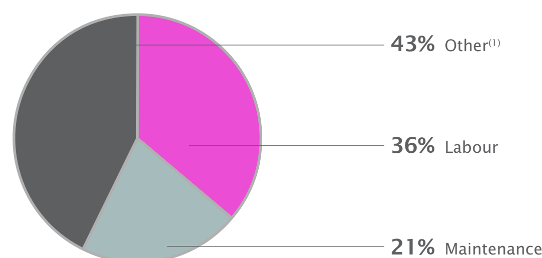
For the years ended December 31	2011	2010	Change
Unit cost ($ per MWh)(1)	**$ 20.05**	$ 14.46	39%

(1) Unit cost is a non-IFRS measure. The unit cost is calculated by dividing cost of sales from the Financial review table above by the number of MWh of electricity sold.

2011
COMPONENTS OF OPERATING COSTS



2010
COMPONENTS OF OPERATING COSTS



(1) Composed of all other operating costs, the most significant of which are insurance, freight and duty.

Unit costs were $5.59 per MWh higher compared to the prior year primarily due to higher repair and maintenance costs associated with the turbine failures and scheduled maintenance work on a gas turbine located in Puerto Escondido.

SPENDING ON CAPITAL AND SERVICE CONCESSION ARRANGEMENTS

$ millions (33¹/₃% basis), for the years ended December 31	2011	2010	Change
Sustaining	**$ 2.7**	$ 2.5	8%
Growth(1)	**3.0**	2.1	43%
Total	**$ 5.7**	$ 4.6	24%

(1) Capitalized interest relating to the 150 MW Boca de Jaruco Combined Cycle Project.

Sustaining capital expenditures were primarily related to the major turbine maintenance at the Varadero facility as well as the purchase of equipment, and major long-term spare parts.

$ millions (33¹/₃% basis), for the years ended December 31	2011	2010	Change
Service concession arrangements	**$ 21.7**	$ 5.1	325%

Service concession arrangement expenditures primarily related to engineering services and equipment purchases at Boca de Jaruco. Approximately 80% of the engineering for the project is complete and all major equipment has been ordered, the majority of which is on site. The project is scheduled to begin production in the first half of 2013. Sherritt's estimate of the total project cost increased from $247.0 million to $271.0 million. The increase is primarily due to the higher cost of materials compared to the original cost estimate provided in 2007.

New construction, enhancements and upgrades are expensed as incurred and are included in cost of sales on the consolidated statements of comprehensive income. In exchange for the design, construction and operating services provided, the Corporation records an intangible asset and a corresponding construction revenue amount equal to the cost of construction to reflect the right to charge the Cuban government for the future supply of electricity. The net result is a nil impact to net earnings.

OUTLOOK FOR 2012

PRODUCTION VOLUMES AND SPENDING ON CAPITAL (33$^{1}/_{3}$% BASIS) AND PROJECT

For the years ended December 31	**Actual 2011**	Projected 2012
Production		
Electricity (GWh)	**618**	550
Spending on capital ($ millions)		
Cuba[1]	**6**	8
Project spending ($ millions)		
150 MW Boca de Jaruco (100% basis)	**65**	109

(1) Spending on capital for Power includes sustaining capital at the Varadero site as well as capitalized interest in respect of the 150 MW Boca de Jaruco Combined Cycle Project.

Full-year 2012 production is expected to decline 11% (68 GWh, 33$^{1}/_{3}$% basis) from 2011 levels, reflecting increasing gas supply shortages. Full-year 2012 spending on capital is expected to be 33% ($2 million, 33$^{1}/_{3}$% basis) higher than in 2011, reflecting increased capitalized interest for the 150 MW Boca de Jaruco Combined Cycle Project.

Spending in 2012 on the 150 MW Boca de Jaruco Combined Cycle Project is expected to be $109 million (68% or $44 million, 100% basis, higher than in 2011), as activity will increase approaching a first-half 2013 completion date.

Other

TECHNOLOGIES

Technologies continued to support the Ambatovy Project construction and commissioning activities through rotational assignments at the site.

Commissioning of a Brazilian gold pressure oxidation project commenced late in the year. In addition, significant pilot test work was completed for a number of gold and oil industry clients.

Development of coal-to-liquids technology continued with a third party. Work has commenced on the design of a pilot plant to produce carbon products with favourable economics.

The division continues to support Sherritt Coal in progressing initiatives on coal gasification and pre-combustion technologies.

For the year ended December 31, 2011, Technologies generated external revenue of $12.4 million, compared to $9.8 million in the prior year.

SULAWESI PROJECT UPDATE

On November 30, 2010, the Corporation entered into an earn-in and shareholders' agreement with a subsidiary of Rio Tinto regarding the Sulawesi Nickel Project. Due to permitting delays in 2011, this agreement was subsequently amended as of January 23, 2012. Pursuant to the terms of the amended agreement, the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project in Indonesia upon funding US$30.0 million and meeting certain other conditions by October 1, 2013. Rio Tinto would then own the remaining 42.5% in the holding company. In compliance with Indonesian Mining law, local Indonesian interests are expected to acquire a 20.0% stake in the Sulawesi Project after which Sherritt and Rio Tinto's economic interest will be 46.0% and 34.0%, respectively.

If the Corporation acquires its 57.5% interest, the amended agreement also provides that the Corporation can elect to spend an additional US$80.0 million by June 30, 2017 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited.

The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Sherritt has been appointed operator and will license its commercially proven proprietary technology to the project.

In 2011, the Corporation incurred US$9.3 million of expenditures related to advancing the prefeasibility work, which qualified towards the US$30.0 million condition described above and continued to advance work on permitting related to the next phase of a resource drilling program, environmental and social baseline studies, and the project prefeasibility study.

Activity in 2012 is anticipated to include the commencement of a resource drilling program in the second half of 2012, which is expected to bring total spending on the project to approximately US$30.0 million, or 27% of the total funding requirement to obtain Sherritt's 46% economic interest in the project. The environmental and social baseline studies are expected to be completed mid-year 2013.

MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products, which included a talc mine, through the acquisition of the Dynatec Corporation (Dynatec). During 2010, the Corporation closed the talc mine and plant and classified Mineral Products as a discontinued operation.

The Corporation incurred losses for the year ended December 31, 2011 of $1.2 million compared to $14.7 million in the prior year. In 2010, the Corporation incurred one-time expenses related to the environmental rehabilitation provisions and the write-down of certain assets.

CONSOLIDATED FINANCIAL POSITION

The following table summarizes the significant items as derived from the audited consolidated statements of financial position:

$ millions, except current ratio, as at December 31	2011	2010	% change
Current assets	**$ 1,389.0**	$ 1,457.8	(5%)
Current liabilities	**372.3**	345.2	8%
Working capital	**1,016.7**	1,112.6	(9%)
Current ratio	**3.73:1**	4.22:1	(12%)
Cash, cash equivalents and short-term investments	**$ 631.4**	$ 759.8	(17%)
Non-current advances, loans receivable and other financial assets	**1,278.8**	912.4	40%
Investment in an associate	**1,053.1**	932.0	13%
Property, plant and equipment	**1,430.4**	1,340.7	7%
Non-current investments	**34.7**	96.5	(64%)
Total assets	**6,497.5**	6,068.2	7%
Non-current loans and borrowings	**1,687.8**	1,530.5	10%
Non-current environmental rehabilitation provisions	**235.8**	182.8	29%
Total liabilities	**2,765.8**	2,539.9	9%
Retained earnings	**784.9**	632.5	24%
Accumulated other comprehensive loss	**(51.4)**	(98.1)	(48%)
Shareholders' equity	**3,731.7**	3,528.3	6%

The significant changes to working capital from 2010 to 2011 are described below:

→ Cash, cash equivalents and short-term investments decreased $128.4 million, partially offset by increases in accounts receivable and inventories of $50.6 million and $24.5 million, respectively. For additional information see the Liquidity and capital resources – Sources and uses of cash section; and

→ The current portion of loans and borrowings increased $23.8 million, primarily due to the senior credit facility which comes due in June of 2012.

The significant changes in total assets, liabilities and shareholders' equity from 2010 to 2011 are discussed below:

Total assets:

→ Non-current advances, loans receivable and other financial assets increased $366.4 million primarily due to loans provided to the Ambatovy Joint Venture for development of the Ambatovy Project and Energas for the construction of the 150 MW Boca de Jaruco Combined Cycle Project, net of amounts repaid to Sherritt on the Metals expansion loan;

→ Investment in an associate increased $121.1 million primarily due to non-refundable cash advances provided to the Ambatovy Joint Venture;

→ Property, plant and equipment increased $89.7 million as a result of capital spending and an increase in environmental rehabilitation provisions, partially offset by depletion, depreciation and amortization. A discussion of spending on capital is included in the Review of operations sections for each division; and

→ Non-current investments decreased by $61.8 million primarily due to the sale of Master Asset Vehicle (MAV) notes and amounts received by Sherritt on the Cuban certificates of deposit.

Total liabilities:

→ Non-current loans and borrowing increased by $157.3 million primarily due to the issuance of debentures in the fourth quarter net of the redemption of the 2012 Debentures, and amounts received under the Ambatovy Joint Venture additional partner loans; and

→ Non-current environmental rehabilitation provisions increased by $53.0 million primarily due to an increase in the environmental rehabilitation provision as a result of a reduction in discount rates during the year.

Shareholders' equity:

→ Retained earnings increased $152.4 million reflecting net earnings for the year of $197.3 million net of dividends paid of $44.9 million; and

→ Accumulated other comprehensive loss decreased $46.7 million due to a stronger Canadian dollar relative to the U.S. dollar. Comprehensive income or loss is determined by foreign currency translation differences on translation of foreign operations to Canadian dollars.

LIQUIDITY AND CAPITAL RESOURCES

Based on the Corporation's financial position and liquidity at December 31, 2011, and projected future earnings, management expects to be able to fund its working capital and project needs, and meet its other obligations including debt repayments.

Contractual obligations and commitments

The following table provides a summary of consolidated liquidity and capital commitments based on existing commitments and debt obligations (including accrued interest):

$ millions, as at December 31	Total	Falling due within 1 year	Falling due between 1–2 years	Falling due between 2–3 years	Falling due between 3–4 years	Falling due between 4–5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	$ 179.8	$ 179.8	$ –	$ –	$ –	$ –	$ –
Income taxes payable	25.9	25.9	–	–	–	–	–
Advances and loans payable	153.1	15.2	12.6	11.1	10.3	14.9	89.0
Loans and borrowings[1]	2,849.6	131.0	71.9	423.0	465.5	184.6	1,573.6
Finance leases and other equipment financing	168.4	55.8	43.3	28.0	25.9	15.4	–
Operating leases	57.1	18.7	14.2	6.3	3.2	2.9	11.8
Capital commitments	20.6	20.6	–	–	–	–	–
Environmental rehabilitation provision	395.4	32.0	35.7	36.0	26.5	24.1	241.1
Pensions	94.9	8.9	8.9	9.2	9.2	9.1	49.6
Total	$3,944.8	$ 487.9	$ 186.6	$ 513.6	$ 540.6	$ 251.0	$1,965.1

[1] Loans and borrowings include accrued interest. The interest and principal on the Ambatovy Joint Venture additional partner loans will be repaid solely from Sherritt's share of the distributions from the Ambatovy Joint Venture. Amounts are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions in the loan documents.

The table above excludes the Corporation's external commitments related to the Ambatovy Joint Venture.

A summary of significant loan obligations and commitments included in the above table is provided below; a detailed description is provided in the Loans, borrowings and other liabilities note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

LOANS AND BORROWINGS

Loans and borrowings is composed primarily of $887.1 million in three public issues of senior unsecured debentures having interest rates of between 7.75% and 8.25% and maturities in 2014, 2015 and 2018, and $708.5 million and $92.2 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of LIBOR plus a margin of 7.0% and 1.125%, respectively.

In the fourth quarter of 2011, Sherritt completed an offering of $400.0 million principal amount of 8% Senior Unsecured Debentures Series 1 due November 15, 2018. The net proceeds of $391.1 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 2012 Debentures, which were due for redemption in November 2012; the remainder is available for general corporate purposes. The early redemption of 2012 Debentures required the Corporation to redeem the debentures at a premium to the principal amount plus accrued interest to the date of redemption. The amount of the premium, $16.3 million, and the remaining deferred finance charges related to the 2012 Debentures of $1.9 million were expensed on redemption. The Corporation replaced the 2012 Debentures with the new debentures to improve its debt maturity and liquidity profile by effectively deferring the repayment date to 2018.

Other commitments

The following commitments are not reflected in the table above:

AMBATOVY JOINT VENTURE

As a result of the Corporation's 40% interest in Ambatovy Joint Venture, its proportionate share of significant commitments of the Joint Venture includes the following:

→ Capital purchase commitments of $57.5 million due within the next year;

→ Environmental rehabilitation commitments of $153.8 million, with no significant repayments due in the next four years; and

→ Ambatovy Joint Venture senior debt financing of US$840.0 million ($854.3 million), with principal repayments beginning the later of six months after financial completion of the Ambatovy Project or 30 months after final draw down, but not later than June 2013.

SULAWESI PROJECT

In order to meet the terms of the earn-in to the Sulawesi Project, the Corporation expects to fund US$30.0 million in exploration and development costs by October 1, 2013, and can elect to spend an additional US$80.0 million by June 30, 2017. The Corporation incurred US$9.3 million of expenditures in 2011 and expects to bring total spending on the project to approximately US$30.0 million in 2012.

Investment liquidity

At December 31, 2011, cash and cash equivalents, and short-term and long-term investments were located in the following countries:

$ millions, as at December 31, 2011	Cash and cash equivalents	Short-term investments	Long-term investments	Total
Canada	$ 134.9	$ 456.8	$ 5.6	$ 597.3
Cuba	14.8	–	58.2	73.0
Other	24.9	–	–	24.9
Total	$ 174.6	$ 456.8	$ 63.8	$ 695.2

CASH AND SHORT-TERM INVESTMENTS

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated.

At December 31, 2011, included in cash equivalents was $64.9 million in Government of Canada treasury bills having original maturity dates of less than three months. Included in short-term investments was $456.8 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

Included in cash, cash equivalents and short-term investments was $30.0 million (50% basis) of cash held by the Moa Joint Venture. All cash held by the Moa Joint Venture is for the exclusive use of the joint venture.

The table above does not include $13.7 million of cash held by the Ambatovy Joint Venture (which is included as part of the investment in an associate balance in the consolidated statement of financial position). The cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

LONG-TERM INVESTMENTS

As a result of the agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa JV to its Cuban beneficiaries. At December 31, 2011, the balance of the CDs was $58.2 million.

In September 2011, Sherritt sold its entire investment in MAV notes for proceeds of $39.8 million. As a result of the sale, the Corporation's MAV note loans facility in the amount of $31.5 million was terminated.

Capital structure

$ millions, except share amounts, as at December 31	**2011**	2010	Change
Current portion of loans and borrowings	**$ 56.9**	$ 33.1	72%
Non-current loans and borrowings	**1,687.8**	1,530.5	10%
Other non-current financial and non-financial liabilities	**220.5**	208.7	6%
Total debt	**$ 1,965.2**	$ 1,772.3	11%
Shareholders' equity	**3,731.7**	3,528.3	6%
Total debt-to-capital[1]	**34%**	33%	3%
Common shares outstanding	**296,390,692**	295,016,500	–
Stock options outstanding	**4,976,817**	4,819,146	3%
Dividend payout ratio[2]	**23%**	30%	(23%)

[1] Calculated as Total debt divided by the sum of Total debt and Shareholders' equity.

[2] Calculated as annual dividends paid per common share divided by basic earnings per common share.

The Corporation finances its operations, expansion activities and acquisitions through a combination of operating cash flows, short-term debt and long-term debt, and through the issuance of shares. Wherever possible, expansion activities are financed through long-term debt with repayment obligations corresponding with the expected cash flows.

The Corporation primarily uses credit facilities, along with funds generated from operating activities to fund operational expenses, sustaining, expansion and development capital spending, dividends, and interest and principal payments on the debt securities.

The Corporation currently does not need to access public debt and equity capital markets for financing over the next 12 months; however, the Corporation may access these markets.

The current DBRS rating of the Corporation's debentures is BB (high).

Available credit facilities

At December 31, 2011, the Corporation and its divisions had borrowed $1.7 billion under available long-term credit facilities. Total credit available under these facilities was $424.0 million. During the third quarter of 2011, the borrowing under the Ambatovy Joint Venture financing was completed.

The following table outlines the maximum amount and amounts available to the Corporation for credit facilities that have amounts available at December 31, 2011 and December 31, 2010. A detailed description of these facilities is provided in the Loans, borrowings and other liabilities note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

$ millions, as at December 31	2011		2010	
	Maximum	**Available**	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility[1]	**$ 115**	**$ 109**	$ 115	$ 109
Line of credit	**20**	**20**	20	20
Letters of credit facility[2]	**64**	**6**	49	–
Long-term				
Ambatovy Joint Venture partner loans (US$)[3]	**213**	**127**	213	127
Senior credit facility agreement[4]	**235**	**159**	235	121
MAV note loans	**–**	**–**	33	33
Total Canadian equivalent	**$ 651**	**$ 424**	$ 664	$ 409

SUPPLEMENTARY INFORMATION

	Maximum	**Available**	Maximum	Available
Ambatovy Project financing (US$) (40%)[5]	**$ 840**	**–**	$ 840	$ 112
Finance leases[6]	**$ 190**	**$ 41**	$ 190	$ 51

(1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At December 31, 2011, the Corporation had $6.2 million of letters of credit outstanding.

(2) Uncommitted letter of credit facility entered into and available to CVP.

(3) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.

(4) Available to Prairie Mines and Royalty Ltd (PMRL), a subsidiary of Royal Utilities. At December 31, 2011 PMRL had drawn $43.0 million on this facility and had $33.2 million of letters of credit outstanding.

(5) Due to the equity accounting for Ambatovy Joint Venture previously discussed, this loan is not included in loans and borrowings on the Corporation's statement of financial position.

(6) Finance leases include only those that have been committed by lenders.

COVENANTS

Certain of the Corporation's credit facilities, loans and debentures have financial tests and other covenants with which the Corporation and its affiliates must comply. Non-compliance with such covenants could result in accelerated repayment of the related debt or credit facilities and reclassification of the amounts to current. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

At December 31, 2011, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next 12 months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

BASE SHELF PROSPECTUS

The Corporation filed a base shelf prospectus dated October 21, 2011 with the securities commissions in each of the provinces and territories of Canada. These filings will allow the Corporation to make offerings of unsecured debt securities, common shares, subscription receipts and warrants or any combination thereof of up to $500.0 million during the 25-month period that the base shelf prospectus remains effective. In November 2011, the Corporation issued $400.0 million principal amount of 8% Senior Unsecured Debentures under this prospectus.

SOURCES AND USES OF CASH

The Corporation's cash flows from operating, investing and financing activities are summarized in the following table as derived from Sherritt's consolidated statements of cash flow.

$ millions, for the years ended December 31	2011	2010	Change
Cash from operating activities			
Cash from operating activities before change in non-cash working capital	$ 567	$ 534	6%
Change in non-cash working capital	(88)	(26)	238%
Net interest and income tax paid	(124)	(94)	32%
	$ 355	$ 414	(14%)
Cash from investing and financing			
Spending on capital and intangible assets	$ (129)	$ (146)	(12%)
Loans to an associate	(277)	(225)	23%
Increase in loans and borrowings and other liabilities	64	129	(50%)
Investment in an associate	(150)	(23)	552%
Decrease in investments	67	28	139%
Dividends paid on common shares	(45)	(42)	7%
Advances, loans receivable and other assets	(3)	43	(107%)
Acquisition of CVP, net of cash acquired	–	(32)	(100%)
Increase in (repayment of) short-term loans	(14)	19	(174%)
Other	3	9	(67%)
	$ (484)	$ (240)	102%
	(129)	174	(174%)
Cash, cash equivalents and short-term investments:			
Beginning of the year	760	586	30%
End of the year	$ 631	$ 760	(17%)

The significant items affecting the sources and uses of cash are described below:

- Cash from operating activities before change in non-cash working capital in 2011 increased due to higher earnings. Changes in non-cash working capital for 2011 were lower primarily due to an increase in accounts receivable of $57 million primarily due to higher oil and gas receivables mostly due to higher oil prices, an increase in inventories of $9 million at Coal due to intermittent rail service, an increase in inventories of $10 million at Metals due to a higher weighted-average cost of inventory and the timing of shipments, and an increase in prepaid expenses of $8 million due to an increase in prepaid insurance and prepaid financing fees. Cash taxes paid were higher in 2011;
- Cash used for spending on capital and intangible expenditures in 2011 was $129 million. A discussion of spending on capital is included in the Review of operations sections for each division;
- A total of $427 million (US$431 million) was provided to the Ambatovy Joint Venture in 2011 as its share of joint venture funding requirements. Sherritt funded $381 million using cash on hand and borrowed the remaining $46 million under the Ambatovy Joint Venture additional partner loans. Of the funding provided to Ambatovy Joint Venture in 2011, $277 million was provided as a loan to an associate and the remaining $150 million was a direct contribution to Sherritt's investment in the Ambatovy Joint Venture;
- Cash provided by the increase in loans and borrowings and other liabilities in 2011 of approximately $64 million was primarily from net cash of $118 million received on the issuance of debentures in the fourth quarter of 2011 (net of the redemption of its 2012 Debentures and issuance costs) and $46 million of proceeds received under the Ambatovy Joint Venture additional partner loans in 2011. This was partially offset by cash of $100 million used to repay part of the senior credit facility agreement, 3-year non-revolving term loan and certain finance lease obligations;
- Cash provided by the decrease in investments in 2011 of approximately $67 million was primarily a result of cash proceeds of $40 million received on the sale of Sherritt's MAV notes in the third quarter and $24 million received on the Cuban certificates of deposit.

COMMON SHARES

As at February 21, 2012, the Corporation had 296,390,692 common shares outstanding. An additional 3,891,817 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

On December 30, 2011, Sherritt issued the final instalment of 943,276 common shares in relation to the cross-guarantees provided by the Ambatovy Joint Venture partners Sumitomo Corporation and SNC-Lavalin Inc. Further details are provided in the Shareholders' equity note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

In November 2011, the Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share that was paid on January 16, 2012 to shareholders of record at the close of business on December 30, 2011. In 2011, Sherritt's dividend rate was $0.152 per common share.

On February 15, 2012, the Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share payable on April 13, 2012 to shareholders of record at the close of business on March 30, 2012.

MANAGING RISK

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. Strategies designed to manage the Corporation's significant business risks are discussed below. A comprehensive list of business risks can be found in the Corporation's Annual Information Form.

Market conditions

GENERALLY

Since the middle of 2008, there has been global economic uncertainty, reduced confidence in financial markets, bank failures and credit availability concerns.

These economic events have had a negative effect on the mining and minerals and oil and gas sectors in general. As a result, the Corporation will continue to consider its future plans and options carefully in light of prevailing economic conditions.

Should these conditions continue, or re-intensify, they could have a material adverse effect on the Corporation's business, results of operations and financial performance.

COMMODITY RISK

Sherritt's principal businesses include the sale of several commodities. Revenue, earnings and cash flows from the sale of nickel, cobalt, oil, gas and export thermal coal are sensitive to changes in market prices, over which the Corporation has little or no control. The Corporation's earnings and financial condition depend largely upon the market prices for nickel, cobalt, thermal coal, oil, gas and other commodities, which can be volatile in nature. The prices for these commodities can be affected by numerous factors beyond the Corporation's control, including expectations for inflation, speculative activities, relative exchange rates to the U.S. dollar, production activities of mining and oil and gas companies, global and regional supply and demand, supply and market prices for substitute commodities, political and economic conditions and production costs in major producing regions. The prices for these commodities have fluctuated widely in recent years. Significant reductions in the prices for these commodities could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Sherritt's current businesses are dependent upon commodity inputs such as natural gas, sulphur, sulphuric acid, electricity, fuel oil, diesel and related products, and materials costs that are subject to prevailing commodity prices. Costs and earnings from the use of these products are sensitive to changes in market prices over which Sherritt has no control.

PRICE FLUCTUATIONS AND SHARE PRICE VOLATILITY

Since 2008, the securities markets in Canada and the rest of the developed world have experienced price and volume volatility, which has affected the market price of Sherritt's securities. There can be no assurance that price and volume fluctuations in securities markets, including the market price of Sherritt's securities, will not continue to occur.

Project development

Sherritt's business involves the development and construction of large mining, metals refining and electrical generation projects. Certain of these projects have been delayed or are under review. There can be no assurance that projects that are currently under review will resume. For projects that continue, unforeseen conditions or developments could arise during the course of these projects that could delay or prevent completion of, and/or substantially increase the cost of construction and/or could affect the current and projected level of production, the sustaining capital requirements or operating cost estimates relating to the projects. Such conditions or developments may include, without limitation, shortages of equipment, materials or labour; delays in delivery of equipment or materials; customs issues; labour disruptions; difficulties in obtaining necessary services; delays in obtaining regulatory permits; local government issues; political events; adverse weather conditions; unanticipated increases in equipment, material and labour costs; unfavourable currency fluctuations; natural or man-made disasters or accidents; and unforeseen engineering, technical and technological design, geotechnical, environmental, infrastructure or geological problems. Any such event could delay commissioning, and affect production and cost estimates. There can be no assurance that the development or construction activities will proceed in accordance with current expectations or at all.

These risks and uncertainties could have a material adverse effect on the Corporation's business, results of operations and financial performance.

CAPITAL AND OPERATING COST ESTIMATES

Capital and operating cost estimates made in respect of the Corporation's operations and projects may not prove accurate. Capital and operating costs are estimated based on the interpretation of geological data, feasibility studies, anticipated climatic conditions and other factors. Any of the following, among the other events and uncertainties described herein, could affect the ultimate accuracy of such estimates: unanticipated changes in grade and tonnage to be mined and processed; incorrect data on which engineering assumptions are made; unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; failure to meet scheduled construction completion dates and metal production dates due to any of the foregoing events and uncertainties; expenditures in connection with a failure to meet such scheduled dates; unsatisfactory construction quality resulting in failure to meet such scheduled dates; capital overrun related to the end of the construction phase in connection with, among other things, the demobilization of contractors and construction workers at any project, including the Ambatovy Project's plant and mine site; labour negotiations; unanticipated costs related to commencing operations, ramping up and/or sustaining production; changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes permitting and restrictions on production quotas or exportation of the Corporation's products); and unanticipated changes in commodity input costs and quantities.

AMBATOVY PROJECT

The Ambatovy Project is currently transitioning from the construction phase to commissioning, ramp-up and start-up. The accuracy of the estimated current project schedule and budget could be materially negatively affected by the factors identified above (Project Development and Capital and operating cost estimates) and as outlined in the Ambatovy Project update section.

The Ambatovy Project has demobilized approximately 85% of its construction personnel. While the Ambatovy Project has established programs to assist demobilized workers, including in acquiring marketable skills, the increased rate of unemployment could have a negative effect on the local population's relationship with the Ambatovy Project.

Although primary construction of the Ambatovy Project has been completed, significant amounts of additional capital, in addition to project debt financing, may be required until the project achieves financial self-sufficiency. The shareholders' agreement among the Ambatovy Partners and Sherritt permits the shareholders to advance additional funds in the event other shareholders do not comply with their funding obligations. However, the shareholders' agreement contains restrictions on the entry of alternative or additional equity partners. There can be no assurance that each of the shareholders will advance any or all of the funds required to be advanced by it or that sufficient alternative financing will be available on acceptable terms or at all in the event a shareholder ceases to contribute its pro rata share of such funding.

The Ambatovy Joint Venture companies, the Ambatovy Partners and Sherritt are parties to financing agreements pursuant to which the Ambatovy Partners are guaranteeing their pro rata share of the project debt financing until the project passes certain completion tests. Once the project passes the completion tests all the project debt becomes non-recourse to the Ambatovy Partners and Sherritt. Failure to pass the completion tests would be an event of default under the financing agreements. There is no assurance that the project will pass all completion tests.

Madagascar's location potentially exposes it to cyclones and tropical storms. The risk of damage is dependent on such factors as intensity, footprint, wind direction and the amount of precipitation associated with a storm.

In 2002, the government of Madagascar passed the Loi sur les Grands Investissements Miniers (LGIM). The LGIM has been largely untested and the Ambatovy Project is the first project to be developed under its terms and provisions. Although the Ambatovy Joint Venture has received its eligibility certification under the LGIM, it is possible that the LGIM could be interpreted in a manner that has a material adverse effect on the Ambatovy Joint Venture.

In 2009, Madagascar experienced an unexpected change of government and the ongoing political instability in the country could have direct or indirect impacts on the Ambatovy Project. In particular, shortly after coming to power, members of the Malagasy Transitional Authority made public statements about revising the LGIM. In early 2010, the Minister of Mines publicly stated that the government did not intend to revise the LGIM. There have been no additional statements or actions by the government indicating that the government may be planning changes to the LGIM, although there is no guarantee that a government will not attempt to do so in the future. Such a development could have a material adverse effect on the Ambatovy Project.

MOA JOINT VENTURE EXPANSION

The Moa Joint Venture expansion is funded equally by the Corporation and GNC, its Cuban joint venture partner. In December 2005, the Corporation and GNC entered into funding agreements with companies within the Moa Joint Venture to finance the Moa Joint Venture expansion. Under these agreements, the projected capital cost is to be funded equally by the Corporation and GNC. Additionally, a 2,000 tonne per day sulphuric acid plant was under construction at Moa to coincide with the completion of the expansion. Construction was largely being financed by the Corporation. The expansion also requires certain utility upgrades to be completed at the Fort Saskatchewan site. It is expected that the cost of these upgrades will be funded by the Corporation and recovered from the Moa Joint Venture over future periods. The Moa Joint Venture expansion, sulphuric acid plant construction at Moa and utility upgrades at the Fort Saskatchewan site were temporarily suspended in the fourth quarter of 2008 in response to weakening commodity markets. In the second half of 2009, Sherritt and GNC began reviewing alternative strategies for the completion of future expansion activities and final costs and timelines. Emerging administrative and procedural requirements in Cuba have contributed to significant delays in progressing the project.

The Moa Joint Venture expansion is based on a commitment by the appropriate Cuban governmental authority to grant mineral concessions of economic limonite reserves in the Moa area sufficient to permit Moa Nickel to operate at expanded capacity for a period of not less than 25 years. Since some reserves may not be fully defined prior to the completion of construction of the expansion and since ores are variable in quality, there is a risk that sufficient quantities may not be available and that operating costs and sustaining capital costs may vary from the initial estimates relating to the Moa Joint Venture expansion project.

Political, economic and other risks of foreign operations

Sherritt has operations located in Cuba, Madagascar, Spain, Pakistan, Indonesia and the United Kingdom. As such, Sherritt is subject to political, economic and social risks relating to operating in foreign jurisdictions. These risks include nationalization, expropriation of assets or property with or without compensation, forced modification or cancellation of existing contracts, currency fluctuations and devaluations, unfavourable tax enforcement, credit payment policy, changing political conditions, political unrest, civil strife, and changes in governmental regulations or policies with respect to currency, production, price controls, profit repatriation, export controls, labour, taxation, trade, and environmental, health and safety matters or the personnel administering those regulations or policies. In particular, Madagascar experienced civil unrest and had an unexpected change in government in the first quarter of 2009. Any of these risks could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Restrictions in debt instruments

Sherritt is a party to certain agreements in connection with its credit facilities and trust indentures governing the $225.0 million principal amount of 8.25% Senior Unsecured Debentures Series B due October 24, 2014, the 7.75% Debentures and the 8.00% Debentures (collectively, the Indentures), and Sherritt and the Ambatovy Joint Venture companies are party to various agreements relating to the $2.1 billion Ambatovy Joint Venture financing (the Ambatovy Financing Agreements). Sherritt also entered into loan agreements with its Ambatovy Joint Venture partners to fund Sherritt's contributions to the Ambatovy Joint Venture (the Partner Loans). These debt instruments contain covenants which could have the effect of restricting Sherritt's ability to react to changes in Sherritt's business or to local and global economic conditions. In addition, Sherritt's ability to comply with these covenants and other terms of its indebtedness may be affected by changes in the Corporation's business, local or global economic conditions or other events beyond the Corporation's control. Failure by Sherritt or the Ambatovy Joint Venture

companies, as the case may be, to comply with the covenants contained in the Indentures, the credit facilities, the Ambatovy Financing Agreements, the Partner Loans, or any future debt instruments or credit agreements, could materially adversely affect the Corporation's business, results of operations and financial performance.

Access to additional capital

The continued development of the Corporation's various projects, which may entail expenditures above what has been anticipated by the Corporation, and the implementation of some of its strategic plans, may require substantial additional financing. Failure to obtain financing may result in a delay or indefinite postponement of development of the Corporation's projects and certain of its strategic plans. Additional financing may not be available when required or, if available, the terms may not be favourable to the Corporation and might involve substantial dilution to existing shareholders. Failure to raise capital when required may have a material adverse effect on the Corporation's business, financial condition and results of operations.

Exploration and development risks

OIL AND GAS

Sherritt's oil and gas profitability is significantly affected by the costs and results of its exploration and development programs. As oil and gas reservoirs have limited lives based on proved and probable reserves, Sherritt actively seeks to replace and/or expand its reserve base. Exploration for, and development of, oil and gas reserves involves many risks, is subject to compliance with many laws and regulations, and is often unsuccessful. In the event that new oil and gas reserves are not discovered or cannot be developed on an economic basis, Sherritt may not be able to sustain production beyond the current reserve life, based on current production rates.

METALS

The business of exploring for minerals involves a high degree of risk. There can be no assurance that Sherritt's exploration efforts in Sulawesi, Indonesia or elsewhere will result in the identification of significant nickel mineralization or that any mineralization identified will result in an increase to Sherritt's proven or probable reserves. Not all properties that are explored are ultimately developed into producing mines. In exploring and developing mineral deposits, Sherritt will be subjected to an array of complex economic factors and technical considerations. Delays in obtaining governmental approvals, conflicting mineral rights claims and other factors could cause delays in exploring and developing properties. Unusual or unexpected geological formations, labour disruptions, flooding, landslides, environmental hazards, and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration and development programs.

Uncertainty of gas supply to Energas

Energas does not own the gas reserves contained in the oil fields located in the vicinity of the Energas plant sites, nor does it control the rate or manner in which such gas reserves are produced. CUPET reserves the right to produce crude oil from such fields at such rates as the Government of Cuba may deem necessary in the national interest, which may affect the future supply of gas to Energas. Although the Corporation believes that generation of electricity will remain a key priority of the Government of Cuba and that the fields will be operated in a manner which ensures sufficient gas production, there can be no certainty that sufficient quantities of gas will be available to operate the Energas facilities at maximum or economic capacity for the duration of the term of the Energas Joint Venture. Adequate future supplies of gas may depend, in part, upon the successful development of new oil fields as the existing fields are being depleted and the introduction of production practices designed to optimize the recovery of oil and gas reserves. No independent reserve report has been prepared with respect to gas reserves in Cuba, due to a lack of available technical information from CUPET.

Uncertainty of reserve estimates

Sherritt has reserves of thermal coal, nickel, cobalt, oil and gas. Reserve estimates are imprecise and depend partly on statistical inferences drawn from drilling, which may prove to be unreliable. Future production could differ dramatically from reserve estimates for the following reasons:

→ mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;

→ declines in the market price of thermal coal, nickel, cobalt, oil and gas may render the production of some or all of Sherritt's reserves uneconomic;

→ increases in operating costs and processing costs could adversely affect reserves;

→ the grade of mineral reserves may vary significantly from time to time and there is no assurance that any particular level of thermal coal, nickel, cobalt, oil or gas may be recovered from the reserves; and

→ legislative changes and other political changes in jurisdictions in which Sherritt operates may result in changes to Sherritt's ability to exploit reserves.

Any of these or other factors may require Sherritt to reduce its reserve estimates, reduce its production rates, or increase its costs. Should the market price of any of the above commodities fall, Sherritt could be required to materially write down its investment in its resource properties or delay or discontinue production or the development of projects.

Access to coal reserves and resources

The Corporation's ability to supply coal to its customers depends on its ability to retain and economically exploit its coal reserves and those which it has the exclusive right to exploit. While management believes it has all the necessary rights to access and mine its coal reserves, there is no guarantee such rights will not be challenged and found to be defective. Such defects could adversely affect the Corporation's ability to access and mine its reserves and to supply its customers. In addition, new surface access rights may need to be obtained from third parties from time to time by the Corporation or its customers. There is no guarantee such rights will be obtained at a reasonable cost, or at all, and a failure to do so could prevent the Corporation from accessing a particular reserve and could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Environmental rehabilitation provisions

Sherritt has estimated environmental rehabilitation provisions, which management believes will meet current regulatory requirements. These future provisions are estimated by management using closure plans and other similar plans which outline the requirements that are expected to be carried out to meet the provisions. The provisions are dependent on legislative and regulatory requirements which could change in the future. Because the estimate of provisions is based on future expectations, a number of assumptions and judgments are made by management in the determination of these provisions which may prove to be incorrect. As a result, estimates may change from time to time and actual payments to settle the provisions may differ from those estimated and such differences may be material.

The Corporation has an obligation under applicable mining, oil and gas and environmental legislation to reclaim certain lands that it disturbs during mining, oil and gas production or other industrial activities. The Corporation is required to provide financial security to certain government authorities for future reclamation costs. Currently, the Corporation provides this reclamation security by way of corporate guarantees and irrevocable letters of credit issued under its senior credit facilities. The Corporation may be unable to obtain adequate financial security in the future or may be required to replace its existing security with more expensive forms of security, including cash deposits, which would reduce cash available for operations. In addition, any increase in costs associated with reclamation and mine closure resulting from changes in the applicable legislation (including any additional bonding requirements) could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Reliance on partners

In many of the Corporation's projects and operations, the Corporation works with partners. A failure by a partner to comply with its obligations under applicable partnership arrangements or a breakdown in relations with its partners could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Risk related to Sherritt's investments in Cuba

The Corporation indirectly holds very significant interests in mining, metals refining, exploration for and production of crude oil and the generation of electricity in Cuba. The operations of the Cuban businesses may be affected by economic pressures on Cuba. Risks include, but are not limited to, fluctuations in official or convertible currency exchange rates and high rates of inflation. Any changes in regulations or shifts in political attitudes are beyond the control of Sherritt and may adversely affect its business. Operations may be affected in varying degrees by such factors as Cuban government regulations with respect to currency conversion, production, price controls, export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use, and mine and plant safety.

Operations in Cuba may also be affected by the fact that, as a Caribbean nation, Cuba regularly experiences hurricanes and tropical storms of varying intensities. The risk of damage is dependent upon such factors as intensity, footprint, wind direction and the amount of precipitation associated with the storm and tidal surges. While the Corporation, its joint venture partners and agencies of the Government of Cuba maintain comprehensive disaster plans and the Corporation's Cuban facilities have been constructed to the extent reasonably possible to minimize damage, there can be no guarantee against severe property damage and disruptions to operations.

While Sherritt has no information indicating that Cuban authorities seek to expropriate any of Sherritt's assets or property located in Cuba, or otherwise cancel or modify any of Sherritt's contracts with Cuban agencies, any such event could have a material adverse effect on the Corporation's business, results of operations and financial performance.

The Cuban government has allowed, for more than a decade, foreign entities to repatriate profits out of Cuba. However, there can be no assurance that this attitude of allowing foreign investment and profit repatriation will continue or that a change in economic conditions will not result in a change in the policies of the Cuban government or the imposition of more stringent foreign investment restrictions. Such changes are beyond the control of Sherritt and the effect of any such changes cannot be accurately predicted.

Agencies of the Cuban government have significant payment obligations to the Corporation in connection with the Corporation's Oil and Gas, Metals and Power operations in Cuba. This exposure to the Cuban government and its potential inability to fully pay such amounts could have a material adverse effect on the Corporation's financial condition and results of operations.

Risks related to U.S. government policy towards Cuba

The United States has maintained a general embargo against Cuba since the early 1960s, and the enactment in 1996 of the Cuban Liberty and Democratic Solidarity (Libertad) Act (commonly known as the Helms-Burton Act) extended the reach of the U.S. embargo.

THE U.S. EMBARGO

In its current form, apart from the Helms-Burton Act, the embargo applies to almost all transactions involving Cuba or Cuban enterprises, and it bars all "U.S. Persons" from participating in such transactions unless such persons obtain specific licenses from the U.S. Department of the Treasury (Treasury) authorizing their participation in the transactions. U.S. Persons include U.S. citizens, U.S. residents, individuals or enterprises located in the United States, enterprises organized under U.S. laws and enterprises owned or controlled by any of the foregoing. Subsidiaries of U.S. enterprises are subject to the embargo's prohibitions. The embargo also extends to entities deemed to be owned or controlled by Cuba (specially designated nationals or SDNs). The three entities constituting the Moa Joint Venture in which Sherritt holds an indirect 50% interest, have been deemed SDNs by Treasury. Sherritt is not an SDN. The U.S. embargo generally prohibits U.S. Persons from engaging in transactions involving the Cuba-related businesses of the Corporation. Furthermore, U.S.-originated technology, U.S.-originated goods, and many goods produced from U.S.-originated components or with U.S.-originated technology cannot under U.S. law be transferred to Cuba or used in the Corporation's operations in Cuba. In 1992, Canada issued an order pursuant to the Foreign Extraterritorial Measures Act (Canada) to block the application of the U.S. embargo under Canadian law to Canadian subsidiaries of U.S. enterprises. In addition, Sherritt conducts its Cuba-related operations so as not to require U.S. Persons to violate the U.S. embargo. The general embargo limits Sherritt's access to U.S. capital, financing sources, customers and suppliers.

THE HELMS-BURTON ACT

Separately from the general embargo, the Helms-Burton Act authorizes sanctions on individuals or entities that "traffic" in Cuban property that was confiscated from U.S. nationals or from persons who have become U.S. nationals. The term "traffic" includes various forms of use of Cuban property as well as "profiting from" or "participating in" the trafficking of others.

The Helms-Burton Act authorizes damage lawsuits to be brought in U.S. courts by U.S. claimants against those "trafficking" in the claimants' confiscated property. No such lawsuits have been filed because all Presidents of the United States in office since the enactment of the Helms-Burton Act have exercised their authority to suspend the right of claimants to bring such lawsuits indefinitely, for periods of up to six months. Pursuant to this authority, the President has suspended the right of claimants for successive six-month periods since 1996; the latest suspension extends through to July 31, 2012. The Corporation has nevertheless received letters from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest. Even if the suspension were permitted to expire, Sherritt does not believe that its operations would be materially affected by any Helms-Burton Act lawsuits, because Sherritt's minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. Management believes it unlikely that a court in any country in which Sherritt has material assets would enforce a Helms-Burton Act judgment.

The Foreign Extraterritorial Measures Act (Canada) was amended as of January 1, 1997 to provide that any judgment given under the Helms-Burton Act will not be recognized or enforceable in any manner in Canada. The amendments permit the Attorney General of Canada to declare, by order, that a Canadian corporation may sue for and recover in Canada any loss or damage it

may have suffered by reason of the enforcement of a Helms-Burton Act judgment abroad. In such a proceeding, the Canadian court could order the seizure and sale of any property in which the defendant has a direct or indirect beneficial interest, or the property of any person who controls or is a member of a group of persons that controls, in law or in fact, the defendant. The property seized and sold could include shares of any corporation incorporated under the laws of Canada or a province.

The Government of Canada has also responded to the Helms-Burton Act through diplomatic channels. Other countries, such as the members of the European Union and the Organization of American States, have expressed their strong opposition to the Helms-Burton Act as well.

Nevertheless, in the absence of any judicial interpretation of the scope of the Helms-Burton Act, the threat of potential litigation discourages some potential investors, lenders, suppliers and customers from doing business with Sherritt.

Under the Helms-Burton Act, if the Corporation were considered to be "trafficking", then investors in the Corporation might be considered to be "profiting from" or "participating in" trafficking. However, the Helms-Burton Act explicitly excludes from the definition of trafficking "the trading or holding of securities publicly traded or held", unless the trading is with an SDN. Sherritt is not an SDN. The securities of Sherritt are publicly traded and held. Accordingly, management believes that anyone purchasing, holding or trading such securities should not be subject to Helms-Burton Act liability so long as the securities were not traded with or by someone who is an SDN. Management believes that the foregoing interpretation of the exception in the Helms-Burton Act definition of "trafficking" is a reasonable one; however, in the absence of any judicial interpretations of the Helms-Burton Act, any construction of the law is subject to doubt. Accordingly, potential investors should consider the threat of Helms-Burton Act litigation before investing in securities of the Corporation.

In addition to authorizing private lawsuits, the Helms-Burton Act also authorizes the U.S. Secretary of State and the U.S. Attorney General to exclude from the United States those aliens who engage in certain "trafficking" activities, as well as those aliens who are corporate officers, principals, or controlling shareholders of "traffickers" or who are spouses, minor children or agents of such excludable persons. The U.S. Department of State has deemed Sherritt's indirect 50% interest in Moa Nickel S.A. to be a form of "trafficking" under the Helms-Burton Act. In their capacities as directors or officers of the Corporation, certain individuals have been excluded from entry into the U.S. under this provision. Management does not believe the exclusion from entry into the U.S. of such individuals will have any material effect on the conduct of the Corporation's business.

The U.S. Department of State has issued guidelines for the implementation of the immigration provision, which state that it is "not sufficient in itself for a determination" of exclusion that a person "has merely had business dealings with a person" deemed to be "trafficking". Also, the statutory definition of "traffics" relevant to the Helms-Burton Act's immigration provision explicitly excludes "the trading or holding of securities publicly traded or held, unless the trading is with or by a person on the SDN List".

The general embargo has been, and may in the future be, amended from time to time, as may the Helms-Burton Act, and therefore the U.S. sanctions applicable to transactions with Cuba may become more or less stringent. The stringency and longevity of the U.S. laws relating to Cuba are likely to continue to be functions of political developments in the United States and Cuba, over which Sherritt has no control.

Significant customers

The Moa Joint Venture derives a material amount of revenue from three customers in Asia and Europe. Payment is made by way of an irrevocable letter of credit in a form acceptable to the lenders of the senior credit facility through open account terms that are secured by accounts receivable insurance or by payment upon presentation of documents at the time of shipment. Any cancellation of shipments would result in nickel being placed with other customers through the spot markets; however, prices realized could vary from those set with the customer.

All sales of Sherritt's oil production in Cuba are made to an agency of the Government of Cuba, as are all electricity sales made by Energas. The access of the Cuban government to foreign exchange is severely limited. As a consequence, from time to time, the Cuban agencies have had difficulty in discharging their foreign currency obligations. During such times, Sherritt has worked with these agencies in order to ensure that Sherritt's operations continue to generate positive cash flow. However, there is a risk, beyond the control of Sherritt, that receivables and contractual performance due from Cuban entities will not be paid or performed in a timely manner, or at all. If any of these agencies or the Cuban government are unable or unwilling to conduct business with Sherritt, or satisfy their obligations to Sherritt, Sherritt could be forced to close some or all of its Cuban businesses which could have a material adverse effect upon Sherritt's results of operations and financial performance.

Sherritt is entitled to the benefit of certain assurances received from the Government of Cuba and certain agencies of the Government of Cuba that protect it in many circumstances from adverse changes in law, although such changes remain beyond the control of the Corporation and the effect of any such changes cannot be accurately predicted.

Sherritt's coal business derives a material amount of revenue from utility customers. Although the coal supply contracts are long-term, they do provide for customers to terminate such contracts under certain circumstances. There is also no guarantee that such contracts will be renewed at expiration. The loss of one or more of these customers could result in the closure of the relevant mine or mines, the loss of the mining contract or, in some cases, the sale of the relevant mine to the customer.

Foreign exchange and pricing risks

Many of Sherritt's businesses operate in currencies other than Canadian dollars and their products may be sold at prices other than prevailing spot prices at the time of sale. Sherritt is also sensitive to foreign exchange exposures when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product pricing currency. The Metals division derives the majority of its revenue from nickel and cobalt sales that are typically based on U.S. dollar reference prices over a defined period of time and collected in currencies other than Canadian dollars in accordance with sales terms that may vary by customer and sales contract. Similarly, Oil and Gas, Power, and the Mountain Operations of Coal derive substantially all of their revenues from sales in U.S. dollars. Accordingly, fluctuations in Canadian dollar exchange rates and price movements between the date of sale and final settlement may have a material adverse effect on the Corporation's business, results of operations and financial performance.

Environment, health and safety (EH&S)

The Corporation's activities are also subject to extensive laws governing the protection of the environment and worker health and safety. These EH&S laws require the Corporation to obtain certain operating licenses and impose certain standards and controls on the Corporation's activities, and on the Corporation's distribution and marketing of nickel, cobalt and other metals products. Compliance with EH&S laws and operating licenses can require significant expenditures, including expenditures for clean-up costs and damages arising out of contaminated properties. There can be no assurance that the costs to ensure future or current compliance with EH&S laws would not materially affect the Corporation's business, results of operations or financial performance.

The Corporation assesses environmental impacts before initiating major new projects and before undertaking significant changes to existing operations. The approval process can entail public hearings and may be delayed or not achieved, reducing the ability of the Corporation to continue portions of its business at expanded or even existing levels. Furthermore, the Corporation's existing approvals could potentially be suspended, or future required approvals denied, which would reduce the ability of the Corporation to meet project schedules or cost objectives and to continue portions of its business at expanded or even existing levels.

The operations of the Ambatovy Joint Venture in Madagascar are conducted in environmentally sensitive areas. In particular, the mine footprint is on first growth forest and the pipeline traverses environmentally sensitive areas. Although the Ambatovy Joint Venture believes it is currently in material compliance with applicable laws, there can be no guarantee that it will remain in compliance or that applicable laws or regulations will remain the same.

The Corporation must also comply with a variety of EH&S laws that restrict air emissions. Because many of the Corporation's mining, drilling and processing activities generate air emissions from various sources, compliance with EH&S laws requires the Corporation to make investments in pollution control equipment and to report to the relevant government authorities if any emissions limits are exceeded. The Corporation is also required to comply with a similar regime with respect to its wastewater. These EH&S laws restrict the amount of pollutants that the Corporation's facilities can discharge into receiving bodies of water, such as groundwater, rivers, lakes and oceans, and into municipal sanitary and storm sewers. Other EH&S laws regulate the generation, storage, transport and disposal of hazardous wastes and generally require that such waste be transported by an approved hauler and delivered to an approved recycler or waste disposal site. Regulatory authorities can enforce these and other EH&S laws through administrative orders to control, prevent or stop a certain activity; administrative penalties for violating certain EH&S laws; and regulatory proceedings.

The potential impact of evolving regulations, including on product demand and methods of production and distribution, is not possible to predict. However, the Corporation does closely monitor developments and evaluate the impact such changes may have on the Corporation's financial condition, product demand and methods of production and distribution. Independently and through involvement in various associations, the Corporation responds to potential changes to EH&S laws by participating, as appropriate, in the public review process, thus ensuring the Corporation's position is understood and considered in the decision-making

process. The Corporation seeks to anticipate and prepare for public and regulatory concerns well in advance of such projects. Communication with regulators and the public is considered a key tool in gaining acceptance and approval for new projects.

Climate change/greenhouse gas emissions

See Environment, health and safety section for more information related to this risk.

Credit risk

Sherritt's sales of nickel, cobalt, oil, gas, electricity and coal expose the Corporation to the risk of non-payment by customers. Sherritt manages this risk by monitoring the creditworthiness of its customers, covering some exposure through receivables insurance, documentary credit and seeking prepayment or other forms of payment security from customers with an unacceptable level of credit risk. In addition, there are certain credit risks that arise due to the fact that all sales of oil and electricity in Cuba are made to agencies of the Cuban government. Although Sherritt seeks to manage its credit risk exposure, there can be no assurance that the Corporation will be successful in eliminating the potential material adverse impacts of such risks.

Legal contingencies

In October 2001, the Corporation and Dynatec were named as defendants in a statement of claim brought by Fluor Australia Pty Ltd. (Fluor) in the Supreme Court of Victoria, Australia alleging negligence in connection with a mine development in Australia. On December 20, 2002, Fluor formally discontinued its proceeding against the Corporation and Dynatec, but reserved its right to recommence proceedings against them at a later date. The Corporation believes Fluor's claims against it are without merit and would vigorously defend any further claim brought by Fluor.

Sherritt may become party to legal claims arising in the ordinary course of business. There can be no assurance that unforeseen circumstances resulting in legal claims will not result in significant costs.

Accounting policies

The Corporation's audited annual consolidated financial statements for the year ended December 31, 2011, filed on SEDAR, were prepared using accounting policies and methods prescribed by International Financial Reporting Standards as issued by the International Accounting Standards Board. Significant accounting policies under IFRS are described in more detail in the notes to the annual consolidated financial statements. In preparing the annual consolidated financial statements, the Corporation amended certain accounting policies and methods, valuation and consolidation methods previously applied under Canadian GAAP and the 2010 comparative figures have been restated to reflect these adjustments, as required.

Sherritt has internal controls over financial reporting. These controls are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. These controls cannot provide absolute assurance with respect to the reliability of financial reporting and financial statement preparation.

ENVIRONMENT, HEALTH AND SAFETY

Sherritt continually demonstrates its commitment to ensuring the health and safety of people affected by its operations and products, and to responsibly manage the impact of its operations on the environment. In implementing its policies, Sherritt provides the benefits of strong EH&S management systems to a wide range of stakeholders in Canada and abroad. Stakeholders include all employees and the communities where Sherritt operates, along with customers, investors, partners and service providers. This commitment extends throughout the entire Corporation at every level, starting with the Board of Directors.

The EH&S committee of the Corporation's Board of Directors meets on a regular basis to review and oversee Sherritt's EH&S policies and programs as well as to review the EH&S performance of each division. The committee also oversees the Corporation's compliance with applicable EH&S laws and regulations and monitors trends, issues and events which could have a significant impact on the Corporation.

Sherritt continually monitors changes in both EH&S technologies and regulations both directly and through its involvement with various industry associations. Sherritt responds to impending regulatory changes by participating in the public-review process through industry associations thus ensuring the industry's position is understood and considered in this process.

Sherritt believes that safe operations are essential for a productive and engaged workforce. Sherritt is committed to workplace incident prevention and makes expenditures towards the necessary human and financial resources and site-specific systems to

ensure compliance with its health and safety policies. Any injuries that may occur are investigated to determine root cause and to establish and put in place necessary controls, with the goal of preventing recurrence.

In 2011, the Corporation's total recordable injury (TRI) and Lost Time Injury indices were 0.32 and 0.05 respectively. These indices are calculated by multiplying the number of total recordable injuries by 200,000 and then by dividing that number by total exposure hours. These indices provide a measure that is comparable across different industries and business sizes.

Metals

Our Metals division continually works to improve EH&S management systems at its operations in Western Canada, Cuba and Madagascar. Programs support a strong corporate commitment to meet both community expectations and regulatory requirements.

MOA JOINT VENTURE

The environmental program at Metals' Fort Saskatchewan operations includes active monitoring of soil, groundwater, effluent and air. Staff at the Fort Saskatchewan site continue to work with provincial regulators on the development of a multi-phased site-specific environmental management plan for soil and groundwater. The first phase involving a site human-health risk assessment for nickel was submitted to the regulators in May 2008 and contributed to the development of appropriate protective levels for workers at the site. The second phase to model on-site soil and groundwater was completed in 2010. Enhancements to the model continue in an effort to develop a more accurate estimate of the environmental rehabilitation provision for the site and improve environmental project planning including enhancements to the existing groundwater seepage collection system.

Metals' Fort Saskatchewan site operations are located in Alberta's Industrial Heartland, the most heavily industrialized area in the province. The Fort Saskatchewan site works co-operatively with other industries in the region through the Northeast Capital Industrial Association (NCIA), an association that promotes sustainable industrial growth and high quality of life through environmental and socio-economic principles. Participation by Metals' personnel on the NCIA Board and technical sub-committees allows for input into provincial environmental policy development and dialogue with the regulators.

Provincial legislation setting greenhouse gas targets applicable to the Fort Saskatchewan site was introduced in 2007, followed by the completion of a third-party audit in 2008. The Fort Saskatchewan site remains in compliance with provincial greenhouse gas legislation requiring the completion of annual third-party audits. In addition, a separate audit of greenhouse gas emissions initiated by Alberta Environment in 2011 for the 2010 compliance year confirmed that the Fort Saskatchewan site was in compliance with its reporting requirements and resulted in no material calculation changes. Fort Saskatchewan site management continue to evaluate internal and external options for meeting its greenhouse gas targets.

In 2011, discussions with Alberta Environment continued on a variety of environmental issues primarily related to Cumulative Effects Management in the Industrial Heartland. The Fort Saskatchewan site continues to actively participate in the development of Provincial Air and Water Management Frameworks for the Industrial Heartland.

During 2011, the Fort Saskatchewan site held an emergency response exercise designed to test the site's emergency management and response systems for a large scale event. External agencies involved in the exercise included the Northeast Region Community Awareness and Emergency Response (NRCAER) (mutual aid organization), the RCMP and the City of Fort Saskatchewan. The exercise included testing of the site's Emergency Assembly Areas, Emergency Operations Centre and Media Centre. Fire ground activities involved the Sherritt Emergency Response Team, the Sherritt Dangerous Goods Team, members of the City of Fort Saskatchewan Fire Department and two industrial partners through NRCAER. The exercise achieved all of its stated goals and objectives.

Throughout 2011, the program of auditing workplace practices or Safety System Inspections (SSIs) was actively pursued to reinforce the required safe behaviours and adherence to site safety policies necessary to improve overall safety performance. The Fort Saskatchewan site is focused on ensuring that all elements of a safety system including those related to hazard identification and control, safe work permits, incident reporting and analysis, electrical safety procedures and personal protective equipment are in continuous compliance through continuous communication, coaching and on and off-the-job instruction. The Fort Saskatchewan site achieved a milestone of over two million man hours without a lost time injury in 2011. Only one recordable injury occurred on the site in 2011.

During 2011, the Fort Saskatchewan site continued a program to better define standards of performance, improve teaching and training structures, and enhance accountability for learning and evaluation. The program is improving the effectiveness of training provided to site personnel in safe work practices and safety management systems. Employees engaged in operations and maintenance activities continue to receive safety training related to the work they perform, such as Safe Work Permit

Understanding, Control of Hazardous Energy, Confined Space Entry, Mobile Equipment Operation, Workplace Hazardous Materials Information System and Transportation of Dangerous Goods. Employees in leadership roles continue to participate in skills training to increase their understanding of safety management concepts and best practices to improve stewardship of safe work practices. To ensure continuous improvement, the focus will continue to be placed on site systems that drive worker behaviour, competency and understanding. These initiatives helped the Fort Saskatchewan site achieve its lowest TRI rate since the site started using its current methodology of tracking injuries in 1996.

The environmental program implemented by Metals at the Moa site, which includes active monitoring of soil, surface water, groundwater, process effluents and air, continued throughout 2011. This program is consistent with corporate targets and ensures that the Moa site meets both community expectations and regulatory requirements. Various initiatives to reduce emissions and effluent discharge have been successfully implemented on the plant site. At the Moa site, an erosion and sediment control plan has been designed and implemented. Since 2007, the amount of reforested hectares in the mine has exceeded the number of areas that have been impacted by mining operations.

The Moa site continues to focus on training and development of its employees as it relates to safety practices, including courses for all front line supervisors in 2011. Continuous safety training has resulted in more extensive documentation of safety meetings and topics in all key areas of the plant site as well as the reduction of potentially unsafe conditions by resolving outstanding safety issues and concerns. At the end of 2011, Moa Nickel had surpassed two million man hours for employees and contractors without a lost time injury.

AMBATOVY JOINT VENTURE

Operations at the Ambatovy Project are subject to certain laws regulating the impact of mining operations on the environment and worker health and safety. For example, Madagascar's LGIM sets out the conditions for both exploration and exploitation permits, which must be applied for sequentially. The exploitation permit is similar to a Canadian mining permit and requires an environmental assessment. The LGIM guarantees that the terms of a permit will not be changed after it has been granted and provides investment incentives for qualifying projects.

In addition, the Ambatovy Project was required to complete a comprehensive social and environmental assessment in order to design an environmental management program. This program was designed in accordance with the Equator Principles and the International Finance Corporation (IFC) Performance Standards. Terms of reference for the assessment were developed in consultation with the Malagasy government and included both environmental and social issues. The assessment also reflected input received through extensive consultation with local communities and non-governmental organizations in Madagascar.

All project facilities have been designed and are being built and operated in accordance with applicable Malagasy laws and regulations, World Bank guidelines, the Equator Principles and the IFC Performance Standards. For example, the mine site is located within a forest zone which is recognized as natural habitat important for biodiversity. Extensive work was undertaken to evaluate potential impacts and develop suitable mitigation and compensation measures, including biodiversity offsetting. More specifically, these measures involve a commitment to maintaining a forest buffer zone around the mining area, forest de-fragmentation work through targeted reforestation as well as a plan to ensure the conservation of an offset area of similar ecological value elsewhere in the eastern forest of Madagascar. The offset area is being implemented as a pilot project of the Business and Biodiversity Offsets Program.

The Ambatovy Project has also designed a comprehensive water management plan for the mine site. The plan consists of a system of sediment collection ponds allowing settlement of suspended solids in order to discharge water that meets the environmental criteria stipulated in the environmental permit and to ensure maintenance of regional water quality to protect downstream aquatic ecosystems.

Safety management continues to be a high priority for the project. Management is working closely with contractors and construction personnel as well as all employees to ensure compliance with safety standards. The Ambatovy Joint Venture safety program is designed and implemented following OHSAS 18001 standards. Continued focus on safety has resulted in operations exceeding 570 days without a lost time incident at the end of 2011.

Coal

Coal has a comprehensive EH&S management program that consists of policies and practices that integrate operating procedures, employee training and emergency response, and is designed to protect the health and safety of employees and fulfill the Corporation's responsibilities as stewards of the environment.

In Canada, the coal mining industry is subject to extensive regulation by federal, provincial and local authorities on various matters including: employee health and safety; air quality; water quality and availability; the protection and enhancement of the environment (including the protection of plants and wildlife); land-use zoning; development approvals; the generation, handling, use, storage, transportation, release, disposal and clean-up of regulated materials, including wastes; and the reclamation and restoration of mining properties after mining is completed. Mining operations are regulated primarily by provincial legislation, although the Corporation's coal interests must also comply with applicable federal legislation and local by-laws.

In order to preserve the quality of water and air leaving the mine sites, Coal manages surface and groundwater, dust and both hazardous and non-hazardous waste. A comprehensive reclamation program is also in place that is designed to return land that has been mined to a condition suitable for other uses. Coal's reclamation efforts are focused on reclaiming mined land to productive farmland, commercial forestry, native prairie, wetlands, and wildlife habitat to meet or exceed regulatory standards.

In order to support the development of new mining areas and new projects, Coal provides monitoring, advice and leadership in the areas of regulatory changes and trends. Mining inherently involves the disturbance of large tracts of land. This activity has significant but short-term impacts to existing and adjacent landowners; therefore, impact assessments and mitigation proposals are completed in all cases. In 2011, Coal continued the regulatory and consultative process involved in authorizing the continued access to available mining areas. During 2011, this mostly involved the Coal Valley mine where required documentation was completed to expand the current mining area. The Genesee and Paintearth mines are also engaged in the regulatory process of obtaining mine permit extensions.

Coal is actively engaged with the Alberta and Saskatchewan regulators in the development of new regulations and the amendment of existing regulations. Recently Coal has provided input into provincial and federal regulatory initiatives including reclamation security, progressive reclamation, reclamation certification, greenhouse gases, the National Pollution Release Inventory, and the Athabasca Rainbow Trout Recovery Program. The long operational history of Sherritt's mines allows Coal to provide valuable context for regulatory initiatives.

Mining and processing operations have inherent risks, but due largely to the EH&S policies and procedures that have been developed within Coal, coupled with the strong safety culture at each site, Coal has successfully mitigated or controlled those risks. In 2011, several mines celebrated safety milestones with no lost time incidents for 7 years at the Boundary Dam mine, 16 years at the Sheerness mine and 23 years at the Genesee mine. Additionally, the Sheerness mine received the John T. Ryan Special Award for 2010. The Special Award is presented to mines deserving special recognition for their outstanding safety performance. As of December 31, 2011, over 2,000 salaried and hourly employees were employed at Coal, and throughout the year, only four lost time incidents occurred.

In the event of an injury or an environmental incident, there are well-defined reactive measures that are instituted to control the situation, assess ongoing risk and take appropriate measures. These incident investigation systems also assist in the potential for learning from each incident by providing timely and clear incident reports outlining root causes and preventative measures.

Oil and Gas

The Corporation's oil and gas operations are subject to extensive EH&S laws. These laws generally require the Corporation to mitigate, remove or remedy the effect of its activities on the environment at current and former operating sites, and can require the Corporation to dismantle production facilities and remediate damage caused by the use or release of specified substances.

Oil and Gas has maintained its commitment to ensuring a safe and environmentally sound workplace. Groundwater and air quality monitoring processes have been maintained in Cuba by Sherritt and overseen by approved Cuban environmental agencies. Oil and Gas remains in material compliance with all regulatory requirements in Cuba. Work to reduce emissions continues on a number of oil production batteries through improvements and updates to the operating equipment that is currently in place. Finally, training of all employees and contractors continues, ensuring that EH&S as well as safe work practices are understood and continue to be a critical component of daily operational activities. In 2011, there was one lost time injury.

Oil and Gas strives to conduct its Cuban operations according to safety standards and practices complementary to those established by Canadian authorities. In additional to regular safety training, the employees also receive specialized training on hazardous tasks such as confined space entry and when working in areas with the presence of hydrogen sulphide gas. A full-time EH&S manager is in place in Cuba to make recommendations for the implementation of EH&S standards in day-to-day operations and to provide assurance that all applicable environmental and regulatory standards are met. Contingency plans are in place for a timely response in case of a hurricane, oil spill or other environmental event.

Power

Power's groundwater monitoring program is being carried out in conjunction with approved Cuban environmental agencies specializing in geographical and environmental solutions, to ensure that operations understand the quantity and quality of existing fresh water supplies and that current operations do not create any negative impact to those supplies.

A Cuban environmental agency conducts groundwater and air quality surveys on an annual basis at the Varadero, Boca de Jaruco and Puerto Escondido plant sites in order to monitor compliance with emission standards under Cuban environmental laws. To date, compliance with such emission standards has been maintained at all three plant sites.

The Varadero, Boca de Jaruco and Puerto Escondido plant sites are subject to regulation under Cuban environmental laws. The area in the vicinity of these sites has been used for the development and production of petroleum and natural gas and other industrial activity for many years. Baseline environmental surveys conducted prior to the commencement of operations have confirmed the presence of pre-existing groundwater contamination at each of the Varadero, Boca de Jaruco and Puerto Escondido plant sites. The Corporation believes, however, that Energas has no liability under Cuban law for any pre-existing contamination at these sites.

Safety continues to be a major focus of Power. Hydrogen sulphide courses are provided through a facility in Cuba, using Sherritt equipment to better familiarize the employees with the breathing equipment available. The development of a first aid training program in conjunction with the local health authorities has seen a number of Sherritt's employees trained to respond to injury situations both at work and at home. In 2011, there was one lost time injury.

The introduction and use of the Operations Integrity Management System by all employees ensure quality business practices throughout Power. These policies have been translated into Spanish to increase the understanding and compliance by the Cuban employees and contractors.

Power also continues to support technical and operator training of expatriates and Cuban staff. This includes recognized apprenticeship and journeyman programs offered through educational institutions in Canada.

A full-time EH&S manager is located in Cuba to make recommendations for the implementation of EH&S standards in the day-to-day operations of the sites, and to provide assurance that all applicable environmental and regulatory standards are being met. Contingency plans are in place for a timely response in the event of a hurricane or other environmental event.

Climate change and greenhouse gas emissions

The Kyoto Protocol (Kyoto), an international agreement which came into force in 2005, binds most of the world's developed nations to specific reductions of greenhouse gas (GHG) emissions. The Kyoto compliance period for these reductions took effect on January 1, 2008 and will continue until December 31, 2012. As a consequence, many industrialized countries, including some that are not bound by Kyoto, are implementing policies and regulations designed to materially reduce GHG emissions. The Corporation expects that these developments will increasingly impact the cost of its operations (including through an increase in the cost of power) and may reduce the demand for its products.

The Canadian federal government ratified Kyoto in 2002, formally committing to reduce GHG emissions to a limit of 6% below 1990 levels by the end of the 2008 to 2012 compliance period. However, on December 15, 2011 Canada officially withdrew from the Kyoto Protocol and its compliance obligations in respect of the compliance period ending 2012.

The most recent periodic conferences of the parties to the Convention have not resulted in a legally binding agreement to succeed the Kyoto Protocol, which expires after 2012. However, a number of leading nations, including the United States, China, Brazil and India, entered into a commitment referred to as the Copenhagen Accord which called on countries to voluntarily submit mitigation targets by January 31, 2010. The Canadian federal government has proposed on a voluntary basis to reduce its emissions by 17% below 2005 levels by 2020.

While there is no current regulatory legislation in force at the federal level that specifically limits GHG emissions, the federal Conservative government has repeatedly announced its intention to implement a regulatory framework that would require significant reductions of GHG emissions by Canada's largest industrial sectors, including some of the Corporation's facilities, most of the facilities in Canada from which the Corporation ultimately obtains power, and the industrial sectors to which the Corporation provides its products.

On August 27, 2011, the federal government published the draft regulations, "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity". The Draft Regulations would require, among other things, that new and certain refurbished coal-fired plants commissioned on or after July 1, 2015, achieve an emissions intensity performance standard of 375 tonnes of CO_2 per gigawatt hour. In general, for units commissioned prior to that date, the same standard would take effect 45 years from the unit's commissioning date or upon the expiration of the unit's power purchase agreement, whichever comes later. In practice, although there are certain exceptions to the performance standard, the Draft Regulations may result in certain coal-fired units retiring earlier than they would have otherwise. The public was provided with 60 days following the publication of the Draft Regulations to offer comments. If the Draft Regulations are not revised prior to being passed into law, they could have a significant effect on the customers of Sherritt Coal's Prairie Operations, which in turn could, over time, significantly reduce the demand for the coal produced from Sherritt's Prairie Operations mines.

In addition to communicating with provincial and federal politicians and bureaucrats, Sherritt provided a written submission to the federal government articulating its position on the Draft Regulations. Over 5,000 comments were received by Environment Canada from industry stakeholders and the general public.

In addition, various Canadian provincial governments and other regional initiatives are moving ahead with GHG reduction and other initiatives designed to address climate change.

Given the present uncertainty around the specific provisions of the final regulations, it is not yet possible to estimate the extent to which such regulations will impact the Corporation's operations. However, the Corporation's Canadian operations are large facilities, so the setting of emissions targets (whether in the manner described above or otherwise) may well affect them and may have a material adverse effect on the Corporation's business, results of operations and financial performance. In addition to directly emitting GHGs, the Corporation's operations require large quantities of power and future taxes on or regulation of these power producers or the production of coal, oil and gas or other products may also add to the Corporation's operating costs.

The increased regulation of GHG emissions may also reduce the demand for the Corporation's products. With respect to the coal business, existing customers produce a significant amount of electricity for the regions they serve, and it is expected that they will continue to operate due to the ongoing and increasing demand for electricity. If the power plants which the Corporation supplies are subjected to any potential requirement to reduce GHG emissions, then electric utilities companies may seek to reduce the amount of coal consumed, introduce technology that would allow for the reduction of emissions, engage in programs that would allow the continued use of coal by paying for emissions offsets, or reduce emissions in other parts of the business. Any reduction of the Corporation's customers' use of coal, restrictions on the use of coal, fuel substitution or major capital investment will have an impact on the business of electric utilities companies and will negatively impact the Corporation's ability to extend existing contracts or to grow new domestic coal sales.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING PRONOUNCEMENTS

Critical accounting estimates and judgments

The preparation of financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

CRITICAL ACCOUNTING ESTIMATES

ENVIRONMENTAL REHABILITATION PROVISIONS

The Corporation's operations are subject to environmental regulations in Canada, Cuba, Madagascar and other countries in which the Corporation operates. Many factors such as future changes to environmental laws and regulations, life of mine estimates, the cost and time it will take to rehabilitate the property and discount rates, all affect the carrying amount of environmental rehabilitation provisions. As a result, the actual cost of environmental rehabilitation could be higher than the amounts the Corporation has estimated. For certain operations, actual costs will ultimately be determined after site closure in agreement with predecessor companies.

The environmental rehabilitation provision is assessed quarterly and measured by discounting the expected cash flows.
The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money, which is

determined based on government bond interest rates and inflation rates. The actual rate depends on a number of factors, including the timing of rehabilitation activities that can extend decades into the future and the location of the property.

RESERVES FOR MINING AND OIL & GAS PROPERTIES

Reserves are estimates of the amount of product that can be economically and legally extracted from the Corporation's mining and oil and gas properties. Reserve estimates are an integral component in the determination of the commercial viability of a site, depletion amounts charged to the cost of sales, and impairment analysis.

In calculating reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production decline rates, recovery rates, production costs, commodity demand, commodity prices and exchange rates. In addition, future changes in regulatory environments, including government levies or changes in the Corporation's rights to exploit the resource imposed over the producing life of the reserves may also significantly impact estimates.

Nickel, cobalt, thermal and metallurgical coal, and potash estimates are based on information compiled by or under supervision of a qualified person as defined under National Instrument 43-101, Standards of Disclosure for Mineral Projects within Canada. Substantially all of the oil and gas reserves have been evaluated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is the largest component of the Corporation's assets and as such the capitalization of costs, the determination of estimated recoverable amounts, and the depletion and depreciation of these assets have a significant impact on the Corporation's financial results.

Certain assets are depreciated using a units-of-production basis, which involves the estimation of recoverable reserves in determining the depletion and/or depreciation rates of the specific assets. Each item's life, which is assessed annually, is assessed for both its physical life limitations and the economic recoverable reserves of the property at which the asset is located.

For those assets depreciated on a straight-line basis, management estimates the useful life of the assets and their components, which in certain cases may be based on an estimate of the producing life of the property. These assessments require the use of estimates and assumptions including market conditions at the end of the asset's useful life, costs of decommissioning the asset and the amount of recoverable reserves.

Asset useful lives and residual values are re-evaluated at each reporting date.

INCOME TAXES

The Corporation operates in a number of industries in several tax jurisdictions, and consequently, its income is subject to various rates and rules of taxation. As a result, the Corporation's effective tax rate may vary significantly from the Canadian statutory tax rate depending upon the profitability of operations in the different jurisdictions.

The Corporation calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The Corporation records deferred income tax assets when it determines that it is probable that such assets will be realized. The future realization of deferred tax assets can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs, and can either be increased or decreased where, in the view of management, such change is warranted.

PURCHASE PRICE ALLOCATIONS

Business acquisitions are accounted for by the acquisition method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is goodwill. The determination of fair value often requires management to make assumptions and estimates about future events, and consider assumptions other market participants might make. The assumptions and estimates with respect to determining the fair value of property, plant and equipment generally require a high degree of judgment, and include estimates of acquired mineral reserves, future commodity prices and discount rates. Changes in any of the assumptions or estimates could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

MEASUREMENT OF UNQUOTED FINANCIAL INSTRUMENTS

The Corporation has estimated the fair value of the Ambatovy call option and the MAV notes. The fair value of the Ambatovy call option is determined by applying the Black-Scholes model, which requires estimates and assumptions such as future commodity prices, equity volatilities and interest rates. The fair values of the MAV notes that are not widely traded are determined based on estimates of future cash flows, assumptions about the timing of settlement, interest rates and credit risk, and by incorporating other assumptions made by market participants.

MEASURING THE FAIR VALUE OF THE CORPORATION'S INTEREST IN THE AMBATOVY JOINT VENTURE

The Corporation measured its remaining interest in the Ambatovy Joint Venture at fair value on the date Sherritt entered the additional loan agreements. This formed the cost basis of the investment in an associate balance. Calculating the fair value required estimates and assumptions to be made regarding future cash flows, including estimated commodity prices, interest rates, input prices and other factors. The investment is accounted for using the equity method.

CRITICAL ACCOUNTING JUDGMENTS

PROPERTY, PLANT AND EQUIPMENT

Management uses the best available information to determine when a development project reaches commercial viability, which is generally based on management's assessment of when economic quantities of proven and/or probable reserves are determined to exist and the point at which future costs incurred to develop a mine on the property are capitalized. Management also uses the best available information to determine when a project achieves commercial production, the stage at which pre-production costs cease to be capitalized.

For assets under construction, management assesses the stage of each construction project to determine when a project is commercially viable. The criteria used to assess commercial viability are dependent upon the nature of each construction project and include factors such as the asset purpose, complexity of a project and its location, the level of capital expenditure compared to the construction cost estimates, completion of a reasonable period of testing of the mine plant and equipment, ability to produce the commodity in saleable form (within specifications), and ability to sustain ongoing production of the commodity.

ASSET IMPAIRMENT

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets subject to depreciation and amortization at each reporting date to determine whether there are any indicators that the carrying amount of the assets may be impaired or require a reversal of impairment. Goodwill is tested for impairment annually. Impairment is assessed at the cash-generating unit (CGU) level and the determination of CGUs is an area of judgment.

For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these assets. Where necessary, management engages qualified third-party professionals to assist in the determination of fair values.

OVERBURDEN REMOVAL COSTS

Overburden removal costs are capitalized and depreciated over the useful lives when the overburden removal activity can be shown to create value beyond providing access to the underlying reserve. In many cases, this determination is a matter of judgment.

EXPLORATION AND EVALUATION (E&E)

Management must make estimates and assumptions when determining when to transfer E&E expenditures from intangible asset to property, plant and equipment, which is normally at the time when commercial viability is achieved. Assessing commercial viability requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable operation can be established. Any such estimates and assumptions may change as new information becomes available. If after having capitalized the expenditure, a decision is made that recovery of the expenditure is unlikely, the amount capitalized is recognized in cost of sales in the consolidated statements of comprehensive income.

INCOME TAXES

In determining whether it is probable that a deferred tax asset will be realized, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Significant judgment may be involved in determining the timing of expected reversals of temporary differences.

ARRANGEMENTS CONTAINING A LEASE

The Corporation determined that certain property, plant and equipment at Coal are subject to finance lease arrangements, and that the Power facilities in Varadero, Cuba, and Madagascar are subject to operating lease arrangements. The Corporation applies judgment in interpreting these arrangements such as determining which assets are specified in an arrangement, determining whether a right to use a specified asset has been conveyed and if relative fair value or another estimation technique to separate lease payments from payments for other goods or services should be used. The Corporation also uses judgment in applying accounting guidance to determine whether these leases are operating or finance leases.

SERVICE CONCESSION ARRANGEMENTS

The Corporation determined that the contract terms regarding the Boca de Jaruco and Puerto Escondido, Cuba, facilities operated by Energas represent service concession arrangements as described in IFRIC 12, "Service concession arrangements" (IFRIC 12). The Corporation uses judgment to determine whether the grantor sets elements of the services provided by the operator, whether the grantor retains any significant ownership interest in the infrastructure at the end of the agreement, and to determine the classification of the service concession asset as either a financial asset or intangible asset.

Accounting pronouncements

IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 7, "Financial instruments: disclosures" (IFRS 7) was amended by the International Accounting Standards Board (IASB) in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and U.S. GAAP. IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB in November 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that defer the mandatory effective date to annual periods beginning on or after January 1, 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9, which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10, "Consolidated financial statements" (IFRS 10) was issued by the IASB in May 2011 and will replace SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 – JOINT ARRANGEMENTS

IFRS 11, "Joint arrangements" (IFRS 11) was issued by the IASB in May 2011 and will supersede IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers" by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12, "Disclosure of interests in other entities" (IFRS 12) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 13 – FAIR VALUE MEASUREMENT

IFRS 13, "Fair value measurement" (IFRS 13) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, requires disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

An amendment to IAS 1, "Presentation of financial statements" (IAS 1) was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss. The effective date is July 1, 2012 and earlier adoption is permitted. The Corporation is currently evaluating the impact of this amendment on its consolidated financial statements.

IAS 19 – EMPLOYEE BENEFITS

An amendment to IAS 19, "Employee benefits" (IAS 19) was issued by the IASB in June 2011. The amendment requires all actuarial gains and losses to be immediately recognized in other comprehensive income rather than profit and loss and requires expected returns on plan assets recognized in profit or loss to be calculated based on the rate used to discount the defined benefit obligation. The amended standard is effective for annual periods beginning on or after January 1, 2013 and earlier adoption is permitted. The Corporation is currently evaluating the impact of the amendment on its consolidated financial statements.

IAS 27 – SEPARATE FINANCIAL STATEMENTS

IAS 27, "Separate financial statements" (IAS 27) was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Corporation has determined that this standard is not applicable to the consolidated financial statements.

IAS 28 – INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

IAS 28, "Investments in associates and joint ventures" (IAS 28) was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

IAS 32 – FINANCIAL INSTRUMENTS: PRESENTATION

IAS 32, "Financial instruments: presentation" (IAS 32) was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

IFRIC 20 – STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

IFRIC 20, "Stripping costs in the production phase of a surface mine" (IFRIC 20) was issued by the IASB in October 2011. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. The standard requires stripping costs incurred during the production phase of a surface mine to be capitalized as part of an asset, if certain criteria are met, and depreciated on a units-of-production basis unless another method is more appropriate. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

THREE-YEAR TREND ANALYSIS

The following table presents select financial and operational results for the last three years:

$ millions, except per share amounts, for the years ended December 31	**2011**	2010	2009[1][2]
Revenue	**$ 1,978.3**	$ 1,670.6	$ 1,474.9
EBITDA[3]	**643.2**	546.0	495.4
Earnings from operations and associate[4]	**410.7**	342.7	233.9
Net earnings from continuing operations	**198.5**	159.5	88.5
Net earnings	**197.3**	144.8	85.7
Net earnings per share from continuing operations (basic and diluted)	**$ 0.67**	$ 0.54	$ 0.30
Net earnings per share (basic and diluted)	**0.67**	0.49	0.29
Dividend rate per share	**0.152**	0.146	0.144
Total assets	**$ 6,497.5**	$ 6,068.2	$ 9,908.4
Total loans and borrowings	**1,744.7**	1,563.6	2,993.9
Production volumes			
Nickel (tonnes) (50% basis)	**17,286**	16,986	16,800
Cobalt (tonnes) (50% basis)	**1,927**	1,853	1,861
Coal – Prairie Operations (millions of tonnes)	**32.7**	34.4	35.4
Coal – Mountain Operations (millions of tonnes)[5]	**4.4**	3.3	2.0
Oil – Cuba – net working-interest production (barrels per day)	**11,286**	11,128	12,489
Electricity (gigawatt hours) (33¹/₃% basis)	**618**	689	722

(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result financial information has not been restated to IFRS. Production volumes for electricity have been adjusted to reflect the Corporation's proportionate share of production consistent with IFRS.

(2) The Corporation was required to change how it accounts for Ambatovy Joint Venture and Energas under IFRS. As a result, there were significant changes to most accounts in the statement of financial position compared to those prepared under Canadian GAAP.

(3) For additional information see the Non-IFRS measure – EBITDA section.

(4) For 2009 under Canadian GAAP, earnings from operations and associate has been derived as: revenue less operating, selling, general and administrative expenses and depletion, amortization and accretion.

(5) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.

The positive trend in net earnings during the last three years reflects the Corporation's gradual recovery from the global economic downturn in 2008. The Corporation's revenue, EBITDA and earnings from operations and associate have all increased during the three-year period primarily as a result of higher average-realized prices for nickel, oil and thermal coal. The Canadian dollar has strengthened relative to the U.S. dollar over the three-year period which has partially offset some of the benefit of higher commodity prices. Unit costs have trended higher over the three-year period at all divisions, primarily as a result of higher input commodity prices and other operating costs.

Production for nickel and cobalt has increased over the three-year period as a result of ongoing process improvements and stable plant operation at Metals. Production at Mountain Operations reflects the Corporation's increased ownership in the division from June 30, 2010. Production in Prairie Operations was lower in 2011 compared to the preceding two years primarily as a result of lower customer demand at the Highvale and Genesee mines. Production at Oil and Gas in 2010 and 2011 was

lower primarily due to an adjustment related to the Varadero production-sharing contract and natural reservoir declines. Production at Power has been lower over the three-year period primarily as a result of periodic gas supply shortages.

2011 FOURTH QUARTER RESULTS

The following table and discussion compares the fourth quarter 2011 to the fourth quarter 2010:

$ millions, for the three months ended December 31	**2011**	2010	Change
Financial highlights			
Revenue by segment			
Metals	**$ 137.7**	$ 147.0	(6%)
Coal	**303.3**	260.6	16%
Oil and Gas	**74.4**	61.9	20%
Power	**18.6**	12.3	51%
Corporate and other	**2.8**	3.4	(18%)
	$ 536.8	$ 485.2	11%
EBITDA[1] by segment			
Metals	**$ 35.7**	$ 64.5	(45%)
Coal	**89.0**	55.0	62%
Oil and Gas	**54.7**	46.0	19%
Power	**7.4**	7.4	–
Corporate and other	**(14.4)**	(14.6)	(1%)
	$ 172.4	$ 158.3	9%
Earnings (loss) from operations and associate by segment			
Metals	**$ 23.1**	$ 51.8	(55%)
Coal	**48.4**	27.6	75%
Oil and Gas	**37.8**	29.8	27%
Power	**4.7**	4.8	(2%)
Corporate and other	**(15.0)**	(14.1)	6%
	$ 99.0	$ 99.9	(1%)
Net earnings	**$ 28.1**	$ 42.7	(34%)
Net earnings per share, diluted ($ per share)	**0.09**	0.14	(36%)
Cash flow			
Cash provided by operating activities	**$ 103.2**	$ 138.3	(25%)
Spending on capital and intangible assets[2]	**$ 81.8**	$ 55.8	47%
Production volumes			
Nickel (tonnes) (50% basis)	**4,597**	4,459	3%
Cobalt (tonnes) (50% basis)	**519**	492	5%
Coal – Prairie Operations (millions of tonnes)	**9.8**	10.0	(2%)
Coal – Mountain Operations (millions of tonnes)	**1.2**	1.2	–
Oil – Cuba – net working-interest production (barrels per day)	**10,729**	11,306	(5%)
Electricity (gigawatt hours) (33 1/3% basis)	**157**	171	(8%)

[1] For additional information see the Non-IFRS measure – EBITDA section.

[2] Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Project.

- The Corporation's earnings from operations and associate for the three months ended December 31, 2011 were $99.0 million compared to $99.9 million in the same period in the prior year;
- Revenue for the fourth quarter of 2011 was $536.8 million compared to $485.2 million in the same period in the prior year. Higher revenue was primarily a result of higher export coal prices and export sales volumes at Mountain Operations, and higher oil prices and higher coal mining revenue at Prairie Operations. In Metals, revenue was lower primarily as a result of lower average-realized prices for nickel and cobalt;
- EBITDA for the fourth quarter of 2011 was $172.4 million compared to $158.3 million in the same period in the prior year. Higher EBITDA was primarily a result of higher revenue, partially offset by higher operating costs at Coal and higher input commodity prices at Metals;

→ Net earnings for the fourth quarter of 2011 were $28.1 million compared to $42.7 million in the same period in the prior year. Offsetting the impact of revenue and operating costs discussed above, net earnings were also impacted by higher net finance expense as a result of an early redemption premium paid on the redemption of the 2012 Debentures in December 2011 and higher interest expense and accretion on higher average loans and borrowings balances; higher depletion expense primarily due to higher average property, plant and equipment balances and an increase in the estimate of environmental rehabilitation costs.

SUMMARY OF QUARTERLY RESULTS

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended March 2010 to December 2011.

$ millions, except per share amounts, for the three months ended	**2011 Dec. 31,**	**2011 Sept. 30,**	**2011 June 30,**	**2011 March 31,**	2010 Dec. 31,	2010 Sept. 30,	2010 June 30,	2010 March 31,
Revenue								
Metals	**$ 137.7**	**$ 122.9**	**$ 149.4**	**$ 140.4**	$ 147.0	$ 127.8	$ 138.3	$ 115.9
Coal[(1)]	**303.3**	**247.2**	**254.1**	**245.9**	260.6	217.8	189.8	178.1
Oil and Gas	**74.4**	**78.5**	**81.5**	**70.5**	61.9	53.2	63.8	59.3
Power	**18.6**	**14.0**	**13.0**	**14.4**	12.3	11.0	12.3	11.4
Corporate and other	**2.8**	**3.8**	**2.6**	**3.3**	3.4	2.9	2.1	1.7
	$ 536.8	**$ 466.4**	**$ 500.6**	**$ 474.5**	$ 485.2	$ 412.7	$ 406.3	$ 366.4
Net earnings	**28.1**	**45.5**	**60.1**	**63.6**	42.7	22.5	50.2	29.4
Net earnings per share								
Basic	**$ 0.10**	**$ 0.16**	**$ 0.20**	**$ 0.22**	$ 0.15	$ 0.07	$ 0.17	$ 0.10
Diluted	**$ 0.09**	**$ 0.15**	**$ 0.20**	**$ 0.22**	$ 0.14	$ 0.07	$ 0.17	$ 0.10

(1) The Corporation fully consolidated Mountain Operations (100%) beginning July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in Mountain Operations.

Net earnings for the Corporation are primarily affected by commodity prices and exchange rates that impact revenue and costs. Generally, a stronger Canadian dollar relative to the U.S. dollar partially offset higher commodity prices over the quarters. Net earnings in the fourth quarter of 2011 were also impacted by higher net finance expense primarily due to an early redemption premium paid on the redemption of the 2012 Debentures in December 2011 and other non-recurring costs. The third and fourth quarters of 2010 were impacted by a higher foreign exchange loss and finance expenses related to Ambatovy Partner loans as well as an impairment loss in Oil and Gas in the third quarter and closure costs related to Mineral Products in the fourth quarter. The second quarter of 2010 was impacted by a gain primarily related to the re-measurement of the Corporation's previously held 50% equity interest when it acquired the remaining 50% of CVP. The first quarter of 2010 was impacted by a higher foreign exchange loss and finance expenses related to Ambatovy Partner loans.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no foreign exchange or commodity options, futures or forward contracts. The Corporation has made a completion guarantee to the Ambatovy Project lenders and has also guaranteed letters of credit issued by Coal and payments under a lease contract entered into by Coal. Details of these arrangements can be found in the Environmental rehabilitation provisions, contingencies and guarantees note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

TRANSACTIONS WITH RELATED PARTIES

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly controlled entities, and an associate at fair value. The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt and certain by-products produced by certain jointly controlled entities and an associate in the Metals business.

$ millions, for the years ended December 31	**2011**	2010
Total value of goods and services		
Provided to jointly controlled entities	**$ 105.9**	$ 86.2
Provided to associate	**4.4**	4.0
Purchased from jointly controlled entities	**40.4**	37.1
Net financing income from jointly controlled entities	**24.2**	22.2

$ millions, as at December 31	**2011**	2010
Accounts receivable from jointly controlled entities	**$ 4.1**	$ 5.5
Accounts receivable from associate	**22.1**	11.9
Accounts payable to jointly controlled entities	**–**	0.3
Accounts payable to associate	**0.3**	–
Advances and loans receivable from associate	**968.9**	620.9
Advances and loans receivable from certain Moa Joint Venture entities	**142.8**	168.1
Advances and loans receivable from Energas	**166.9**	134.1

All transactions between related parties are based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior year for bad debts in respect of amounts owed by related parties.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Management is responsible for establishing and maintaining adequate internal control over disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Commission (NI 52-109). Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of December 31, 2011, of the Corporation's disclosure controls and procedures. Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information known by others relating to the Corporation and its subsidiaries is provided to them.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Internal control over financial reporting means a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Management advises that there have been no changes in the Corporation's internal controls over financial reporting during 2011 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Management, with the participation of the certifying officers, conducted an evaluation of the effectiveness of the Corporation's internal controls over financial reporting, as of December 31, 2011, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on this evaluation, the CEO and CFO have concluded that the internal controls over financial reporting were effective as of December 31, 2011.

SUPPLEMENTARY INFORMATION

Sensitivity analysis

The following table shows the approximate impact on the Corporation's 2011 net earnings and EPS from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor	Increase	Approximate annual change in net earnings ($ millions) increase/ (decrease)	Approximate annual change in basic EPS increase/ (decrease)
Prices			
Nickel – LME price per pound (50% basis)	US$0.50	12	0.04
Cobalt – Metal Bulletin price per pound (50% basis)	US$5.00	13	0.04
Export thermal coal – price per tonne	US$5.00	5	0.02
Oil – U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$5.00	10	0.03
Volume			
Nickel – tonnes (50% basis)	1,000	3	0.01
Cobalt – tonnes (50% basis)	250	2	0.01
Oil – gross working-interest barrels per day	1,000	5	0.02
Exchange rate			
Strengthening of the Canadian dollar relative to the U.S. dollar	$0.05	(35)	(0.12)
Operating costs			
Natural gas – cost per gigajoule (Metals) (50% basis)	$1.00	(3)	(0.01)
Sulphuric acid – cost per tonne (Metals) (50% basis)	US$25.00	(4)	(0.01)
Fuel – WTI oil price (Coal)	US$10.00	(5)	(0.02)

Non-IFRS measure – EBITDA

Management uses EBITDA to monitor financial performance and provide additional information to investors and analysts. EBITDA does not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As EBITDA does not have a standardized meaning, it may not be comparable to similar measures provided by other companies.

The Corporation defines EBITDA as earnings (loss) from operations and associate as reported in the IFRS financial statements, adjusted for amounts included in net earnings or net loss for income taxes, financing income, financing expense, depletion, depreciation and amortization in cost of sales and administrative expenses, impairment charges for property, plant and equipment, intangible assets, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

The table below reconciles EBITDA to earnings before tax.

$ millions	For the three months ended December 31		For the years ended December 31	
	2011	2010	**2011**	2010
Revenue	**$ 536.8**	$ 485.2	**$ 1,978.3**	$ 1,670.6
Cost of sales	**407.1**	359.0	**1,481.7**	1,250.2
Gross profit	**129.7**	126.2	**496.6**	420.4
Administrative expenses	**26.6**	21.8	**82.4**	87.7
Operating profit	**103.1**	104.4	**414.2**	332.7
Add:				
Depletion, depreciation and amortization in cost of sales and administrative expenses	**66.5**	54.5	**224.2**	204.3
Impairment losses and other	**2.8**	(0.6)	**4.8**	9.0
EBITDA	**172.4**	158.3	**643.2**	546.0
Add:				
Gain on acquisition of CVP	**–**	–	**–**	15.6
Less:				
Depletion, depreciation and amortization in cost of sales and administrative expenses	**(66.5)**	(54.5)	**(224.2)**	(204.3)
Share of earnings (loss) of an associate	**(4.1)**	(4.5)	**(3.5)**	(5.6)
Impairment losses and other	**(2.8)**	0.6	**(4.8)**	(9.0)
Earnings from operations and associate	**99.0**	99.9	**410.7**	342.7
Financing income	**(11.8)**	(15.1)	**(47.5)**	(60.1)
Financing expense	**63.6**	37.0	**170.5**	141.6
Earnings before tax	**$ 47.2**	$ 78.0	**$ 287.7**	$ 261.2

Five-year financial and operating summary

$ millions, except per share amounts	**2011**	2010	2009[1]	2008[1]	2007[1]
Consolidated statements of comprehensive income (loss)					
Revenue	**$ 1,978.3**	$ 1,670.6	$ 1,474.9	$ 1,611.6	$ 1,340.4
Earnings (loss) from operations and associate[2]					
Metals	**166.3**	185.0	82.3	120.7	458.5
Coal[3]	**104.5**	81.2	80.9	73.9	17.2
Oil and Gas	**170.0**	101.2	63.6	93.7	140.0
Power	**14.5**	18.7	49.7	57.8	56.2
Corporate and other	**(44.6)**	(43.4)	(42.6)	(29.2)	(36.8)
	410.7	342.7	233.9	316.9	635.1
Non-controlling interests	**–**	–	20.4	26.1	21.1
Net earnings (loss) from continuing operations	**198.5**	159.5	88.5	(286.2)	370.7
Loss from discontinued operations, net of tax	**(1.2)**	(14.7)	(2.8)	(3.5)	(0.3)
Net earnings (loss) for the year	**197.3**	144.8	85.7	(289.7)	370.4
Earnings (loss) from continuing operations per common share					
Basic	**$ 0.67**	$ 0.54	$ 0.30	$ (1.04)	$ 1.80
Diluted	**$ 0.67**	$ 0.54	$ 0.30	$ (1.04)	$ 1.79
Net earnings (loss) per common share					
Basic	**$ 0.67**	$ 0.49	$ 0.29	$ (1.05)	$ 1.80
Diluted	**$ 0.67**	$ 0.49	$ 0.29	$ (1.05)	$ 1.79
Consolidated statements of financial position[4]					
Cash and cash equivalents	**$ 174.6**	$ 263.1	$ 449.8	$ 500.8	$ 355.2
Restricted cash	**1.1**	1.1	1.8	11.7	31.4
Short-term investments	**456.8**	496.7	420.8	106.5	103.5
Non-cash working capital	**427.1**	367.0	149.4	29.2	102.8
Goodwill and net intangible assets	**1,085.0**	1,087.1	791.3	791.2	373.8
Property, plant and equipment	**1,430.4**	1,340.7	7,162.9	6,703.0	3,282.2
Investments and other assets	**2,703.4**	2,300.3	517.8	588.8	653.3
Assets of discontinued operation	**1.5**	1.7	4.5	4.6	4.6
Loans, borrowings and other liabilities	**(2,043.0)**	(1,863.5)	(3,245.1)	(2,593.0)	(657.9)
Environmental rehabilitation provisions	**(267.7)**	(208.3)	(161.1)	(147.0)	(73.4)
Liabilities of discontinued operation	**(8.2)**	(24.5)	(11.0)	(6.6)	(4.4)
Non-controlling interests	**–**	–	(2,110.8)	(1,668.4)	(1,202.3)
Deferred income taxes, net	**(229.3)**	(233.1)	(515.9)	(593.7)	(318.7)
Shareholders' equity	**$ 3,731.7**	$ 3,528.3	$ 3,454.4	$ 3,727.1	$ 2,650.1
Consolidated statements of cash flow[4]					
Cash provided by operating activities	**$ 354.8**	$ 413.8	$ 433.7	$ 495.1	$ 729.2
Capital expenditures	**129.0**	146.3	1,567.5	2,208.8	1,002.8
Increase (decrease) in net cash	**(88.5)**	98.4	(51.0)	145.1	2.4
Sales volumes					
Nickel (thousands of pounds, 50% basis)	**38,088**	37,253	37,365	35,782	34,398
Cobalt (thousand of pounds, 50% basis)	**4,249**	4,086	4,095	3,811	3,974
Fertilizers (thousands of tonnes)	**165**	196	158	150	198
Coal: Prairie Operations[5] (thousands of tonnes)	**31,993**	34,460	34,482	34,921	35,758
Coal: Mountain Operations[6] (thousands of tonnes)	**4,368**	3,327	1,860	1,775	1,889
Oil (net barrels per day)	**12,057**	11,956	13,214	16,826	19,154
Power (GWh) ($33^1/_3$% basis)[1]	**618**	689	722	773	763
Average-realized prices					
Nickel ($ per pound)	**$ 10.14**	$ 10.11	$ 7.46	$ 9.93	$ 17.85
Cobalt ($ per pound)	**15.82**	18.68	17.54	36.67	29.40
Coal: Prairie Operations ($ per tonne)	**16.31**	14.18	14.56	14.55	13.00
Coal: Mountain Operations ($ per tonne)	**101.61**	84.21	79.04	87.51	50.50
Oil ($ per barrel)	**68.47**	52.24	45.05	55.99	42.70
Electricity ($ per megawatt hour)	**41.00**	42.42	46.79	43.12	43.11
Common share prices					
High	**$ 9.90**	$ 9.05	$ 8.44	$ 17.35	$ 18.04
Low	**$ 3.86**	$ 5.72	$ 1.69	$ 1.75	$ 11.49
Shares outstanding at December 31 (thousands)	**296,391**	295,017	293,981	293,051	231,809

[1] The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result these years have not been restated to IFRS. Sales volumes for Power have been adjusted to reflect the Corporation's proportionate share consistent with IFRS.

[2] For 2009 and prior years, earnings from operations and associate is derived using Canadian GAAP amounts as: revenue less operating, selling, general and administrative expenses; depletion, amortization and accretion; and impairment of property, plant and equipment; plus share of earnings of equity accounted investments.

[3] The Coal segment includes the following:

- The Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
- The Corporation's 50% proportionate interest in coal development assets.
- The Corporation's share of equity earnings to the date of acquisition of Royal Utilities (May 2, 2008), and consolidated results since that date.

[4] The Corporation was required to change how it accounts for Ambatovy Joint Venture and Energas under IFRS. As a result, there were significant changes to most accounts in the statement of financial position compared to those prepared under Canadian GAAP.

[5] Tonnage amounts are presented on a 100% basis for each period.

[6] Tonnage amounts are presented on a 100% basis from July 1, 2010. Prior to July 1, 2010, tonnage amounts are presented on a 50% basis for each period.

Forward-looking statements

This MD&A contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about the Corporation's spending on capital and project development; Ambatovy Project commissioning, start-up, production and completion dates; production volumes; royalty revenue; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; and other corporate objectives, plans or goals for 2012. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Sherritt cautions readers of this MD&A not to place undue reliance on any forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. By their nature, forward-looking statements require Sherritt to make assumptions and are subject to inherent risks and uncertainties.

Key factors that may result in material differences between actual results and developments and those contemplated by this MD&A include, global economic conditions, and business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for Sherritt's products. Other such factors include, but are not limited to, uncertainties in the development and construction of large mining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation's capital initiatives; risks associated with Sherritt's joint venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; Sherritt's reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of gas supply for electrical generation; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government's ability to make certain payments to the Corporation; development programs; uncertainties in reserve estimates; uncertainties in environmental rehabilitation provisions estimates; Sherritt's reliance on significant customers; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; Sherritt's ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of Sherritt to enforce legal rights in foreign jurisdictions; the ability of Sherritt to obtain government permits; risks associated with government regulations and environmental, health and safety matters; differences between Canadian GAAP and IFRS; and other factors listed from time to time in Sherritt's continuous disclosure documents.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and except as required by law, Sherritt undertakes no obligation to update any forward-looking statements.

Management's report

Management is responsible for the preparation of the accompanying consolidated financial statements of the Corporation in accordance with International Financial Reporting Standards, and for its discussion and analysis of results and financial condition, which includes information that is consistent with the consolidated financial statements. Systems of internal control are maintained by the Corporation 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 with representatives of the Corporation's financial personnel and the Corporation's independent auditor. The Audit Committee reviews the Corporation's accounting policies and the scope and the results of the independent auditor's examination of the Corporation's consolidated financial statements. The Corporation also has an internal audit function that evaluates and formally reports to management and the Audit Committee on the adequacy and effectiveness of internal controls specified in the approved annual internal audit plan. The independent auditor, that is appointed by the shareholders, examines and reports on the consolidated financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. The independent auditor's report to the shareholders of the Corporation is set out on the next page. The accompanying consolidated financial statements have been reviewed and approved by the Board of Directors and the Audit Committee.

David V. Pathe
President and Chief Executive Officer

Michael Robins
Senior Vice President, Finance and
Chief Financial Officer

February 21, 2012

Independent auditor's report

To the Shareholders of Sherritt International Corporation

We have audited the accompanying consolidated financial statements of Sherritt International Corporation, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flow for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sherritt International Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flow for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

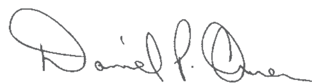
Chartered Accountants
Licensed Public Accountants
February 21, 2012
Toronto, Canada

Consolidated statements of financial position

Canadian $ millions, as at	Note	2011 December 31	2010 December 31	2010 January 1
			(note 31)	(note 31)
ASSETS				
Current assets				
Cash and cash equivalents	28	**$ 174.6**	$ 263.1	$ 164.7
Restricted cash		**1.1**	1.1	1.8
Short-term investments	28	**456.8**	496.7	420.8
Investments	13	**29.1**	30.8	34.6
Advances, loans receivable and other financial assets	14	**71.1**	83.6	88.8
Other non-financial assets	14	**0.2**	0.2	0.2
Finance lease receivables	14	**23.3**	19.9	19.9
Trade accounts receivable, net	28	**386.5**	335.9	290.6
Income taxes receivable		**19.1**	25.6	21.2
Inventories	10	**215.1**	190.6	172.3
Prepaid expenses		**12.1**	10.3	10.9
		1,389.0	1,457.8	1,225.8
Non-current assets				
Advances, loans receivable and other financial assets	14	**1,278.8**	912.4	747.7
Other non-financial assets	14	**17.1**	28.2	42.4
Finance lease receivables	14	**196.0**	196.7	202.8
Property, plant and equipment	12	**1,430.4**	1,340.7	1,269.6
Investments	13	**34.7**	96.5	112.5
Investment in an associate	9	**1,053.1**	932.0	993.0
Goodwill	15	**307.9**	307.9	307.9
Intangible assets	16	**786.2**	792.9	803.1
Deferred income taxes		**2.8**	1.4	19.7
		5,107.0	4,608.7	4,498.7
Assets of discontinued operation	7	**1.5**	1.7	–
		$ 6,497.5	$ 6,068.2	$ 5,724.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loans and borrowings	17	**$ 56.9**	$ 33.1	$ 34.4
Trade accounts payable and accrued liabilities		**179.8**	169.4	160.5
Income taxes payable		**25.9**	26.0	9.7
Other financial liabilities	17	**69.8**	67.7	52.8
Other non-financial liabilities	17	**8.0**	23.5	1.2
Environmental rehabilitation provisions	19	**31.9**	25.5	24.1
		372.3	345.2	282.7
Non-current liabilities				
Loans and borrowings	17	**1,687.8**	1,530.5	1,342.8
Other financial liabilities	17	**205.4**	191.1	196.9
Other non-financial liabilities	17	**15.1**	17.6	22.2
Intangible liability	6	**9.1**	13.7	–
Environmental rehabilitation provisions	19	**235.8**	182.8	140.0
Deferred income taxes		**232.1**	234.5	218.8
		2,385.3	2,170.2	1,920.7
Liabilities of discontinued operation	7	**8.2**	24.5	–
		2,765.8	2,539.9	2,203.4
Shareholders' equity				
Capital stock	20	**2,803.1**	2,787.3	2,771.9
Retained earnings		**784.9**	632.5	530.7
Reserves	20	**195.1**	206.6	218.5
Accumulated other foreign currency translation reserve	20	**(51.4)**	(98.1)	–
		3,731.7	3,528.3	3,521.1
		$ 6,497.5	$ 6,068.2	$ 5,724.5

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board,



Michael F. Garvey
Director

Daniel P. Owen
Director

Consolidated statements of comprehensive income

Canadian $ millions, except per share amounts, for the years ended December 31	Note	2011	2010
			(note 31)
Revenue		**$ 1,978.3**	$ 1,670.6
Cost of sales	25	**1,481.7**	1,250.2
Gross profit		**496.6**	420.4
Administrative expenses		**82.4**	87.7
Operating profit		**414.2**	332.7
Share of loss of an associate, net of tax	9	**(3.5)**	(5.6)
Gain on acquisition of Coal Valley Partnership	6	**–**	15.6
Earnings from operations and associate		**410.7**	342.7
Financing income	23	**(47.5)**	(60.1)
Financing expense	23	**170.5**	141.6
Net finance expense		**123.0**	81.5
Earnings before tax		**287.7**	261.2
Income tax expense	26	**89.2**	101.7
Net earnings from continuing operations		**198.5**	159.5
Loss from discontinued operation, net of tax	7	**1.2**	14.7
Net earnings for the year		**$ 197.3**	$ 144.8
Other comprehensive income (loss)			
Foreign currency translation differences on foreign operations		**46.7**	(98.1)
Comprehensive income		**$ 244.0**	$ 46.7
Earnings from continuing operations per common share:	21		
Basic		**$ 0.67**	$ 0.54
Diluted		**$ 0.67**	$ 0.54
Net earnings per common share:	21		
Basic		**$ 0.67**	$ 0.49
Diluted		**$ 0.67**	$ 0.49

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flow

Canadian $ millions, for the years ended December 31	Note	2011	2010
			(note 31)
Operating activities			
Net earnings		**$ 197.3**	$ 144.8
Add (deduct)			
Depletion, depreciation and amortization		**224.2**	204.3
Accretion expense on environmental rehabilitation provisions	19	**5.4**	4.8
Stock-based compensation (recovery) expense	22	**(0.6)**	12.1
Share of loss of an associate, net of tax	9	**3.5**	5.6
Impairment losses	25	**5.6**	10.1
Net gain on financial instruments	23	**(3.2)**	(12.1)
Gain on Coal Valley Partnership acquisition	6	**–**	(15.6)
Current income tax expense	26	**94.3**	75.0
Deferred income tax (recovery) expense	26	**(5.1)**	26.7
Unrealized foreign exchange (gain) loss		**(0.1)**	5.1
Liabilities settled for environmental rehabilitation	19	**(19.4)**	(13.4)
Service concession arrangement	16	**(21.7)**	(5.1)
Cross-guarantee fee amortization	23	**12.0**	12.0
Interest income	23	**(44.3)**	(48.0)
Interest expense	23	**119.6**	111.5
Other items		**(0.2)**	16.5
Net change in non-cash working capital	11	**(88.5)**	(25.6)
Interest received		**39.1**	39.2
Interest paid		**(75.9)**	(75.8)
Income tax paid		**(87.2)**	(58.3)
Cash provided by operating activities		**354.8**	413.8
Investing activities			
Property, plant and equipment expenditures		**(122.3)**	(141.3)
Exploration and evaluation intangible expenditures		**(3.7)**	(2.9)
Other intangible expenditures		**(3.0)**	(2.1)
Increase in advances, loans receivable and other financial assets		**(46.5)**	(14.9)
Repayment of advances, loans receivable and other financial assets		**43.4**	58.3
Investments		**26.9**	28.0
Net proceeds from sale of Master Asset Vehicle note	28	**39.8**	–
Loans to an associate		**(277.1)**	(224.7)
Investment in an associate		**(149.8)**	(22.9)
Restricted cash		**–**	0.7
Net proceeds from sale of property, plant and equipment		**2.9**	1.4
Acquisition of Coal Valley Partnership, net of cash acquired	6	**–**	(31.8)
Short-term investments		**39.9**	(75.9)
Cash used for investing activities		**(449.5)**	(428.1)
Financing activities			
Repayment of loans and borrowings and other financial liabilities		**(373.5)**	(64.0)
Increase in loans and borrowings and other financial liabilities		**46.7**	192.6
Issuance of senior unsecured debentures, net of financing costs	17	**391.1**	–
Acquisition of loan from former partner	6	**–**	(10.1)
(Repayment of) increase in short-term loans		**(14.2)**	19.4
Increase in finance lease receivable		**(23.0)**	(6.8)
Repayment of finance lease receivable		**23.5**	20.0
Issuance of common shares	20	**2.4**	1.1
Treasury stock – restricted stock plan	20	**(0.7)**	(0.8)
Dividends paid on common shares	20	**(44.9)**	(42.4)
Cash provided by financing activities		**7.4**	109.0
Effect of exchange rate changes on cash and cash equivalents		**(1.2)**	3.7
(Decrease) increase in cash and cash equivalents		**(88.5)**	98.4
Cash and cash equivalents at beginning of year		**263.1**	164.7
Cash and cash equivalents at end of year		**$ 174.6**	$ 263.1
Cash and cash equivalents consist of:			
Cash on hand and balances with banks		**$ 109.7**	$ 95.9
Cash equivalents		**64.9**	167.2

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of changes in equity

Canadian $ millions	Note	Capital stock	Retained earnings	Reserves	Accumulated foreign currency translation reserve	Total
		(note 20)		(note 20)	(note 20)	
Balance as at January 1, 2010	31	$2,771.9	$ 530.7	$ 218.5	$ –	$3,521.1
Shares issued for:						
Treasury stock – restricted stock plan		(0.8)	–	–	–	(0.8)
Employee share purchase plan		1.1	–	–	–	1.1
Cross-guarantee	20	13.9	–	(13.9)	–	–
Other		1.2	–	–	–	1.2
Restricted stock plan amortization	22	–	–	0.8	–	0.8
Employee share purchase plan expense	22	–	–	1.2	–	1.2
Dividends declared to common shareholders		–	(43.0)	–	–	(43.0)
Total comprehensive income:						
Net earnings for the year		–	144.8	–	–	144.8
Foreign currency translation differences on foreign operations		–	–	–	(98.1)	(98.1)
		–	144.8	–	(98.1)	46.7
Balance as at December 31, 2010	31	$2,787.3	$ 632.5	$ 206.6	$ (98.1)	$3,528.3
Shares issued for:						
Treasury stock – restricted stock plan		(0.7)	–	–	–	(0.7)
Restricted stock plan (vested)		0.1	–	(0.1)	–	–
Employee share purchase plan		2.4	–	–	–	2.4
Stock options exercised		0.1	–	–	–	0.1
Cross-guarantee	20	13.9	–	(13.9)	–	–
Restricted stock plan amortization	22	–	–	0.7	–	0.7
Employee share purchase plan expense	22	–	–	0.7	–	0.7
Stock option plan expense	22	–	–	1.1	–	1.1
Dividends declared to common shareholders		–	(44.9)	–	–	(44.9)
Total comprehensive income:						
Net earnings for the year		–	197.3	–	–	197.3
Foreign currency translation differences on foreign operations		–	–	–	46.7	46.7
		–	197.3	–	46.7	244.0
Balance as at December 31, 2011		$2,803.1	$ 784.9	$ 195.1	$ (51.4)	$3,731.7

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

(All dollar amounts presented in tables are expressed in millions of Canadian dollars except per share amounts)

NOTE 1 NATURE OF OPERATIONS AND CORPORATE INFORMATION

Sherritt International Corporation (the "Corporation" or "Sherritt") is a diversified Canadian natural resource company that operates principally in Canada and Cuba and has a significant mining project under development in Madagascar. The Corporation, either directly or through its subsidiaries, has significant interests in nickel and cobalt mining, processing and refining; thermal coal technology and production; oil and gas exploration, development and production; and electricity generation. The Corporation also licenses its proprietary technologies to other mining companies.

The Corporation is domiciled in Ontario, Canada and its registered office is 1133 Yonge Street, Toronto, Ontario, M4T 2Y7. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Sherritt on February 21, 2012. The Corporation is listed on the Stock Exchange in Toronto.

NOTE 2 BASIS OF PRESENTATION

The consolidated financial statements of the Corporation, the parent company, are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These financial statements include the accounts of the Corporation's interest in its subsidiaries, joint ventures and an associate.

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial assets which are presented at fair value in Canadian dollars, the Corporation's functional currency. All financial information is presented in Canadian dollars rounded to the nearest hundred thousand, except as otherwise noted.

The significant accounting policies described in note 3 set out below are consistently applied to all the periods presented.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Changeover from Canadian generally accepted accounting principles

These consolidated financial statements represent the Corporation's initial presentation of its results of operations and financial position under IFRS. They were prepared in accordance with IFRS 1, "First-time Adoption of IFRS", and those IFRS standards and interpretations issued by the IFRS Interpretations Committee and effective as at the time of preparing these financial statements.

The Corporation's annual consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Canadian GAAP differs from IFRS in some areas. In preparing the consolidated statements in accordance with IFRS, management amended certain accounting, valuation and consolidation methods previously applied under Canadian GAAP. The 2010 comparative figures have been restated to reflect these adjustments.

The Corporation's date of transition to IFRS was January 1, 2010 (Transition Date). On adoption of IFRS, the accounting policies of the Corporation's subsidiaries, joint ventures and an associate were changed as necessary to ensure consistency with the policies of the Corporation. Reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRS on the Corporation's consolidated financial statements are provided in note 31.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the financial position, results of operations and cash flows of the Corporation, its subsidiaries, its interest in an associate, and its proportionate interest in joint ventures. Intercompany balances, transactions, income and expenses, profits and losses, including unrealized gains and losses relating to subsidiaries and joint ventures, have been eliminated on consolidation.

The Corporation's significant subsidiaries, joint ventures and interest in an associate are as follows:

	Relationship	Geographic location	Economic interest	Basis of accounting
Metals				
Moa Joint Venture	Jointly controlled entity		50%	Proportionate consolidation
Composed of the following operating companies:				
International Cobalt Company Inc.		Bahamas	50%	
Moa Nickel S.A.		Cuba	50%	
The Cobalt Refinery Company Inc.		Canada	50%	
Ambatovy Joint Venture	Associate		40%	Equity method
Composed of the following operating companies:				
Ambatovy Minerals S.A.		Madagascar	40%	
Dynatec Madagascar S.A.		Madagascar	40%	
Coal				
Royal Utilities Income Fund	Subsidiary	Canada	100%	Full consolidation
Coal Valley Resources Inc.[1][2]	Subsidiary	Canada	50%/100%	Proportionate/Full consolidation
Carbon Development Partnership	Jointly controlled entity	Canada	50%	Proportionate consolidation
Oil and Gas				
Sherritt International (Cuba) Oil and Gas Ltd.	Subsidiary	Cuba	100%	Full consolidation
Sherritt International Oil and Gas Ltd.	Subsidiary	Canada	100%	Full consolidation
Power				
Energas S.A. (Energas)	Jointly controlled entity	Cuba	$33^1/_3$%	Proportionate consolidation

(1) In November 2011, Sherritt dissolved Coal Valley Partnership (CVP), transferred its ownership interest in Coal Valley Resources Inc. (CVRI) to a wholly-owned subsidiary of Sherritt, and amalgamated the wholly-owned subsidiary of Sherritt with CVRI. Any reference to CVP throughout the notes to the consolidated financial statements should be understood to mean CVRI after November 2011.

(2) On June 30, 2010, Sherritt purchased the remaining 50% interest in CVP that it did not previously own. Sherritt consolidated the assets acquired and liabilities assumed as at the acquisition date and fully consolidated (100%) the earnings of CVP beginning July 1, 2010. Prior to June 30, 2010, CVP was a jointly controlled entity and was proportionately consolidated.

SUBSIDIARIES

Subsidiaries are entities over which the Corporation has control, where control is defined as the power to govern financial and operating policies to obtain benefits from its activities. Control is presumed to exist where the Corporation has a shareholding of more than one half of the voting rights in its subsidiaries. The potential impact of voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Corporation and are deconsolidated from the date control ceases.

INTERESTS IN JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the sharing of control under contractual agreement, such that significant operating and financing decisions require the unanimous consent of the parties sharing control. The Corporation has two types of joint ventures:

(i) Jointly controlled entities

A jointly controlled entity involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. It operates in the same way as other entities: controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using proportionate consolidation.

(ii) Jointly controlled operations

Alternatively, the Corporation has entered into certain contractual arrangements with other participants to engage in joint activities without establishing a separate entity. Each venturer uses its own assets, incurs its own expenses and liabilities and funds its own participation in the operation.

These consolidated financial statements include the Corporation's share of the assets in such jointly controlled entities and jointly controlled operations, together with the liabilities, revenue and expenses arising jointly or otherwise from them. These amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Corporation's interest in each.

ASSOCIATE

An associate is an entity over which the Corporation has significant influence but does not have the power to control the financial and operating policies of the entity.

- The Corporation recognizes its share of earnings (loss) net of tax in the consolidated statements of comprehensive income (loss) which is adjusted against the carrying amount of its investment in the associate;
- If the Corporation's share of losses equals or exceeds its investment in an associate in the future, the Corporation does not recognize further losses, unless it has incurred obligations or made payments on behalf of the entity;
- Unrealized gains and losses on transactions between the Corporation and its associate are eliminated to the extent of the Corporation's interest in this entity. Unrealized losses are eliminated only to the extent that there is no evidence of impairment; and
- Interest revenue on a loan receivable from an associate is eliminated.

BUSINESS COMBINATIONS

Business combinations are accounted for by applying the acquisition method of accounting, whereby:

- The value of the purchase consideration (acquisition cost) is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the acquisition date, which is the date the Corporation obtains control of the acquiree;
- When the Corporation obtains control of an acquiree in which it held an ownership interest (a step acquisition) the Corporation re-measures its previously held ownership interest at its acquisition date fair value and recognizes any gain or loss in its consolidated statements of comprehensive income (loss);
- The acquisition cost is allocated on the basis of fair value at the date of acquisition to the identifiable assets less liabilities and contingent liabilities (identifiable net assets);
- Provisional fair values allocated at a reporting date are finalized within 12 months of the acquisition date and any changes in provisional fair values are applied retrospectively to the acquisition date;
- The excess of the acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- If the acquisition cost is less than the fair value of the identifiable net assets acquired, the difference is recognized as a gain (bargain purchase) in the consolidated statements of comprehensive income (loss);
- Goodwill and fair value adjustments arising on acquisition of foreign operations are translated to Canadian dollars at exchange rates at the reporting date;
- Equity instruments issued as consideration in a business combination are measured based on the fair value of the instrument on the date the consideration is transferred; and
- Transaction costs are expensed as incurred.

DISCONTINUED OPERATIONS

Individual non-current assets or disposal groups (i.e. groups of assets and liabilities to be disposed of, by sale or otherwise) are classified as held for sale, and presented as discontinued operations if the first and second or third of the following criteria are met:

- The disposal group represents a separate major line of business or geographical area of operations; and
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired solely for the purpose of resale.

Assets or disposal groups that meet these criteria are measured at the lower of carrying amount and fair value less costs to sell. The assets and liabilities of the disposal group are presented separately on the face of the consolidated statements of financial position as a single asset and a single liability, respectively. The comparative period consolidated statements of financial position are not restated.

When the fair value less costs to sell of a disposal group is lower than the carrying amount at the time of classification as held for sale, the resulting impairment is recognized in cost of sales or administrative expenses, depending on the assets, in the consolidated statements of comprehensive income (loss) in that period. A gain for any subsequent increase in fair value less costs to sell of a disposal group is recognized, but not in excess of the cumulative impairment loss.

Non-current assets held for sale are not depreciated or amortized. Interest and other expenses attributable to the liabilities of a disposal group are recognized.

The results related to such discontinued operations are shown separately in the consolidated statements of comprehensive income (loss), and comparative figures are restated. When the sale is expected to occur beyond one year, the costs to sell are measured at their present value. Any increase in the present value of the costs to sell arising from the passage of time is presented as a financing expense.

Statements of cash flow

The Corporation presents interest paid and received as an operating activity in the consolidated statements of cash flow. Dividends paid are presented as a financing activity and dividends received are presented as an operating activity on the consolidated statements of cash flow.

Basis of segmented disclosure

The Corporation's reportable segments are business units that offer distinct products and services.

- The Metals segment mainly comprises the mining, processing and marketing of commodity nickel and cobalt and includes the production and sale of agricultural fertilizers. It also includes the development of a nickel mine, processing plant and refinery in Madagascar, referred to as the Ambatovy Joint Venture.
- The Coal segment mines and sells thermal coal primarily for use as fuel to generate electricity and holds a portfolio of royalty assets. It also leases equipment to certain customers and operates a contract mine, and a 50%-owned mine.
- The Oil and Gas segment includes exploration and development of oil and gas in Cuba, Spain, Pakistan and the United Kingdom.
- The Power segment constructs and operates electricity generating plants that provide electricity in Cuba and owns an electricity generating plant in Madagascar.
- The Corporate and Other segment is comprised of the metallurgical technology business, mineral products division, management of cash and short-term investments, and general corporate activities.

When determining its reportable segments, the Corporation considers qualitative factors, such as operations which are considered to be significant by the Chief Operating Decision Maker (senior management). The Corporation also considers quantitative thresholds when determining reportable segments, such as if revenue, earnings (loss) or assets are greater than 10% of the total consolidated revenue, net earnings (loss), or assets of all the reportable segments, respectively. The reportable segments' financial results are reviewed by senior management.

Revenue recognition

Revenue from the sale of goods and services is recognized when the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods, the Corporation retains neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Corporation, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

METALS

In Metals, these criteria are generally met when the transfer of ownership, as specified in the sales contract, is fulfilled, which is upon shipment or delivery to destination.

Certain Metals product sales are provisionally priced, with the selling price subject to final adjustment at the end of a quotation period, in accordance with the terms of the sale. The quotation period is normally within 90 days after shipment to the customer, and final pricing is based on a reference price established at the end of the quotation period.

Revenue from provisionally priced sales is initially recorded at the estimated fair value of the consideration that is expected to be ultimately received based on forecast reference prices. At each reporting date all outstanding receivables originating from provisionally priced sales are marked-to-market based on a forecast of reference prices at that time. The adjustment to accounts receivable is recorded as an adjustment to sales revenue. Provisional pricing is only used in the pricing of nickel and cobalt sales for which reference prices are established in a freely traded and active market.

COAL

In Coal's Prairie Operations, which consist of the operations of Royal Utilities Income Fund (Royal Utilities), these criteria are generally met for coal sales to utility customers when the coal is delivered to the generating station; for coal and char sales to other customers, this occurs when the coal is loaded for transportation at the mine; for activated carbon sales, this generally occurs when the product is delivered to the customer's specified facilities.

The agreements at the Highvale and Genesee mines include management and other fees and reimbursement of direct operating costs. The Corporation is the principal in these agreements and records revenues and expenses on a gross basis. Management and other fees are recorded as revenue when the contractual conditions for reimbursement are met, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Corporation, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalty revenue is recognized when the underlying commodity is extracted.

Finance lease income is recorded in financing income, and realized over the term of the lease, which is the useful life of the leased equipment based on a constant periodic rate of return determined at the inception of the arrangement on the Corporation's net investment in the finance lease.

In Coal's Mountain Operations, revenue from export thermal coal is recognized when the coal has been loaded onto marine vessels at terminal locations. For domestic coal sales to utility customers, revenue recognition occurs when the coal is loaded for transportation at the mine.

OIL AND GAS

In Oil and Gas, these criteria are met at the time of production based on the Corporation's working interest. In Cuba, all oil production is sold to the Cuban government and, accordingly, delivery coincides with production. The Corporation is allocated a share of Cuban oil production pursuant to its production-sharing contracts.

Revenue from cost recovery oil, up to the total recoverable costs incurred in connection with oil and gas activities, is recognized when entitlement to the cost recovery oil component of production is established. The production-sharing contracts limit cost recovery oil to a maximum percentage of total production in a calendar quarter, ranging generally between 50% and 60% of total production. Revenue from profit oil represents the Corporation's share of oil production after cost recovery oil production is deducted. Recoverable costs that do not provide cost recovery oil entitlements in the current period are included in the determination of cost recovery oil entitlements, and thus revenue, in future periods.

POWER

Substantially all of Power's revenue is from agencies of the Government of Cuba, with the revenue recognition criteria met at the time electricity is delivered or services are performed.

The facilities located in Boca de Jaruco and Puerto Escondido Cuba operate under a service concession arrangement. In accordance with the guidance for service concession arrangements, Power revenue on operational facilities is recognized at the time electricity is delivered or services are performed, and construction revenue is recorded during periods of new construction, enhancement or upgrade activities. The construction revenue relates to the exchange transaction whereby the Corporation provides design, construction and operating services at Boca de Jaruco or Puerto Escondido in return for the right to charge the Government of Cuba for the future supply of electricity.

The facilities located in Varadero, Cuba and in Madagascar operate under a lease arrangement, whereby the Corporation is the lessor. All operating lease revenue related to the Varadero facility is contingent on the amount of electricity produced or services rendered and is recognized as lease payments become due. Operating lease revenue related to the Madagascar facility provides for a fixed return based on the original construction costs of that facility, and is denominated in Euros.

INTEREST AND ROYALTIES

Interest revenue is recognized using the effective interest method; royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, the Corporation's functional and presentation currency.

TRANSLATION OF FOREIGN ENTITIES

The functional currency for each of the Corporation's subsidiaries, joint ventures and associate is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into Canadian dollars in the following manner:

→ Monetary and non-monetary assets and liabilities are translated at the spot exchange rate in effect at the reporting date;

→ Revenue and expense items (including depletion, depreciation and amortization) are translated at average rates of exchange prevailing during the period which approximate the exchange rates on the transaction dates; and

→ Exchange gains and losses that result from the translation are recognized as a foreign currency translation adjustment in accumulated other comprehensive income (loss).

TRANSLATION OF TRANSACTIONS AND BALANCES

Operations with Canadian dollar functional currencies translate transactions in foreign currencies at rates of exchange at the time of such transactions as follows:

→ Monetary assets and liabilities are translated at current rates of exchange with the resulting gains or losses recognized within financing income or financing expense in the consolidated statements of comprehensive income (loss);

→ Non-monetary items are translated at historical exchange rates; and

→ Revenue and expense items are translated at the average rates of exchange, except depletion, depreciation and amortization which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized within net financing income (expense) in the consolidated statements of comprehensive income (loss).

Property, plant and equipment

Property, plant and equipment include capitalized development and pre-production expenditures that are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Also included in the cost of property, plant and equipment are borrowing costs on qualifying capital projects. These are incurred while construction is in progress and before the commencement of commercial production. Once construction of an asset is substantially complete and the asset is ready for its intended use, the costs are depreciated.

PLANT, EQUIPMENT AND LAND

Plant, equipment and land includes assets under construction, equipment and processing, refining, power generation and other manufacturing facilities.

The Corporation recognizes major long-term spare parts and standby equipment as plant, equipment and land when the parts and equipment are significant and are expected to be used over a period greater than a year, or when the parts and equipment can be used only in connection with an item of plant, equipment and land. Major inspections and overhauls required at regular intervals over the useful life of an item of plant, equipment and land are recognized in the carrying amount of the related item if the inspection or overhaul provides benefits exceeding one year.

Plant and equipment are depreciated using the straight-line method based on estimated useful lives, once the assets are available for use. Plant and equipment may have components with different useful lives. Depreciation is calculated based on each individual component's useful life. New components are capitalized to the extent that they meet the recognition criteria of an asset. The carrying amount of the replaced component is derecognized, and any gain/loss is included in net earnings (loss). If the carrying amount of the replaced component is not known, it is estimated based on the cost of the new component less estimated depreciation. The useful lives of the Corporation's plant and equipment are as follows:

Buildings and refineries	5 to 40 years
Machinery and equipment	5 to 50 years
Office equipment	3 to 35 years
Fixtures and fittings	3 to 35 years
Assets under construction	not depreciated during development period

MINING PROPERTIES

Mining properties include acquisition costs and development costs related to mines in production, properties under development and properties held for future development. Ongoing pre-development costs relating to properties held for future development are expensed as incurred, including property carrying costs, drilling and other exploration costs. Once a project is determined to be commercially viable, development costs are capitalized. Development costs incurred to access reserves at producing properties and properties under development are capitalized and are depreciated on a unit-of-production basis over the life of such reserves. Reserves are measured based on proven and probable reserves.

OIL AND GAS PROPERTIES

Oil and gas properties include acquisition costs and development costs related to properties in production, under development and held for future development. Ongoing pre-development costs relating to properties held for future development are capitalized as incurred, including exploration costs. Development costs incurred to access reserves at producing properties and properties under development are capitalized and are depreciated on a unit-of-production basis over the life of such reserves. Reserves are measured based on proven and probable reserves.

DERECOGNITION

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net earnings (loss) in the period the item is derecognized.

CAPITALIZATION OF BORROWING COSTS

Borrowing costs on funds directly attributable to finance the acquisition, construction or production of a qualifying asset are capitalized until such time as substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. A qualifying asset is one that takes a substantial period of time to prepare the asset for its intended use. Where money borrowed specifically to finance a project is invested to earn interest income, the income generated is also capitalized to reduce the total capitalized borrowing costs.

Where the funds used to finance a project form part of general borrowings, interest is capitalized based on the weighted-average interest rate applicable to the general borrowings outstanding during the period of construction.

Leases

Leases of property, plant and equipment are classified as finance leases when the lessee retains substantially all the risks and rewards of ownership. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

CORPORATION AS A LESSOR

The finance lease receivable is measured at the present value of the future lease payments at the inception of the arrangement. Lease payments received are composed of a repayment of principal and finance income. Finance income is recognized based on the interest rate implicit in the finance lease. The Corporation recognizes finance income over a period of between 3 and 27 years, which reflects a constant periodic return on the lessor's net investment in the finance lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Assets subject to operating leases are recognized and classified according to the nature of the asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and expensed over the lease term on the same basis as the lease income. The depreciation policy for leased assets is consistent with the depreciation policy for similar assets.

CORPORATION AS A LESSEE

Finance leases are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are recorded as interest-bearing liabilities. Each lease payment is allocated between the liability and finance cost when paid.

Operating lease payments (net of any amortization of incentives) are expensed as incurred. Incentives received from the lessor to enter into an operating lease are capitalized and depreciated over the life of the lease.

DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

The Corporation determines whether a lease exists at the inception of an arrangement. A lease exists when one party is effectively granted control of a specific asset over the term of the arrangement.

At inception or upon reassessment of arrangements containing leases, the Corporation separates payments and other consideration required related to lease payments from those related to other goods or services using relative fair value or other estimation techniques.

Overburden removal costs

The costs of removing overburden to access mineral reserves, referred to as stripping costs, are accounted for as variable production costs to be included in the cost of inventory, unless overburden removal creates value beyond providing access to the underlying reserve, in which case these costs are capitalized and depreciated using the units-of-production basis to cost of sales over the life of the related mineral reserves.

Intangible assets

Intangible assets are developed internally or acquired as part of a business combination. Internally generated assets are recognized at cost and primarily arise as a result of exploration and evaluation activity and service concession arrangements. Intangible assets acquired as part of a business combination are recognized separately from goodwill if the asset is separable or arises from contractual or legal rights. Intangible assets are also recognized when acquired individually or with a group of other assets. Intangible assets are initially recorded at their estimated fair value. Intangible assets with a finite life are amortized over their useful economic lives on a straight-line or units-of-production basis, as appropriate. The amortization expense is included in cost of sales unless otherwise noted. Intangible assets that are not yet ready for use are not amortized until put into use. They are reviewed for impairment at least annually. The Corporation has no identifiable intangible assets for which the expected useful life is indefinite.

EXPLORATION AND EVALUATION

Exploration and evaluation (E&E) expenditures are measured using the cost model and generally include the costs of licenses, technical services and studies, seismic studies, exploration drilling and testing, and directly attributable overhead and administration expenses including remuneration of operating personnel and supervisory management. These costs do not include general prospecting or evaluation costs incurred prior to having obtained the rights to explore an area, which are expensed as they are incurred.

E&E expenditures related to coal and mineral deposits are recognized in cost of sales as incurred until it is established that the mineral property has development potential, which generally occurs once the mineral deposit is classified as a proven and probable reserve.

E&E expenditures related to oil and gas properties are capitalized and carried forward until technical feasibility and commercial viability of extracting the resource is established. The technical feasibility and commercial viability is established when economic quantities of proven and/or probable reserves are determined to exist, at which point the E&E assets attributable to those reserves are reviewed for impairment before being transferred to property, plant and equipment.

SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are contracts between private sector and government entities and can involve the construction, operation or upgrading of public infrastructure. Service concession arrangements can be classified as financial assets (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement) or intangible assets (where the operator's future cash flows are not specified).

Through its interest in Energas, the Corporation has been contracted to design, construct and operate electrical generating facilities at Boca de Jaruco and Puerto Escondido, Cuba, on behalf of the Cuban government. The sale price of electricity is contractually fixed, but decreases after loans provided by the Corporation to fund the construction are fully repaid. Ownership of these facilities will be transferred to the Cuban government for nil consideration at the end of the contract term which ends in 2023. Energas bears the demand risk on revenues related to assets covered under service concession arrangements as receipts are based on usage rather than an unconditional right to receive cash. As a result, the Boca de Jaruco and Puerto Escondido assets have been classified as intangible assets on adoption of IFRS, and represent the Corporation's right to charge the Government of Cuba for future electricity and by-products delivered.

During periods of new construction, enhancement or upgrade activities, the Corporation records a new intangible asset and a corresponding construction revenue amount to reflect the right to charge the Cuban government for an incremental future supply of electricity. The construction expenses relating to the new construction activity are expensed as incurred. The net result of the construction activity is a nil impact to net earnings. Once operational the carrying amount of the new service concession intangible asset, including capitalized interest, is amortized on a straight-line basis over the remaining contract term.

Repair, maintenance and replacement costs incurred in relation to service concession intangible assets are expensed as incurred.

AMORTIZATION

The following intangible assets are amortized on a straight-line basis over the following estimated useful lives:

Royalty agreements	42 to 53 years
Mining contracts	over life of mine
Customer relationships	53 years
Contractual arrangements	15 years
Customer contract	2 years
Technical knowledge	10 years
Service concession arrangements	12 years
Exploration and evaluation	not amortized during development period

Goodwill

Goodwill represents the excess purchase price over the fair value of the net assets acquired, including tangible and identifiable intangible assets. Goodwill resulting from the acquisition of a business is not amortized but tested for impairment annually or more frequently if circumstances indicate a potential impairment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist. The Corporation tests goodwill for impairment annually.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs to sell the asset(s). The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset(s). Where neither exists, fair value is based on the best information available to estimate the amount the Corporation could obtain from the sale of the asset(s) in an arm's length transaction. This is often accomplished by using a discounted cash flow technique.

Impairment is assessed at the cash-generating unit (CGU) level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. The assets of the corporate head office are allocated on a reasonable and consistent basis to CGUs or groups of CGUs. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amounts to determine if there is any impairment loss.

For CGUs with goodwill associated with them, an impairment loss is allocated first to any goodwill and then pro-rata to other assets within that group.

If, after the Corporation has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets is greater than the carrying amount, the Corporation reverses the impairment loss by the amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss had been recognized. An impairment loss or a reversal of an impairment loss is recognized in cost of sales, or administrative expense, depending on the nature of the asset. Impairment of goodwill is not reversed.

EXPLORATION AND EVALUATION EXPENDITURES AT OIL AND GAS

Upon determination of proven and probable reserves, the related E&E assets attributable to those reserves are tested for impairment prior to being transferred to property, plant and equipment. Capitalized E&E costs are reviewed and evaluated for impairment at each reporting date for events or changes in circumstances that indicate the carrying amount may not be recoverable from future cash flows of the property.

GOODWILL

Goodwill recognized on acquisition of a business is typically allocated to the CGUs of the acquired business for the purpose of impairment testing. However, allocation of goodwill is based on the lowest level at which management monitors it (not exceeding the level of an operating segment). The Corporation allocated the goodwill arising from the acquisition of Royal Utilities to Coal's Prairie Operations. Recoverable amount for the purposes of impairment testing is based on fair value less cost to sell, where fair value is estimated based on an estimate of discounted future cash flows. The Corporation has elected to perform its annual impairment test as at October 1 each fiscal year.

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Financial assets include advances, loans receivable, investments and the investment in an associate. A financial asset or a group of financial assets is impaired if there is objective evidence that the estimated future cash flows of the financial asset or the group of financial assets have been negatively impacted. Evidence of impairment may include indications that debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, or other observable data which indicates that there is a measurable decrease in the estimated future cash flows.

IMPAIRMENT OF ADVANCES, LOANS RECEIVABLE AND INVESTMENTS

If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in financing expense. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an impairment is later recovered, the recovery is credited to financing income.

IMPAIRMENT OF THE INVESTMENT IN AN ASSOCIATE

At each reporting date, the Corporation assesses whether there is any indication that the carrying amount of the Corporation's investment in an associate, including related mineral rights, may be impaired. Significant changes in commodity prices forecasts, reserve estimates and production forecasts are examples of factors that could indicate impairment.

Impairment is determined as the excess of the carrying amount of the investment in an associate over the recoverable amount (higher of value in use and fair value less costs to sell). The fair value less costs to sell is based on estimated future recoverable production, expected commodity or contracted prices (considering current and historical prices, price trends and related factors), foreign exchange rates, production levels, cash costs of production and environmental rehabilitation costs over the life of mine. Cash flow projections are based on detailed mine plans and independent estimates of critical commodity prices.

Provisions

In general, provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating

to any provision is presented in cost of sales or administrative expenses, depending on the nature of the provision. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as financing expense. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

ENVIRONMENTAL REHABILITATION

Provisions for environmental rehabilitation include decommissioning and restoration costs when the Corporation has an obligation to dismantle and remove infrastructure and residual materials as well as to restore the disturbed area. Estimated decommissioning and restoration costs are provided for in the accounting period when the obligation arising from the disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The provision for environmental rehabilitation is reviewed and adjusted each period to reflect developments which could include changes in closure dates, legislation, the discount rate or estimated future costs.

The amount recognized as a liability for environmental rehabilitation is calculated as the present value of the estimated future costs determined in accordance with local conditions and requirements. An amount corresponding to the provision is capitalized as part of property, plant and equipment and is depreciated over the life of the corresponding asset. The impact of amortization or unwinding of the discount rate applied in establishing the net present value of the provision is recognized in financing expense. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates.

Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16, “Property, Plant and Equipment”. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying amount is taken immediately to cost of sales.

If the change in estimate results in an increase in the rehabilitation provision and therefore an addition to the carrying amount of the asset, the entity is required to consider whether the new carrying amount is recoverable, and if this is an indication of impairment of the asset as a whole. If indication of impairment of the asset as a whole exists, the Corporation tests for impairment in accordance with IAS 36, “Impairment of Assets”. If the revised mine assets net of rehabilitation provisions exceeds the recoverable value that portion of the increase is charged directly to cost of sales. For closed sites, changes to estimated costs are recognized immediately in cost of sales. Also, rehabilitation obligations that arise as a result of the production phase of a mine are expensed as incurred.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated cost of outstanding rehabilitation work at each statement of financial position date and any increase in overall cost is expensed.

Income taxes

The income tax expense or benefit for the reporting period consists of two components: current and deferred taxes.

The current income tax payable or recoverable is calculated using the tax rates and legislation that have been enacted or substantively enacted at each reporting date in each of the jurisdictions and includes any adjustments for taxes payable or recoverable in respect of prior periods.

Current tax assets and liabilities are offset when they relate to the same jurisdiction, the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are determined using the statement of financial position liability method based on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. In calculating the deferred tax assets and liabilities, the tax rates used are those that have been enacted or substantively enacted by each reporting date in each of the jurisdictions and that are expected to apply when the assets are recovered or the liabilities are settled. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax liabilities are recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credits, with the exception of the following items:

- Temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the Corporation is able to control the timing of the reversal of temporary differences and such reversals are not probable in the foreseeable future;
- Temporary differences associated with goodwill;
- Temporary differences that arise on the initial recognition of assets and liabilities in a transaction that is not a business combination and has no impact on either accounting profit or taxable profit; and
- Deferred tax assets are only recognized to the extent that it is probable that sufficient taxable profits exist in future periods against which the deductible temporary differences can be utilized.

The probability that sufficient taxable profits exist in future periods against which the deferred tax assets can be utilized is reassessed at each reporting date. The amount of deferred tax assets recognized is adjusted accordingly.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where they relate to income taxes levied by the same taxation authority on the same taxable entity and where the Corporation has the legal right to offset them.

Current and deferred taxes that relate to items recognized directly in equity are also recognized in equity. All other taxes are recognized in income tax expense in the consolidated statements of comprehensive income (loss).

Stock-based compensation

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it issues equity instruments of the Corporation or makes cash payments based on the value of the underlying equity instrument of the Corporation to directors, officers and employees in exchange for services.

The Corporation's equity-settled compensation plans include stock options, the Restricted Stock Plan (RSP) shares and Employee Share Purchase Plan (Share Purchase Plan). RSP obligations are settled by the purchase of shares on the open market. Equity-settled stock options and Share Purchase Plan obligations are settled by the issuance of shares from treasury. The fair value of the share plans is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity. The fair value of the RSP obligation is measured as the value at which the shares are purchased on the market. The fair value of grants issued under the other plans is determined at the date of grant using the Black-Scholes option valuation model. They are only re-measured if there is a modification to the terms of the option, such as a change in exercise price or legal life.

Cash-settled share plans, including stock options with tandem stock appreciation rights (Options with Tandem SARs), stock appreciation rights (SARs), Restricted Share Units (RSUs) and Deferred Share Units (DSUs) are recognized as a liability at the date of grant. The fair value of the liability of the options with Tandem SARs and SARs is determined based on the application of the Black-Scholes option valuation model at the date granted and expensed over the vesting period of the awards based on management's estimate of the number of shares expected to vest. Projections are reviewed at each reporting date up to the vesting date to reflect management's best estimates and adjusted as required. No adjustment is made after the vesting date even if the awards are forfeited or not exercised. Movements in the liability between reporting dates are recognized as an adjustment to the liability and an offsetting expense or recovery. At each reporting date until settlement, the fair value of the awards is re-measured based on revised pricing parameters of the model based on market conditions at the reporting date and estimates of forfeiture rates. If any awards are ultimately settled in shares, the liability is transferred directly to equity as part of the consideration for the equity instruments issued.

The fair value of the RSUs and DSUs at the date of grant and at each subsequent reporting date until settlement is based on the market value of the shares with the liability expensed over the vesting period. Movements in the liability between reporting dates are recognized as an adjustment to the liability and an offsetting expense or recovery. The adjustment amount is amortized over the remaining vesting period.

Post-employment benefits

Employee benefits, including pensions and other post-retirement benefits, are presented in these consolidated financial statements in accordance with IAS 19, "Employee Benefits". The Corporation has both defined benefit and defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in cost of sales and administrative expenses in the consolidated statements of comprehensive income (loss) in the periods during which services are rendered by employees.

Certain employees are covered under defined benefit pension plans, which provide pensions based on length of service and final average earnings. The asset or liability recognized in the consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, less the fair value of plan assets, together with adjustments for unrecognized past service costs. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

The defined benefit pension liability and expense are measured actuarially using the projected benefit method. Obligations for contributions to defined benefit pension plans are recognized as an employee benefit expense in cost of sales and administrative expenses in the consolidated statements of comprehensive income (loss) in the periods during which services are rendered by employees. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on market interest rates, as at the measurement date, for high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Vested past service costs are recognized immediately. Unvested past service costs are recognized over the vesting period. Net actuarial gains (losses) over 10% of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the average remaining service life of active employees (the Corridor approach).

Financial instruments

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management's intent. Transaction costs with respect to instruments not classified as held for trading are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Corporation's financial instruments were classified in the following categories:

FINANCIAL ASSETS

Financial assets at fair value through profit and loss – Held for trading:

→ Restricted cash; cash equivalents; short-term investments; Ambatovy call option.

Financial assets at fair value through profit and loss – Fair value option:

→ Master asset vehicle notes (MAV notes).

Loans and receivables, measured at amortized cost:

→ Cash on hand and balances at bank; advances and loans receivable; other financial assets; trade accounts receivable; Cuban certificates of deposit; finance lease receivable.

FINANCIAL LIABILITIES

Other financial liabilities, measured at amortized cost:

→ Trade accounts payable and accrued liabilities; advances and loans payable; loans and borrowings; finance leases and other equipment financing; other financial liabilities.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management. Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost reduced for any impairment losses. A provision for impairment of trade accounts receivable is established when there is objective evidence that an amount will not be collectible or, in the case of long-term receivables, if there is evidence that the amount will not be collectible in accordance with payment terms.

TRADE ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Trade accounts payable and accrued liabilities are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method.

LOANS AND BORROWINGS

Loans and borrowings include short-term loans and long-term loans. These liabilities are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recorded in financing expense or financing income in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Loans and borrowings are classified as a current liability unless the Corporation has an unconditional right to defer settlement for at least 12 months after the consolidated statements of financial position date.

OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets include primarily other loans and receivables. Other financial liabilities include primarily other loans and payables. Other financial assets are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost. Other financial liabilities are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using the effective interest method.

DERIVATIVE INSTRUMENTS

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in their fair value are recorded in net income (loss).

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognized when its contractual rights to the cash flows that compose the financial asset expire or substantially all the risks and rewards of the asset are transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized within finance income and finance expense respectively.

FINANCIAL INSTRUMENT MEASUREMENT HIERARCHY

All financial instruments are required to be measured at fair value on initial recognition. For those financial assets or liabilities measured at fair value at each reporting date, financial instruments and liquidity risk disclosures require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These levels are defined below:

Level 1: determined by reference to quoted prices in active markets for identical assets and liabilities;
Level 2: valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly; and
Level 3: valuations using inputs that are not based on observable market data.

The Corporation's financial assets subject to the measurement hierarchy are provided in note 28.

Inventories

Raw materials, materials in process and finished products are valued at the lower of average production cost and net realizable value, with cost determined on a moving weighted-average basis. Spare parts and operating materials within inventory are valued at the lower of average cost and net realizable value, and recognized as cost of sales when used.

Uncovered coal and finished products at Coal are valued at the lower of average production cost and net realizable value, with cost determined on a standard cost basis under which it applies a standard inventory rate per tonne to its ending inventory. The standard cost is set annually based on budgeted costs for the annual period and includes labour, repairs and maintenance, fixed and variable operating costs, as well as an allocation of capital expenditures. Coal compares the standard cost to actual production costs on a quarterly basis. In the event that there is a discrepancy, Coal investigates to determine the factors causing the variance, and adjust appropriately if the differences are caused by other than temporary fluctuations.

The cost of inventory includes all costs related to bringing the inventory to its current condition, including mining and processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs.

Write-downs to net realizable value may be reversed, up to the amount previously written down when circumstances support an increased inventory value.

Government grants

Government grants are not recognized until there is reasonable assurance that the Corporation has complied with the conditions required to receive the grant.

Government grants that are contingent on the Corporation purchasing, constructing or otherwise acquiring non-current assets are recognized as a reduction in the carrying amount of the assets and recognized as a reduction of depreciation within cost of sales or administrative expenses, depending on the nature of the asset, in the consolidated statements of comprehensive income (loss) on a rational basis over the useful lives of the related assets.

Other government grants are recognized as a reduction in the related expense over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognized in the consolidated statements of comprehensive income (loss) in the period in which they become receivable.

NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

Critical accounting estimates

ENVIRONMENTAL REHABILITATION PROVISIONS

The Corporation's operations are subject to environmental regulations in Canada, Cuba, Madagascar and other countries in which the Corporation operates. Many factors such as future changes to environmental laws and regulations, life of mine estimates, the cost and time it will take to rehabilitate the property and discount rates, all affect the carrying amount of environmental rehabilitation provisions. As a result, the actual cost of environmental rehabilitation could be higher than the amounts the Corporation has estimated. For certain operations, actual costs will ultimately be determined after site closure in agreement with predecessor companies.

The environmental rehabilitation provision is assessed quarterly and measured by discounting the expected cash flows. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates. The actual rate depends on a number of factors, including the timing of rehabilitation activities that can extend decades into the future and the location of the property.

RESERVES FOR MINING AND OIL & GAS PROPERTIES

Reserves are estimates of the amount of product that can be economically and legally extracted from the Corporation's mining and oil and gas properties. Reserve estimates are an integral component in the determination of the commercial viability of a site, depletion amounts charged to the cost of sales and impairment analysis.

In calculating reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production decline rates, recovery rates, production costs, commodity demand, commodity prices and exchange rates. In addition, future changes in regulatory environments, including government levies or changes in the Corporation's rights to exploit the resource imposed over the producing life of the reserves may also significantly impact estimates.

Nickel, cobalt, thermal and metallurgical coal, and potash estimates are based on information compiled by or under supervision of a qualified person as defined under National Instrument 43-101, Standards of Disclosure for Mineral Projects within Canada. Substantially all of the oil and gas reserves have been evaluated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is the largest component of the Corporation's assets and as such the capitalization of costs, the determination of estimated recoverable amounts and the depletion and depreciation of these assets have a significant impact on the Corporation's financial results.

Certain assets are depreciated using a units-of-production basis which involves the estimation of recoverable reserves in determining the depletion and/or depreciation rates of the specific assets. Each item's life, which is assessed annually, is assessed for both its physical life limitations and the economic recoverable reserves of the property at which the asset is located.

For those assets depreciated on a straight-line basis, management estimates the useful life of the assets and their components, which in certain cases may be based on an estimate of the producing life of the property. These assessments require the use of estimates and assumptions including market conditions at the end of the assets useful life, costs of decommissioning the asset and the amount of recoverable reserves.

Asset useful lives and residual values are re-evaluated at each reporting date.

INCOME TAXES

The Corporation operates in a number of industries in several tax jurisdictions, and consequently, its income is subject to various rates and rules of taxation. As a result, the Corporation's effective tax rate may vary significantly from the Canadian statutory tax rate depending upon the profitability of operations in the different jurisdictions.

The Corporation calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The Corporation records deferred income tax assets when it determines that it is probable that such assets will be realized. The future realization of deferred tax assets can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs and can either be increased or decreased where, in the view of management, such change is warranted.

PURCHASE PRICE ALLOCATIONS

Business acquisitions are accounted for by the acquisition method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is goodwill. The determination of fair value often requires management to make assumptions and estimates about future events, and consider assumptions other market participants might make.
The assumptions and estimates with respect to determining the fair value of property, plant and equipment generally require a high degree of judgment, and includes estimates of acquired mineral reserves, future commodity prices and discount rates. Changes in any of the assumptions or estimates could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

MEASUREMENT OF UNQUOTED FINANCIAL INSTRUMENTS

The Corporation has estimated the fair value of the Ambatovy call option and the MAV notes. The fair value of the Ambatovy call option is determined by applying the Black-Scholes model, which requires estimates and assumptions such as future commodity prices, equity volatilities and interest rates. The fair values of the MAV notes that are not widely traded are determined based on estimates of future cash flows, assumptions about the timing of settlement, interest rates, credit risk, and by incorporating other assumptions made by market participants.

MEASURING THE FAIR VALUE OF THE CORPORATION'S INTEREST IN THE AMBATOVY JOINT VENTURE

The Corporation measured its remaining interest in the Ambatovy Joint Venture at fair value on the date Sherritt entered the additional loan agreements. This formed the cost basis of the investment in an associate balance. Calculating the fair value required estimates and assumptions to be made regarding future cash flows, including estimated commodity prices, interest rates, input prices and other factors. The investment is accounted for using the equity method.

Critical accounting judgments

PROPERTY, PLANT AND EQUIPMENT

Management uses the best available information to determine when a development project reaches commercial viability which is generally based on management's assessment of when economic quantities of proven and/or probable reserves are determined to exist and the point at which future costs incurred to develop a mine on the property are capitalized. Management also uses the best available information to determine when a project achieves commercial production, the stage at which pre-production costs cease to be capitalized.

For assets under construction, management assesses the stage of each construction project to determine when a project is commercially viable. The criteria used to assess commercial viability are dependent upon the nature of each construction project and include factors such as the asset purpose, complexity of a project and its location, the level of capital expenditure compared to the construction cost estimates, completion of a reasonable period of testing of the mine plant and equipment, ability to produce the commodity in saleable form (within specifications), and ability to sustain ongoing production of the commodity.

ASSET IMPAIRMENT

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets subject to depreciation and amortization at each reporting date to determine whether there are any indicators that the carrying amount of the assets may be impaired or require a reversal of impairment. Goodwill is tested for impairment annually. Impairment is assessed at the CGU level and the determination of CGUs is an area of judgment.

For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these assets. Where necessary, management engages qualified third-party professionals to assist in the determination of fair values.

OVERBURDEN REMOVAL COSTS

Overburden removal costs are capitalized and depreciated over the useful lives when the overburden removal activity can be shown to create value beyond providing access to the underlying reserve. In many cases, this determination is a matter of judgment.

EXPLORATION AND EVALUATION

Management must make estimates and assumptions when determining when to transfer E&E expenditures from intangible asset to property, plant and equipment, which is normally at the time when commercial viability is achieved. Assessing commercial viability requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable operation can be established. Any such estimates and assumptions may change as new information becomes available. If after having capitalized the expenditure, a decision is made that recovery of the expenditure is unlikely, the amount capitalized is recognized in cost of sales in the consolidated statements of comprehensive income.

INCOME TAXES

In determining whether it is probable that a deferred tax asset will be realized, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Significant judgment may be involved in determining the timing of expected reversals of temporary differences.

ARRANGEMENTS CONTAINING A LEASE

The Corporation determined that certain property, plant and equipment at Coal are subject to finance lease arrangements, and that the Power facilities in Varadero, Cuba and Madagascar are subject to operating lease arrangements. The Corporation applies judgment in interpreting these arrangements such as determining which assets are specified in an arrangement, determining whether a right to use a specified asset has been conveyed and if relative fair value or another estimation technique to separate lease payments from payments for other goods or services should be used. The Corporation also uses judgment in applying accounting guidance to determine whether these leases are operating or finance leases.

SERVICE CONCESSION ARRANGEMENTS

The Corporation determined that the contract terms regarding the Boca de Jaruco and Puerto Escondido, Cuba, facilities operated by Energas represent service concession arrangements as described in IFRIC 12, "Service concession arrangements" (IFRIC 12). The Corporation uses judgment to determine whether the grantor sets elements of the services provided by the operator, whether the grantor retains any significant ownership interest in the infrastructure at the end of the agreement, and to determine the classification of the service concession asset as either a financial asset or intangible asset.

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 7 – Financial instruments: disclosures

IFRS 7, "Financial instruments: disclosures" (IFRS 7) was amended by the IASB in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 9 – Financial instruments

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB in November 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that defer the mandatory effective date to annual periods beginning on or after January 1, 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 10 – Consolidated financial statements

IFRS 10, "Consolidated financial statements" (IFRS 10) was issued by the IASB in May 2011 and will replace SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more

other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 – Joint arrangements

IFRS 11, "Joint arrangements" (IFRS 11) was issued by the IASB in May 2011 and will supersede IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers" by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 12 – Disclosure of interests in other entities

IFRS 12, "Disclosure of interests in other entities" (IFRS 12) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 13 – Fair value measurement

IFRS 13, "Fair value measurement" (IFRS 13) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, requires disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

IAS 1 – Presentation of financial statements

An amendment to IAS 1, "Presentation of financial statements" (IAS 1) was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss. The effective date is July 1, 2012 and earlier adoption is permitted. The Corporation is currently evaluating the impact of this amendment on its consolidated financial statements.

IAS 19 – Employee benefits

An amendment to IAS 19, "Employee benefits" (IAS 19) was issued by the IASB in June 2011. The amendment requires all actuarial gains and losses to be immediately recognized in other comprehensive income rather than profit and loss and requires expected returns on plan assets recognized in profit or loss to be calculated based on the rate used to discount the defined benefit obligation. The amended standard is effective for annual periods beginning on or after January 1, 2013 and earlier adoption is permitted. The Corporation is currently evaluating the impact of the amendment on its consolidated financial statements.

IAS 27 – Separate financial statements

IAS 27, "Separate financial statements" (IAS 27) was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Corporation has determined that this standard is not applicable to the consolidated financial statements.

IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" (IAS 28) was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

IAS 32 – Financial instruments: presentation

IAS 32, "Financial instruments: presentation" (IAS 32) was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

IFRIC 20 – Stripping costs in the production phase of a surface mine

IFRIC 20, "Stripping costs in the production phase of a surface mine" (IFRIC 20) was issued by the IASB in October 2011. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. The standard requires stripping costs incurred during the production phase of a surface mine to be capitalized as part of an asset, if certain criteria are met, and depreciated on a units-of-production basis unless another method is more appropriate. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

NOTE 6 ACQUISITION OF COAL VALLEY PARTNERSHIP

On June 30, 2010, Sherritt purchased the remaining 50% interest in Coal Valley Partnership (CVP) that it did not previously own for $45.0 million. The cash consideration of $45.0 million included two separate components; $34.9 million for the 50% partnership interest in CVP and $10.1 million for a loan that was owed to the former partner by Coal Valley Resources Inc., a wholly-owned subsidiary of CVP. The purchase completes the process of consolidating ownership of production assets in the coal business.

The Corporation consolidated the underlying assets acquired and liabilities assumed as at the acquisition date of June 30, 2010. The Corporation fully consolidated (100%) the earnings of CVP beginning July 1, 2010. The acquisition was accounted for under the acquisition method of accounting as a step acquisition, which required Sherritt to re-measure its previously held 50% equity interest to its fair value of $72.3 million, resulting in a gain of $14.3 million.

The estimated fair values assigned to the assets and liabilities assumed were based on a combination of independent appraisals and internal estimates. The fair values of the net identifiable assets were in excess of the consideration paid and as a result there was a gain (bargain purchase) recorded of $1.3 million.

The total gain of $15.6 million was immediately recognized in net earnings in the second quarter of 2010.

As part of the acquisition, an intangible asset and a liability were identified and are: a customer contract asset that was entered into at a fixed price above the forecast market price for a period of 2.5 years and a customer contract liability that was entered into at a fixed price below the forecast market price for a period of 3.5 years.

Acquisition-related costs of $0.4 million were recorded in administrative expenses in the consolidated statements of comprehensive income.

The following table summarizes the components of the consideration paid and identified assets and liabilities assumed:

Canadian $ millions		
Consideration		
Cash consideration	$	45.0
Less: loan owed to vendor by CVRI		(10.1)
Total consideration transferred		34.9
Carrying amount of 50% interest held before the acquisition		21.8
Gain on acquisition		15.6
	$	72.3

Canadian $ millions		
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	$	6.2
Inventories and prepaid expenses		38.1
Trade accounts receivable, net		13.5
Property, plant and equipment		201.7
Intangible asset		21.0
Intangible liability		(16.0)
Loans and borrowings		(30.1)
Trade accounts payable and accrued liabilities		(35.2)
Other liabilities		(49.6)
Deferred income taxes		(9.8)
Environmental rehabilitation and other provisions		(67.5)
	$	72.3

The amortization of the intangible liability was $4.6 million for the year ended December 31, 2011 (December 31, 2010 – $2.3 million). The remaining amortization period of the intangible liability is two years as at December 31, 2011. For the year ended December 31, 2010, an additional $96.9 million of revenue and $4.8 million of profit was included in the consolidated statement of comprehensive income as a result of the acquisition. The Corporation would have included revenue of $89.1 million and a net loss of $2.5 million in the consolidated statement of comprehensive income during the first half of 2010 had the acquisition occurred at the beginning of the year.

NOTE 7 DISCONTINUED OPERATION – MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products, which included the Madoc talc mine and Marmora plant, through the acquisition of the Dynatec Corporation. During the second quarter of 2010, the Corporation made an economic decision to close the talc mine and plant on August 27, 2010. During the third quarter of 2010, the Corporation classified Mineral Products as a discontinued operation once the talc mine and plant closed with the prior periods of the consolidated statements of comprehensive income being restated accordingly.

Losses from the discontinued operation are as follows:

Canadian $ millions, for the years ended December 31		**2011**		2010
Revenue	**$**	**–**	$	2.2
Expenses		**1.2**		16.9
Loss from discontinued operation, net of tax[1][2]	**$**	**1.2**	$	14.7

(1) The impact of these losses on earnings per share is disclosed in note 21.

(2) The tax impact for the years ended December 31, 2011 and December 31, 2010 is $nil.

For the year ended December 31, 2010, the Corporation wrote down inventory and other asset balances in the amount of $2.4 million. In addition, the Corporation expensed $10.4 million relating to the environmental rehabilitation provision and $3.6 million relating to termination benefits.

The liabilities of Mineral Products as at December 31, 2011 of $8.2 million (December 31, 2010 – $24.5 million) were composed mainly of an environmental rehabilitation provision of $7.8 million (December 31, 2010 – $9.5 million) and a bank overdraft of $nil (December 31, 2010 – $14.4 million).

The impact of the discontinued operation on the operating cash flows of the Corporation was a $2.9 million decrease for the year ended December 31, 2011 ($5.4 million decrease in cash for the year ended December 31, 2010).

NOTE 8 INTEREST IN JOINT VENTURES

Jointly controlled entities

The Corporation accounts for its interest in its jointly controlled entities using proportionate consolidation. The following is a summary of the Corporation's economic interests in these entities, all of which have a December 31 reporting date:

As at		**2011 December 31**	2010 December 31	2010 January 1
Entity	Principal activities	Economic interest		
Moa Joint Venture	Nickel and cobalt mining, processing and refining	**50%**	50%	50%
Carbon Development Partnership	Coal recovery and coal gasification project	**50%**	50%	50%
Coal Valley Partnership[1]	Thermal coal mining	**100%**	50%/100%	50%
Energas	Power generation	**33 1/3%**	33 1/3%	33 1/3%

[1] On June 30, 2010, Sherritt purchased the remaining 50% interest in CVP that it did not previously own. As at June 30, 2010, Coal Valley Partnership ceased to be an interest in joint venture and became a wholly-owned subsidiary. Sherritt consolidated the assets acquired and liabilities assumed as at the acquisition date and fully consolidated (100%) the earnings of CVP beginning July 1, 2010. Prior to June 30, 2010, CVP was proportionately consolidated. In November 2011, Sherritt dissolved CVP, transferred its ownership interest in CVRI to a wholly-owned subsidiary of Sherritt, and amalgamated the wholly-owned subsidiary of Sherritt with CVRI.

The following table is a summary of the Corporation's proportionate interest in its jointly controlled entities:

Canadian $ millions, as at December 31			**2011**
	Moa Joint Venture	**Carbon Development Partnership**	**Energas**
	50%	**50%**	**33 1/3%**
Current assets	**$ 160.6**	**$ 0.9**	**$ 21.2**
Non-current assets	**565.7**	**29.6**	**131.2**
Current liabilities	**91.2**	**1.1**	**11.4**
Non-current liabilities	**239.1**	**0.5**	**75.4**
Net assets	**$ 396.0**	**$ 28.9**	**$ 65.6**

Canadian $ millions, for the year ended December 31			**2011**
	Moa Joint Venture	**Carbon Development Partnership**	**Energas**
	50%	**50%**	**33 1/3%**
Revenue	**$ 490.5**	**$ 1.0**	**$ 54.1**
Expenses	**369.0**	**1.9**	**42.4**
Net earnings (loss)	**$ 121.5**	**$ (0.9)**	**$ 11.7**

Canadian $ millions, as at December 31			2010
	Moa Joint Venture	Carbon Development Partnership	Energas
	50%	50%	33 1/3%
Current assets	$ 174.3	$ 0.6	$ 21.6
Non-current assets	534.5	29.7	111.7
Current liabilities	101.0	0.7	11.8
Non-current liabilities	260.2	0.4	59.1
Net assets	$ 347.6	$ 29.2	$ 62.4

Canadian $ millions, for the year ended December 31				2010
	Moa Joint Venture	Carbon Development Partnership	Coal Valley Partnership[1]	Energas
	50%	50%	50%	33 1/3%
Revenue	$ 482.7	$ 0.7	$ 89.1	$ 40.5
Expenses	356.7	1.2	91.6	31.6
Net earnings (loss)	$ 126.0	$ (0.5)	$ (2.5)	$ 8.9

Canadian $ millions, as at January 1				2010
	Moa Joint Venture	Carbon Development Partnership	Coal Valley Partnership[1]	Energas
	50%	50%	50%	33 1/3%
Current assets	$ 144.9	$ 0.4	$ 28.1	$ 20.0
Non-current assets	555.8	29.9	83.5	120.0
Current liabilities	96.1	1.2	50.4	11.6
Non-current liabilities	321.0	0.1	36.8	63.1
Net assets	$ 283.6	$ 29.0	$ 24.4	$ 65.3

(1) On June 30, 2010, Sherritt purchased the remaining 50% interest in the CVP that it did not previously own. Sherritt consolidated the assets acquired and liabilities assumed as at the acquisition date and fully consolidated (100%) the earnings of CVP beginning July 1, 2010.

At December 31, 2011, the share of commitments of the jointly controlled entities is as follows:

Canadian $ millions, as at December 31	**2011**
Capital commitments	
Property, plant and equipment commitments	**$ 6.6**
Construction commitments relating to service concession arrangements	**120.3**
Other commitments	**2.0**

Jointly controlled operations

PRODUCTION-SHARING CONTRACTS

The Corporation conducts its Cuban oil and gas operations under the terms of production-sharing contracts which it considers jointly controlled operations. The Corporation's earnings under these contracts are determined according to an agreed upon cost recovery and profit formula based on the number of barrels of oil produced and the price of oil.

At December 31, 2011, the Corporation's share of capital commitments for the production-sharing contracts was $6.1 million.

BIENFAIT ACTIVATED CARBON JOINT VENTURE

The Corporation has a contractual arrangement with another company for the production and sale of activated carbon to coal-fired utility plants. Coal acts as operator of the plant facilities, while the other company conducts marketing activities. The assets of the operation are jointly owned by the Corporation and the other company based on their respective 50% ownership interests (December 31, 2010 – 50%).

NOTE 9 INVESTMENT IN AN ASSOCIATE

The Corporation indirectly holds a 40% interest in the Ambatovy Joint Venture companies Ambatovy Minerals S.A. and Dynatec Madagascar S.A. (Ambatovy Joint Venture or Ambatovy Project). Sherritt is the operator of the Ambatovy Project and has as its partners, Sumitomo Corporation (Sumitomo), Korea Resources Corporation (Kores) and SNC-Lavalin Inc. (SNC-Lavalin). The Ambatovy Project is a large tonnage nickel and cobalt project with two nickel deposits located near Moramanga which are planned to be mined over a 29-year period. The ore from these deposits will be delivered via pipeline to a processing plant and refinery located near the Port of Toamasina. The Ambatovy Joint Venture has an annual reporting date of December 31.

The following provides additional information relating to the Corporation's investment in the Ambatovy Joint Venture:

Statement of financial position

Canadian $ millions, Sherritt's 40% interest, as at	**2011 December 31**	2010 December 31	2010 January 1
Assets			
Cash on hand and balances with banks[1]	**$ 13.7**	$ 23.9	$ 111.3
Inventories[2]	**55.7**	9.2	–
Other current assets	**38.4**	17.4	8.7
Property, plant and equipment	**3,007.7**	2,452.3	2,124.8
Other assets	**2.3**	2.9	3.6
Deferred income taxes[3]	**0.2**	0.1	–
Liabilities			
Current liabilities	**106.1**	110.1	85.6
Long-term debt			
Ambatovy Joint Venture financing[4]	**838.9**	706.8	646.7
Subordinated loan payable[5]	**968.9**	620.9	391.8
Environmental rehabilitation	**32.4**	20.5	9.8
Other long-term liabilities	**0.1**	0.4	0.3
Deferred income taxes	**118.5**	115.1	121.2
Net assets	**$ 1,053.1**	$ 932.0	$ 993.0

(1) The Ambatovy Joint Venture cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

(2) Inventories are primarily comprised of raw materials, spare parts and operating materials.

(3) As at December 31, 2011, the Ambatovy Joint Venture has earned investment tax credits of $145.7 million for which a deferred income tax asset has not been recognized. The investment tax credits have an indefinite carry forward period and may be used to partially offset Malagasy income tax otherwise payable by the Ambatovy Joint Venture in subsequent years.

(4) The Ambatovy Joint Venture financing totalling US$2,100.0 million is limited recourse project financing with a group of international lenders that matures June 15, 2024. The first repayment will be at the latest of six months after financial completion or 30 months after the final draw down, but in no case later than June 2013. The project financing is guaranteed by the project sponsors until the project passes certain completion tests at which point the project financing is secured by the project assets. Failure to pass such completion tests would be an event of default. Interest is payable based on LIBOR rates plus applicable margins, depending on the lenders. Interest is currently payable based on LIBOR rates plus applicable margins of approximately 1.4%. As part of the project financing, Sherritt is required to demonstrate its financial capacity to fund its share of the project. Sherritt is required to have available cash or un-drawn partner loans equal to three months of its shareholder contributions. If Sherritt's net tangible assets fall below $1,600.0 million or the ratio of debt-to-total-capitalization on a three-year rolling average basis is equal to or greater than 0.55:1, Sherritt will be required to set aside its remaining shareholder contributions. At December 31, 2011, the Ambatovy Joint Venture had borrowed US$2,100 million (December 31, 2010 – US$1,820.1 million) under the project financing.

(5) The subordinated loan payable is comprised of pro-rata contributions provided by the Ambatovy Joint Venture partners. The debt bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. Interest expense capitalized to property, plant and equipment is eliminated on consolidation. The Corporation has recorded its share of subordinated loan receivable in advances, loans receivable and other assets (note 14).

Results of operations

For the year ended December 31, 2011, the Corporation recognized a net loss of $3.5 million, representing its 40% interest in the Ambatovy Joint Venture. The net loss was primarily composed of administrative and financing expenses offset by a tax recovery (net loss of $5.6 million for the year ended December 31, 2010 primarily composed of administrative and financing expenses). The Ambatovy Joint Venture has not yet commenced operations or generated any revenue.

Contingent liabilities and commitments

At December 31, 2011, the Corporation's share of property, plant and equipment commitments of the associate is $57.5 million.

NOTE 10 INVENTORIES

Canadian $ millions, as at	2011 December 31	2010 December 31	2010 January 1
Uncovered coal	**$ 8.5**	$ 7.7	$ 5.7
Raw materials	**8.5**	5.0	4.8
Materials in process	**37.7**	30.9	31.4
Finished products	**64.8**	59.9	50.0
	119.5	103.5	91.9
Spare parts and operating materials	**95.6**	87.1	80.4
	$ 215.1	$ 190.6	$ 172.3

For the year ended December 31, 2011, the cost of inventories recognized as an expense and included in cost of sales was $1,034.7 million ($842.5 million for the year ended December 31, 2010).

NOTE 11 NET CHANGE IN NON-CASH WORKING CAPITAL

Canadian $ millions, for the years ended December 31	2011	2010
Trade accounts receivable	**$ (57.9)**	$ (52.9)
Inventories	**(22.9)**	(1.2)
Prepaid expenses	**(9.3)**	(2.2)
Trade accounts payable and accrued liabilities	**17.1**	8.9
Deferred revenue	**(15.5)**	21.8
	$ (88.5)	$ (25.6)

NOTE 12 PROPERTY, PLANT AND EQUIPMENT

Canadian $ millions, for the year ended December 31 — **2011**

	Mining properties	Oil and Gas properties	Plant, equipment and land	Total
Cost				
Balance, beginning of the year	**$ 367.4**	**$ 984.8**	**$ 1,809.4**	**$ 3,161.6**
Additions	**12.1**	**45.2**	**134.4**	**191.7**
Capitalized closure costs	**37.3**	**0.5**	**42.1**	**79.9**
Disposals	–	–	**(27.9)**	**(27.9)**
Capitalized interest	–	–	**3.6**	**3.6**
Effect of movements in exchange rates	**0.8**	**16.5**	**29.5**	**46.8**
Balance, end of the year	**$ 417.6**	**$ 1,047.0**	**$ 1,991.1**	**$ 3,455.7**
Depletion, depreciation and impairment losses				
Balance, beginning of the year	**$ 208.5**	**$ 851.2**	**$ 761.2**	**$ 1,820.9**
Depletion and depreciation	**52.8**	**50.9**	**90.4**	**194.1**
Impairments	–	–	**2.0**	**2.0**
Disposals	–	–	**(23.0)**	**(23.0)**
Effect of movements in exchange rates	**0.7**	**14.9**	**15.7**	**31.3**
Balance, end of the year	**$ 262.0**	**$ 917.0**	**$ 846.3**	**$ 2,025.3**
Net book value	**$ 155.6**	**$ 130.0**	**$ 1,144.8**	**$ 1,430.4**

Canadian $ millions, for the year ended December 31	Mining properties	Oil and Gas properties	Plant, equipment and land	2010 Total
Cost				
Balance, beginning of the year	$ 291.4	$ 1,008.3	$ 1,699.0	$ 2,998.7
Additions	12.0	35.8	109.0	156.8
Additions through business acquisitions	47.7	–	70.3	118.0
Capitalized closure costs	18.2	0.6	5.9	24.7
Disposals	–	–	(25.7)	(25.7)
Capitalized interest	–	–	4.5	4.5
Effect of movements in exchange rates	(1.9)	(59.9)	(53.6)	(115.4)
Balance, end of the year	$ 367.4	$ 984.8	$ 1,809.4	$ 3,161.6
Depletion, depreciation and impairment losses				
Balance, beginning of the year	$ 179.8	$ 849.6	$ 699.7	$ 1,729.1
Depletion and depreciation	29.2	55.0	93.8	178.0
Disposals	–	–	(21.9)	(21.9)
Effect of movements in exchange rates	(0.5)	(53.4)	(10.4)	(64.3)
Balance, end of the year	$ 208.5	$ 851.2	$ 761.2	$ 1,820.9
Net book value	$ 158.9	$ 133.6	$ 1,048.2	$ 1,340.7

Canadian $ millions	Plant, equipment and land
Assets held under finance lease at net book value, included in above	
As at December 31, 2011	**$ 120.6**
As at December 31, 2010	82.0
As at January 1, 2010	58.3
Assets under construction, included in above	
As at December 31, 2011	**$ 281.6**
As at December 31, 2010	264.4
As at January 1, 2010	309.5

Capital commitments, as at December 31, 2011	
Year 1	**$ 20.6**
Total	**$ 20.6**

Mineral properties

On November 30, 2010, the Corporation entered into an earn-in and shareholders' agreement with a subsidiary of Rio Tinto Limited (Rio Tinto) regarding the Sulawesi Nickel Project (Sulawesi Project). The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Sherritt has been appointed operator and will license its commercially proven proprietary technology to the project.

Due to permitting delays in 2011, this agreement was subsequently amended as of January 23, 2012. Pursuant to the terms of the amended agreement, the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project in Indonesia upon funding US$30.0 million and meeting certain other conditions by October 1, 2013. Rio Tinto would then own the remaining 42.5% in the holding company. In compliance with Indonesian Mining law, local Indonesian interests are expected to acquire a 20% interest in the Sulawesi Project after which Sherritt and Rio Tinto's economic interest will be 46% and 34%, respectively.

If the Corporation acquires its 57.5% interest, the amended agreement also provides that the Corporation can elect to spend an additional US$80.0 million by June 30, 2017 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited.

Exploration and evaluation expenditures related to mineral deposits are recognized in cost of sales as incurred until it is established that the mineral property has development potential. The Corporation expensed $7.8 million relating to this project for the year ended December 31, 2011 ($nil for the year ended December 31, 2010) (note 25).

Operating lease receivables

The Corporation acts as a lessor in operating leases related to the Power facilities in Madagascar and in Varadero, Cuba.

Operating lease payments, denominated in Euros, related to the Madagascar facility, provide a fixed return based on the construction costs of that facility. The term of the lease is 60 months, with an option to extend an additional 24 months. At the end of the extended term, the lessee has the option to purchase the facility at a mutually agreed upon price. The following table summarizes future minimum lease payments relating to the Madagascar operating lease receivable:

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Less than one year	**$ 5.1**	$ 5.1	$ 5.8
Between one and five years	**9.3**	14.6	22.2
	$ 14.4	$ 19.7	$ 28.0

All operating lease payments related to the Varadero facility are contingent on power generation and therefore excluded from the table above. The term of the lease is 20 years ending in February 2018. At the end of the lease term, the leased assets will be sold at fair market value with the Corporation retaining its share of the net proceeds. For the year ended December 31, 2011, contingent revenue was $14.0 million ($17.0 million for the year ended December 31, 2010).

NOTE 13 INVESTMENTS

Canadian $ millions, as at	Note	**2011 December 31**	2010 December 31	2010 January 1
Cuban certificates of deposit	29	**$ 58.2**	$ 82.4	$ 112.6
MAV notes	28	**–**	39.3	28.8
Other		**5.6**	5.6	5.7
		63.8	127.3	147.1
Current portion of investments		**(29.1)**	(30.8)	(34.6)
		$ 34.7	$ 96.5	$ 112.5

Cuban certificates of deposit (CDs)

In 2009, a payment agreement was finalized with respect to the overdue 2008 Oil and Gas and Power receivables in Cuba. Subsequently, as required by the payment agreement, Sherritt purchased two Cuban CDs upon which principal and interest are required to be paid weekly over five years. These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt holds the right to receive payment from cash flows payable by the Moa Joint Venture to its Cuban beneficiaries.

MAV notes

In September 2011, the Corporation sold the MAV notes for proceeds of $39.8 million (note 28). The MAV notes primarily consisted of A1, A2, B, C, Class 15, tracking and non-tracking notes that were received in exchange for the Corporation's asset backed commercial paper in 2009.

NOTE 14 ADVANCES, LOANS RECEIVABLE, OTHER ASSETS AND FINANCE LEASE RECEIVABLES

Advances, loans receivable and other financial assets

Canadian $ millions, as at	Note	**2011 December 31**	2010 December 31	2010 January 1
Advances, loans receivable				
Ambatovy subordinated loan receivable	27	**$ 968.9**	$ 620.9	$ 391.8
Energas conditional sales agreement	27	**166.9**	134.1	144.8
Moa Joint Venture loans receivable	27	**142.8**	168.1	210.0
Other		**24.3**	32.1	48.7
Other financial assets				
Ambatovy call option	28	**38.0**	34.5	34.8
Deferred reclamation recoveries		**9.0**	6.3	6.4
		1,349.9	996.0	836.5
Current portion of advances, loans receivable and other financial assets		**(71.1)**	(83.6)	(88.8)
		$ 1,278.8	$ 912.4	$ 747.7

AMBATOVY SUBORDINATED LOAN RECEIVABLE

A funding agreement was entered into by the Corporation with the Ambatovy Joint Venture to finance the development of the Ambatovy Project. The facility bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually.

ENERGAS CONDITIONAL SALES AGREEMENT

A conditional sales agreement was entered into by the Corporation with Energas to finance construction activity on specific power generating assets in Cuba. The agreement directs the Corporation to arrange for the performance of certain construction activity on behalf of Energas, and contains design specifications for each new construction phase. The Corporation retains title to the constructed assets until the loan is fully repaid. The facility bears interest at 8%. Income generated by the constructed assets will be used to repay the facilities. Until the loan is fully repaid, all of the income generated by these assets is paid to the Corporation. The amount of advances and loans receivable from Energas are presented net of the elimination of the 33⅓% proportionately consolidated intercompany balances.

MOA JOINT VENTURE LOANS RECEIVABLE

A funding agreement was entered into by the Corporation with certain Moa Joint Venture entities within the Metals segment to finance expansion. As at December 31, 2011, advances and loans receivable included two loans totalling $116.5 million (December 31, 2010 – $141.8 million) bearing fixed interest rates of 6.5% and 10.5%. Repayments are being made from available distributable cash flows from the Moa Joint Venture and the advances outstanding of $14.3 million and $102.2 million will become due on December 31, 2012 and December 31, 2015, respectively.

Also included in the Moa Joint Venture loans receivable is a 364-day working capital facility provided to certain Moa Joint Venture entities within the Metals segment totalling $26.3 million (December 31, 2010 – $26.3 million). The working capital facility bears interest at prime plus 1.625% per annum or bankers' acceptance rates plus an applicable margin of 2.625% and is up for renewal in May 2012.

The amount of advances and loans receivable from the Moa Joint Venture are presented net of the elimination of the 50% proportionately consolidated intercompany balances.

OTHER ADVANCES AND LOANS RECEIVABLE

The Corporation has a loan receivable from a domestic customer for reimbursement of operating expenses at a Coal mine site totalling $20.9 million (December 31, 2010 – $19.3 million). The interest rate implicit in the loan varies annually based on 8 to 10-year term Government of Canada bonds and for the year ended December 31, 2011 the interest rate was 8.64% (December 31, 2010 – 8.85%).

In 2006, the Corporation received a $43.0 million note receivable for the sale of the Corporation's 49% interest in a soybean-based food processing business in Cuba. The note bears interest at 6% per annum and is to be repaid in quarterly instalments over a five-year term. In October 2011, the Corporation received the final quarterly instalment. The outstanding balance as at December 31, 2010 was $9.6 million.

AMBATOVY CALL OPTION

The Corporation has a put/call option arrangement whereby, following completion of the Ambatovy Project, Sherritt and Sumitomo can acquire SNC-Lavalin's interest or SNC-Lavalin can divest of its interest to Sherritt and Sumitomo following the completion of construction and the satisfaction of certain completion tests. Sumitomo has the option, with Sherritt's approval, to exercise the call right for the full amount of SNC-Lavalin's investment. Should SNC-Lavalin exercise its put right, the Corporation has the right to require Sumitomo to acquire the Corporation's share of SNC-Lavalin's interest and therefore has been assigned a value of $nil. The value assigned to the asset relates to the call option.

DEFERRED RECLAMATION RECOVERIES

Deferred reclamation recoveries relate to future recoveries of reclamation expenditures from domestic customers of Coal.

Other non-financial assets

Canadian $ millions, as at	Note	2011 December 31	2010 December 31	2010 January 1
Cross-guarantee fee asset		**$ 10.6**	$ 22.6	$ 34.5
Pension asset	18	**2.4**	2.0	2.6
Other		**4.3**	3.8	5.5
		17.3	28.4	42.6
Current portion of other non-financial assets		**(0.2)**	(0.2)	(0.2)
		$ 17.1	$ 28.2	$ 42.4

CROSS-GUARANTEE FEE ASSET

In 2007, Sherritt entered into cross-guarantee fee letters with Sumitomo and SNC-Lavalin in which Sherritt agreed to issue to Sumitomo and SNC-Lavalin 3,773,107 common shares in four annual instalments beginning on December 31, 2008, as consideration for providing US$324.0 million of a total of US$598.0 million of cross-guarantees in connection with the Ambatovy Project. Upon initial disbursement of the Ambatovy Joint Venture financing, the Corporation recorded a cross-guarantee fee asset of $55.6 million which is amortized over the life of the guarantee with a corresponding increase in the cross-guarantee reserve. On December 30, 2011, Sherritt issued the final instalment of 943,276 common shares to Sumitomo and SNC-Lavalin for a total issue amount of $13.9 million (note 20). As the shares are issued, the cross-guarantee reserve is reduced accordingly (note 20). The amortization of the cross-guarantee fee asset is included in net finance expense (note 23).

Finance lease receivables

Canadian $ millions, as at	2011 December 31			2010 December 31			2010 January 1		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 38.3**	**$ 15.0**	**$ 23.3**	$ 34.9	$ 15.0	$ 19.9	$ 35.5	$ 15.6	$ 19.9
Between one and five years	**122.8**	**45.8**	**77.0**	120.8	47.4	73.4	128.0	48.3	79.7
More than five years	**149.5**	**30.5**	**119.0**	155.5	32.2	123.3	158.0	34.9	123.1
	$ 310.6	**$ 91.3**	**$ 219.3**	$ 311.2	$ 94.6	$ 216.6	$ 321.5	$ 98.8	$ 222.7

Finance lease receivables relate to arrangements within Coal's Prairie Operations. Lease payments consist of blended monthly payments of principal and interest. The interest rates implicit in the leases as at December 31, 2011 are between 4.5% and 8.6% (December 31, 2010 – 5.0% and 8.9%). The Corporation has both fixed and variable rate leasing arrangements.

NOTE 15 GOODWILL

The goodwill of $307.9 million arose on the acquisition of Royal Utilities in 2008. Royal Utilities is comprised of several Prairie coal-mining operations, each determined to be a CGU. Goodwill is tested for impairment by allocating it to the Royal Utilities' CGUs as one group, as this is the lowest level at which goodwill is monitored. Impairment testing is performed annually on October 1 by comparing the recoverable amount of Royal Utilities to its carrying amount including goodwill. The annual impairment review as at October 1, 2011 resulted in no impairment charge.

Prior to the Corporation's acquisition of all trust units issued and outstanding that it did not already own, the trust units of Royal Utilities were publicly traded on an active market. Fair value was measured at the acquisition date using a discounted cash flow valuation model (valuation model). The Corporation determined the recoverable amount of Royal Utilities by reference to its fair value less cost to sell using this valuation model.

Key assumptions in the valuation model include cash flows, growth opportunities and the discount rate. The details of how these assumptions were updated are described below.

Cash flows

Cash flows are projected over a 49-year period and are based on production and growth plans, internal forecasts and risk assessments that take into account the unique operations of each mine site. Revenue and expenses were projected over a 10-year period based on internal long range plans. Revenue and expenses beyond this period were extrapolated using growth rates between 0.7% and 6.7% based on the average historical growth of each mine site. Cash flows are generated by royalties and mine sites that supply coal to utility customers under long-term supply agreements in Alberta and Saskatchewan. These cash flows require assumptions on certain inputs such as prices, future production levels, expenses and capital spending.

Growth opportunities

Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium to long term. These cash flows require assumptions to be made regarding the likelihood of projects progressing and the future economics of those projects.

Discount rate

A blended discount rate of 7.3% was used to discount cash flows for mine site operations and for royalty revenue in the valuation model, which resulted in an excess of fair value less costs to sell over the carrying amount of approximately $67.0 million as at October 1, 2011. The valuation of Royal Utilities is sensitive to changes in the discount rate. All other things being equal, an increase of 0.3% in the discount rate would result in the carrying amount approximately equaling the fair value less costs to sell. The discount rate is based on current market information at the date of valuation.

NOTE 16 INTANGIBLE ASSETS

Canadian $ millions, for the year ended December 31							2011
	Royalty agreements	Mining contracts	Contractual arrange-ments	Exploration and evaluation	Service concession arrange-ment	Other	Total
Cost							
Balance, beginning of the year	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 79.4	$ 44.1	$ 877.0
Additions through:							
Internal development	–	–	–	3.2	24.7	–	27.9
Effect of movements in exchange rates	–	–	–	0.1	2.2	–	2.3
Balance, end of the year	$ 479.0	$ 236.0	$ 27.0	$ 14.8	$ 106.3	$ 44.1	$ 907.2
Amortization and impairment losses							
Balance, beginning of the year	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Amortization	10.9	7.4	1.9	–	3.8	9.9	33.9
Impairments	–	–	–	2.8	–	–	2.8
Effect of movements in exchange rates	–	–	–	0.1	0.1	–	0.2
Balance, end of the year	$ 39.9	$ 27.1	$ 15.8	$ 11.8	$ 7.7	$ 18.7	$ 121.0
Net book value	$ 439.1	$ 208.9	$ 11.2	$ 3.0	$ 98.6	$ 25.4	$ 786.2
Remaining amortization period							
Weighted-average number of years, as at December 31, 2011	40.9	33.7	6.2	n/a	11.3	24.7	–

Canadian $ millions, for the year ended December 31							2010
	Royalty agreements	Mining contracts	Contractual arrange-ments	Exploration and evaluation	Service concession arrange-ment	Other	Total
Cost							
Balance, beginning of the year	$ 479.0	$ 236.0	$ 27.0	$ 7.8	$ 76.0	$ 23.1	$ 848.9
Additions through:							
Internal development	–	–	–	3.9	7.2	–	11.1
Business combinations	–	–	–	–	–	21.0	21.0
Effect of movements in exchange rates	–	–	–	(0.2)	(3.8)	–	(4.0)
Balance, end of the year	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 79.4	$ 44.1	$ 877.0
Amortization and impairment losses							
Balance, beginning of the year	$ 18.1	$ 12.3	$ 12.1	$ –	$ –	$ 3.3	$ 45.8
Amortization for the year	10.9	7.4	1.8	–	3.9	5.5	29.5
Impairments	–	–	–	9.0	–	–	9.0
Effect of movements in exchange rates	–	–	–	(0.1)	(0.1)	–	(0.2)
Balance, end of the year	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Net book value	$ 450.0	$ 216.3	$ 13.1	$ 2.6	$ 75.6	$ 35.3	$ 792.9

Royalty agreements

In 2008, in connection with the acquisition of Royal Utilities, the Corporation acquired a portfolio of mineral rights that earn royalties based on the amount of coal and potash mined from properties in Alberta and Saskatchewan, Canada.

Mining contracts

In 2008, in connection with the acquisition of Royal Utilities, the Corporation acquired mining agreements with various customers where it holds exclusive rights to mine the dedicated reserves at the mine site.

Contractual arrangements

In 2003, in connection with the acquisition of outside interests in Sherritt Power Corporation, the Corporation acquired significant long-term contractual arrangements.

Exploration and evaluation

Exploration and evaluation assets are composed of the Corporation's exploration projects in the Oil and Gas reporting segment pending the determination of proven and/or probable reserves. For the year ended December 31, 2011, the Corporation recognized an impairment of $2.0 million as a result of a decision to discontinue exploration in the Cuban Block 8 prospect area and an impairment of $0.8 million due to the expiry of a Cuban production-sharing agreement related to an enhanced oil recovery project. For the year ended December 31, 2010, the Corporation recognized an impairment of $7.9 million as a result of relinquishing licenses in Turkey and $1.1 million relating to a decision to discontinue exploration in the Boca de Jaruco prospect area in Cuba. As at December 31, 2011, these impaired assets have been written down to $nil.

Service concession arrangements

Construction at the Energas Boca de Jaruco facility is currently underway and is scheduled for completion in 2013. Construction revenue and expense relating to the new construction activity for the year ended December 31, 2011 is $21.7 million (December 31, 2010 – $5.1 million).

Expenses incurred in relation to the new construction activity are included in cost of sales on the consolidated statements of comprehensive income. The amount of interest expense capitalized was $3.0 million as at December 31, 2011 (December 31, 2010 – $2.1 million) at a weighted-average capitalization rate of 8.0%.

Other

In 2008, in connection with the acquisition of Royal Utilities, the Corporation acquired long-term customer relationships which are expected to generate significant benefit over the life of the current agreements and any expected extensions to existing agreements. As at December 31, 2011, the net book value was $12.0 million (December 31, 2010 – $12.6 million).

In June 2010, in connection with the purchase of the remaining 50% interest in CVP (note 6), the Corporation acquired a customer contract asset that was entered into at a fixed price above the forecast market price for a period of 2.5 years. As at December 31, 2011, the net book value was $8.4 million (December 31, 2010 – $16.8 million).

In 2007, the Corporation acquired scientific and technical knowledge related primarily to hydrometallurgical technologies for the treatment and recovery of non-ferrous metals. As at December 31, 2011, the net book value was $5.0 million (December 31, 2010 – $5.9 million).

NOTE 17 LOANS, BORROWINGS AND OTHER LIABILITIES

Loans and borrowings

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Long-term loans			
7.875% senior unsecured debentures due 2012	**$ –**	$ 269.8	$ 267.8
8.25% senior unsecured debentures due 2014	**223.0**	222.4	221.8
7.75% senior unsecured debentures due 2015	**272.9**	272.4	272.0
8.00% senior unsecured debentures due 2018	**391.2**	–	–
Ambatovy Joint Venture additional partner loans	**708.5**	597.4	422.0
Ambatovy Joint Venture partner loans	**92.2**	88.7	91.7
Senior credit facility agreement	**43.0**	80.9	65.6
Loan from financial institution	**2.7**	8.0	18.3
3-year non-revolving term loan[1]	**11.2**	24.0	18.0
	1,744.7	1,563.6	1,377.2
Current portion of loans and borrowings	**(56.9)**	(33.1)	(34.4)
	$ 1,687.8	$ 1,530.5	$ 1,342.8

[1] The Corporation fully consolidated CVP (100%) beginning July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in CVP.

7.875% SENIOR UNSECURED DEBENTURES DUE 2012

During the fourth quarter of 2011, the Corporation redeemed and purchased for cancellation the entire $273.5 million outstanding principal amount of the 7.875% senior unsecured debentures. A premium of $16.3 million was paid with respect to the redemption of these debentures which has been included in net finance expense (note 23). Deferred financing costs of $1.9 million were included in net finance expense.

8.25% SENIOR UNSECURED DEBENTURES DUE 2014

The 8.25% senior unsecured debentures, due 2014, are net of financing costs of $2.0 million at December 31, 2011 (December 31, 2010 – $2.6 million). This debenture is subject to the following financial covenant: funded indebtedness-to-total assets ratio of less than 0.4:1.

7.75% SENIOR UNSECURED DEBENTURES DUE 2015

The 7.75% senior unsecured debentures, due 2015, are net of financing costs of $2.1 million at December 31, 2011 (December 31, 2010 – $2.6 million). This debenture is subject to the following financial covenant: funded indebtedness-to-total assets ratio of less than 0.4:1.

8.00% SENIOR UNSECURED DEBENTURES DUE 2018

In November 2011, the Corporation issued $400.0 million of 8.00% senior unsecured debentures due November 15, 2018 for net cash proceeds of $391.1 million after financing costs of $8.9 million. The proceeds were used to redeem and purchase for cancellation the entire outstanding $273.5 million principal amount of the 7.875% senior unsecured debentures plus $10.7 million of accrued interest, with the remainder being used for the premium on the redemption of the 7.875% senior unsecured debentures, and general corporate purposes.

The 8.00% senior unsecured debentures, due 2018, are net of financing costs of $8.8 million at December 31, 2011 (December 31, 2010 – $nil). This debenture is subject to the following financial covenant: funded indebtedness-to-total assets ratio of less than 0.4:1.

AMBATOVY JOINT VENTURE ADDITIONAL PARTNER LOANS

Sherritt has arrangements with its Ambatovy Joint Venture partners, Sumitomo, Kores and SNC-Lavalin for a mechanism through which the joint venture partners would finance the Corporation's pro-rata share of shareholder funding requirements for the Ambatovy Joint Venture up to US$600.9 million.

These loans, which are fully drawn, are non-recourse to the Corporation except in circumstances where there is a direct breach by the Corporation of restrictions in the loan documents, which limit the activities of certain subsidiaries and the use of proceeds from the loans to the development of the Ambatovy mine.

Interest and principal on these loans will be repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture. However, the Corporation has the right to prepay some or all of the loans at its option. Until the Ambatovy Joint Venture additional partner loans and the Ambatovy Joint Venture partner loans, as described below, are fully repaid, 45% of the Corporation's share of distributions will be applied to repay the Ambatovy Joint Venture additional partner loans, 25% will be applied to repay the Ambatovy Joint Venture partner loans and the remaining 30% will be payable to the Corporation. When one loan has been repaid in full, 70% of such distributions will be applied to repay the loan that remains outstanding and the Corporation will receive the balance of the distributions until such time as both loans have been repaid in full and the Corporation will be entitled to receive all of its distributions.

Each lender individually has the right to exchange some or all of its Ambatovy Joint Venture additional partner loan for up to a maximum 15% equity interest, in aggregate, at any time. Exercise of these rights in full would reduce Sherritt's interest in the Ambatovy Joint Venture to 25%. This right is subject to senior project lender consent and Sherritt's right to repay all three such loans on a pro-rata basis and avoid the reduction in its equity interest. As the capital costs of the Ambatovy Joint Venture have exceeded US$4.52 billion if Sherritt does not provide its pro-rata share of funding for additional cost overruns, the partners may dilute Sherritt's interest in the Ambatovy Joint Venture below the 25% threshold. There are no other penalties to Sherritt for a failure to fund its pro-rata share of shareholder funding. As at December 31, 2011, the Corporation has provided its full pro-rata share of funding for the capital cost in excess of US$4.52 billion.

The lenders' conversion option incorporated in these loan agreements is an embedded derivative. The lenders' conversion option has been bifurcated from the loan and ascribed a nominal value. These loans carry interest at a rate of LIBOR plus 7.0% per annum.

The principal amount outstanding under this facility at December 31, 2011 was $708.5 million, including accrued interest (December 31, 2010 – $597.4 million). This amount is net of financing costs of $3.2 million at December 31, 2011 (December 31, 2010 – $3.5 million).

AMBATOVY JOINT VENTURE PARTNER LOANS

In 2008, the Ambatovy Joint Venture partners finalized agreements to provide Sherritt with loans of up to US$236.0 million to be used to fund Sherritt's contributions for the project. The loans are provided at an interest rate based on a six-month LIBOR plus 1.125% with a 15-year term. Should such distributions be insufficient to repay the loans in full, the Corporation will have the option to repay any outstanding balance in either cash or its common shares.

As a condition for providing funding under the Ambatovy Joint Venture additional partner loan agreements (described above), the Corporation was required to repay from the proceeds of these loans US$50.0 million of the existing Ambatovy Joint Venture partner loans such that the principal amount of the original loans is US$85.4 million. The principal amount outstanding under this facility at December 31, 2011 was $92.2 million, including accrued interest (December 31, 2010 – $88.7 million). The advances continue to bear interest at a rate of LIBOR plus 1.125%. Additional advances on these loans are subject to interest at a rate of LIBOR plus 10% per annum.

SENIOR CREDIT FACILITY AGREEMENT

Prairie Mines and Royalty Ltd. (PMRL), a subsidiary of Royal Utilities, has a $235.2 million senior credit facility agreement with a syndicate of financial institutions in which the interest rates payable on advances under the facility are based on prime lending rates, bankers' acceptance rates, U.S. based rates and/or LIBOR rates plus applicable margins ranging from 0% to 1.457% depending on Royal Utilities' ratio of debt-to-operating earnings before interest, taxes, depreciation and amortization. As at December 31, 2011, $43.0 million (December 31, 2010 – $80.9 million) was drawn and outstanding. The outstanding balance will be fully paid in 2012. In addition, PMRL had issued and outstanding letters of credit of $33.2 million (December 31, 2010 – $33.7 million) as follows: $21.7 million (December 31, 2010 – $20.8 million) to satisfy current regulatory requirements in

connection with future reclamation, site restoration and mine closure costs and $11.5 million (December 31, 2010 – $12.9 million) to secure lease obligations at its Genesee and other mines. This facility is subject to covenants based on the financial position of Royal Utilities as follows: EBITDA-to-interest expense ratio of not less than 4:1 and total debt-to-EBITDA ratio of no more than 3:1.

LOAN FROM FINANCIAL INSTITUTION

In 2007, the Corporation entered into a separate loan agreement, maturing March 2012, to fund a portion of expansion projects in Power. The loan agreement has a carrying value of $2.7 million (December 31, 2010 – $8.0 million) and bears interest at the bankers' acceptance rate plus an applicable margin of 2.9%, payable semi-annually in 10 equal instalments over a five-year term.

3-YEAR NON-REVOLVING TERM FACILITY

In 2009, CVRI established a non-revolving term credit facility with a Canadian financial institution to finance the purchase of certain equipment and to provide working capital in relation to the start-up of the Obed Mountain mine. The facility consists of two loans totalling $38.0 million and is subject to fixed interest rates. The loans are subject to equal blended monthly payments after a six-month interest-only period following the first advance. The loans are subject to the following financial covenants based on the financial condition of CVRI: debt-to-tangible net worth ratio not greater than 2.5:1, current ratio of not less than 1:1, and cash flow coverage ratio not less than 1.25:1. At December 31, 2011, $11.2 million (December 31, 2010 – $24.0 million) principal is outstanding under this facility at an average interest rate of 6.08% per annum.

SYNDICATED 364-DAY REVOLVING-TERM CREDIT FACILITY

In May 2011, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility. The maximum available credit under the facility is $115.0 million; however, the total available draw is based on eligible receivables and inventory. As at December 31, 2011, no amounts were drawn on this facility (December 31, 2010 – $nil). This facility is subject to the following financial covenants: financial debt-to-equity not exceeding 0.5:1, quarterly adjusted net financial debt-to-EBITDA not exceeding 2.5:1, and EBITDA-to-interest expense of not less than 3:1. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 1.625% per annum or bankers' acceptances plus 2.625% and the facility expires on May 7, 2012.

LINE OF CREDIT

In August 2011, the Corporation amended the $20.0 million line of credit to extend the expiry date to August 2, 2012. This facility is subject to the same financial covenants as the syndicated 364-day revolving-term credit facility. There were no amounts drawn on this facility as at December 31, 2011 (December 31, 2010 – $nil).

MAV NOTE LOANS

The Corporation terminated its MAV note loans facility of $31.5 million in September 2011, as a result of the sale of the Corporation's MAV notes (note 13). The balance outstanding at the time of extinguishment was $nil (December 31, 2010 – $nil).

INTEREST AND ACCRETION

Interest and accretion expense on loans and borrowings was $108.7 million for the year ended December 31, 2011 ($101.8 million for the year ended December 31, 2010).

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction, exploration and evaluation efforts and the service concession agreement. Where these assets have been financed through general borrowings, interest has been capitalized at a rate representing the average interest rate on such borrowings. The amount of interest expense capitalized was $6.6 million as at December 31, 2011 (December 31, 2010 – $6.6 million) at a weighted-average capitalization rate of 7.5%.

COVENANTS

The Corporation and its divisions were in compliance with all of their financial covenants as at December 31, 2011.

Other financial liabilities

Canadian $ millions, as at	Note	**2011 December 31**	2010 December 31	2010 January 1
Advances and loans payable		**$ 104.0**	$ 116.7	$ 131.0
Finance lease obligations		**142.8**	106.2	88.6
Other long-term financial liabilities		**17.2**	19.1	20.1
Stock compensation liability	22	**11.2**	16.8	10.0
		275.2	258.8	249.7
Current portion of other financial liabilities		**(69.8)**	(67.7)	(52.8)
		$ 205.4	$ 191.1	$ 196.9

ADVANCES AND LOANS PAYABLE

Advances and loans payable are due to the Cuban Moa Joint Venture partner and are used to finance expansion activities. These loans bear interest at 6.5% and are repayable commencing the month following commissioning of the expansion assets. Repayments are being made from available distributable cash flows from the Moa Joint Venture with the full balance due by December 31, 2015. The amount of advances and loans payable by the Moa Joint Venture are presented net of the elimination of the 50% proportionately consolidated intercompany balances.

FINANCE LEASE OBLIGATIONS

Finance lease obligations of $142.8 million bear interest at rates ranging from 0.9% to 18.7% with a weighted-average interest rate of 8.25%. These finance leases mature between 2012 and 2016 and are repayable by blended monthly payments of principal and interest as summarized in the table below.

Canadian $ millions, as at		**2011 December 31**			2010 December 31			2010 January 1	
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 52.1**	**$ 6.8**	**$ 45.3**	$ 38.6	$ 3.8	$ 34.8	$ 32.4	$ 4.0	$ 28.4
Between one and five years	**107.2**	**9.7**	**97.5**	78.8	7.4	71.4	65.4	5.2	60.2
	$ 159.3	**$ 16.5**	**$ 142.8**	$ 117.4	$ 11.2	$ 106.2	$ 97.8	$ 9.2	$ 88.6

OTHER LONG-TERM FINANCIAL LIABILITIES

The other long-term liabilities are composed of other equipment financing arrangements and deferred recoveries. Other equipment financing arrangements for the Coal segment of $8.8 million (December 31, 2010 – $11.5 million) bear interest at rates ranging from 5.31% to 9.85% with a weighted-average interest rate of 6.68% and mature between 2012 and 2016. Other long-term financial liabilities are repayable by blended monthly payments of principal and interest as summarized in the table below.

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Less than one year	**$ 3.7**	$ 4.3	$ 5.1
Between one and five years	**7.0**	8.7	8.8
More than five years	**6.5**	6.1	6.2
	$ 17.2	$ 19.1	$ 20.1

Other non-financial liabilities

Canadian $ millions, as at	Note	**2011 December 31**	2010 December 31	2010 January 1
Pension liability	18	**$ 14.1**	$ 17.3	$ 21.4
Deferred revenue		**9.0**	23.8	2.0
		23.1	41.1	23.4
Current portion of other non-financial liabilities		**(8.0)**	(23.5)	(1.2)
		$ 15.1	$ 17.6	$ 22.2

NOTE 18 POST-EMPLOYMENT BENEFITS

The Corporation sponsors defined benefit and defined contribution pension arrangements covering substantially all employees. The following table summarizes the significant actuarial assumptions used to calculate the pension expense and obligations under the defined benefit pension plans:

As at December 31	2011	2010
Accrued benefit obligation		
Discount rate	**4.6%**	5.6%
Rate of compensation increases	**3.5%**	3.5%
Inflation rate	**2.5%**	2.5%
Average remaining service period of active employees	**0–14 years**	0–15 years
Benefit costs		
Expected long-term rate of return on plan assets	**3.1–6.3%**	3.1–6.3%
Discount rate	**5.6%**	6.3%
Plan assets		
Discount rate	**3.1–6.3%**	3.1–6.3%

Actuarial reports and updates are prepared by independent actuaries for funding and accounting purposes. Net pension plan expense was:

Canadian $ millions, for the years ended December 31	2011	2010
Current service cost		
Defined benefit	**$ 4.7**	$ 4.7
Defined contribution	**14.9**	11.4
Interest cost	**7.3**	7.2
Expected return on plan assets	**(6.6)**	(5.8)
Actuarial loss	**29.8**	3.9
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**50.1**	21.4
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between expected return and actual return on plan assets	**(6.6)**	4.9
Deferral of actuarial loss	**(22.8)**	(8.4)
	20.7	17.9
Valuation allowance provided against the accrued benefit asset	**(0.5)**	0.5
Net pension plan expense	**$ 20.2**	$ 18.4

Information on defined benefit pension plans, in aggregate, is set out below:

Canadian $ millions, for the years ended December 31	2011	2010
Accrued benefit obligation		
Balance, beginning of year	**$ 128.1**	$ 113.5
Current service cost	**4.7**	4.7
Interest cost	**7.3**	7.2
Benefits paid	**(5.6)**	(6.3)
Actuarial loss	**23.1**	9.0
Balance, end of year	**$ 157.6**	$ 128.1

Canadian $ millions, for the years ended December 31	Note	2011	2010
Plan assets			
Fair value, beginning of year		**$ 109.7**	$ 98.5
Expected return on plan assets		**6.6**	5.8
Actuarial (loss)/gain		**(6.7)**	5.1
Employer contributions		**8.9**	6.6
Benefits paid		**(5.6)**	(6.3)
Fair value, end of year		**$ 112.9**	$ 109.7
Funded status – deficit		**$ (44.7)**	$ (18.4)
Unamortized net actuarial losses		**33.0**	3.6
Valuation allowance		**–**	(0.5)
Net pension liability		**$ (11.7)**	$ (15.3)

Canadian $ millions, as at December 31	Note	2011	2010
Pension assets	14	**$ 2.4**	$ 2.0
Pension liability	17	**(14.1)**	(17.3)
		$ (11.7)	$ (15.3)

Total cash payments for post-retirement benefits for the year ended December 31, 2011, consisting of contributions to defined benefit and defined contribution pension plans, were $23.8 million (December 31, 2010 – $18.0 million). Total cash contributions to be paid to the plan for the year ending December 31, 2012 are estimated to be $9.0 million.

As at December 31, 2011 for pension plans with an accrued benefit obligation in excess of plan assets, the accrued benefit obligation was $142.5 million (December 31, 2010 – $105.7 million) and the fair value of the plan assets was $94.4 million (December 31, 2010 – $82.5 million).

The measurement date for the plan assets and the accrued benefit obligations for the Corporation's defined benefit pension plans is December 31. Actuarial valuations are performed at least every three years and rendered to date using current salary levels to determine the actuarial present value of the accrued benefit obligation. An actuarial valuation was performed on certain plans as at December 31, 2010. The next required actuarial valuation for funding purposes for certain plans will be December 31, 2013.

The following table summarizes the history and experience adjustments of the plan obligations and plan assets:

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Present value of plan obligations	**$ (157.6)**	$ (128.1)	$ (113.5)
Fair value of plan assets	**112.9**	109.7	98.5
Deficit	**$ (44.7)**	$ (18.4)	$ (15.0)

Canadian $ millions, for the years ended December 31	2011	2010
Experience losses on plan obligations	**$ (23.1)**	$ (9.0)
Experience (losses)/gains on plan assets	**(6.7)**	5.1

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plans were as follows:

As at December 31	2011	2010
Equity securities	**53%**	59%
Debt securities	**41%**	34%
Other	**6%**	7%

NOTE 19 ENVIRONMENTAL REHABILITATION PROVISIONS, CONTINGENCIES AND GUARANTEES

Environmental rehabilitation provisions

Provisions for environmental rehabilitation were recognized in respect of the mining operations of Metals, Coal, and Oil and Gas including associated infrastructure and buildings. Also, obligations were recorded for nickel and cobalt refining facilities, fertilizers and utilities facilities and oil and gas production facilities. Retirement of refinery, fertilizer and utilities facilities, oil and gas production facilities, infrastructure and buildings normally takes place at the end of the asset's useful life. Reclamation of coal mining operations is typically carried out on a continuous basis over the life of each mine and is dependent on the rate that mining progresses over the area to be mined.

The following is a reconciliation of the environmental rehabilitation provision:

Canadian $ millions, for the years ended December 31	**2011**	2010
Balance, beginning of year	**$ 208.3**	$ 164.1
Acquisition of CVP	**–**	33.7
Additions	**17.2**	22.1
Change in estimates	**55.9**	3.5
Utilized during the year	**(19.4)**	(13.4)
Accretion	**5.4**	4.8
Foreign exchange translation	**0.3**	(5.1)
Other	**–**	(1.4)
Balance, end of year	**267.7**	208.3
Current portion	**(31.9)**	(25.5)
	$ 235.8	$ 182.8

In 2011, Sherritt increased its provision by $59.4 million related primarily to a reduction in the discount rates during the year and also as a result of re-assessing factors affecting soil contamination and their potential impact on Sherritt's obligations for rehabilitating the Moa Joint Venture Fort Saskatchewan site. The rehabilitation of the Fort Saskatchewan site is the responsibility of both Sherritt and predecessor companies that were located on the site.

The Corporation has estimated that it will require approximately $395.4 million in undiscounted cash flows to settle these obligations. These obligations are expected to be settled over the next several decades as some of its mines plan to be operational to 2060. The payments are expected to be funded by cash generated from operations. Discount rates from 0.95% to 13.06% were applied to expected future cash flows to determine the carrying value of the environmental rehabilitation provision.

Contingencies

In October 2001, the Corporation received a statement of claim from Fluor Australia Pty Ltd. brought forth in the Supreme Court of Victoria, setting out a claim against the Corporation and Dynatec Corporation (as it then existed). The claim alleged negligence in connection with a mine development in Australia. On December 20, 2002, Fluor formally discontinued its proceeding against the Corporation and Dynatec Corporation, but reserved its right to recommence proceedings against them at a later date. The Corporation believes Fluor's claims against it are without merit and would vigorously defend any further claim Fluor may bring.

A number of the Corporation's subsidiaries and affiliates have operations located in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. Having regard to legal and other developments in the United States, and remedies available in Canada and in Europe, the Corporation believes that the impact of any claims against it will not be material.

In addition to the above matters, the Corporation and its subsidiaries are also subject to routine legal proceedings and tax audits. The Corporation does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated net earnings, cash flow or financial position.

Guarantees

AMBATOVY JOINT VENTURE

Sherritt has provided guarantees of up to US$840.0 million as its pro-rata share of completion guarantees under the Ambatovy Joint Venture financing. The other joint venture partners have cross-guaranteed US$598.0 million and have also agreed to provide letters of credit up to US$242.0 million to the senior lenders. These guarantees are released once Ambatovy has satisfied certain required completion tests (note 9).

COAL VALLEY RESOURCES INC.

In relation to the 3-year non-revolving term loan (note 17), Sherritt and its former partner had each provided a $12.5 million limited guarantee. Upon acquiring the remaining 50% interest in CVP (note 6), the Corporation indemnified its former partner's guaranteed portion of the letter of credit and payments under the lease.

The Corporation has guaranteed letters of credit issued on behalf of CVRI. In June 2011, Sherritt amended the arrangement to replace its former partner as a guarantor and increase the Corporation's guarantee for the potential obligations under the letter of credit of Coal to a maximum of $64.0 million. As at December 31, 2011, $58.1 million was outstanding (December 31, 2010 – $48.1 million).

The Corporation and its former partner each had also guaranteed the payments under a lease of equipment contract entered into by CVP, each up to a maximum amount equal to the lesser of 25% of the amount owing by CVP and $27.5 million. In November 2011, Sherritt amended the arrangement to replace its former partner as a guarantor. As a consequence, Sherritt has guaranteed a maximum amount equal to the lesser of 50% of the amount owing by CVP and $55.0 million. As at December 31, 2011, $39.6 million was outstanding (December 31, 2010 – $35.9 million).

ROYAL UTILITIES

Royal Utilities has provided a performance guarantee to a customer on behalf of the Bienfait Activated Carbon Joint Venture. In the event the Joint Venture fails to meet its obligations under the supply agreement, Royal Utilities is exposed to a maximum potential liability of $31.0 million. The guarantee extends to December 15, 2015. Royal Utilities has issued letters of credit through an established Canadian banking institution in the amount of $6.2 million (December 31, 2010 – $6.1 million) in relation to this guarantee.

OTHER

In respect of various divestitures, environmental, tax and other indemnities have been provided to the purchasers. The indemnities generally extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with a loan agreement entered into with a financial institution, the Corporation has also agreed to indemnify the financial institution against any environmental exposures relating to the Power expansion. The indemnities extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In respect of certain work being performed on behalf of the Corporation, indemnities have been provided to certain contractors and consultants for any claims, costs, losses or expenses arising out of the performance of work performed by the contractor or consultant. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with the issuance of common shares, debt instruments and other corporate finance transactions, indemnities have been given to the underwriters. Indemnities have also been given to financial advisors in connection with transactions undertaken by the Corporation. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

NOTE 20 SHAREHOLDERS' EQUITY

Capital Stock

The Corporation's common shares have no par value and the authorized share capital is composed of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

Canadian $ millions, except share amounts, for the years ended December 31		**2011**		2010	
	Note	**Number**	**Capital stock**	Number	Capital stock
Balance, beginning of the year		**295,016,500**	**$ 2,787.3**	293,981,277	$ 2,771.9
Treasury stock – restricted stock plan	22	**(88,500)**	**(0.7)**	(94,874)	(0.8)
Restricted stock plan (vested)	22	**21,856**	**0.1**	–	–
Employee share purchase plan	22	**477,560**	**2.4**	186,820	1.1
Stock options exercised		**20,000**	**0.1**	–	–
Cross-guarantee[(1)]		**943,276**	**13.9**	943,277	13.9
Other		**–**	**–**	–	1.2
Balance, end of the year		**296,390,692**	**$ 2,803.1**	295,016,500	$ 2,787.3

The following dividends were paid or were declared but unpaid:

Canadian $ millions, except share amounts, for the years ended December 31	**2011**		2010	
	Per share	**Total**	Per share	Total
Dividends paid during the year	**$ 0.152**	**$ 44.9**	$ 0.144	$ 42.4
Dividends declared but unpaid	**0.038**	**11.3**	0.038	11.2

On February 15, 2012, the Corporation's Board of Directors approved a quarterly dividend of $0.038 per common share with respect to the first quarter of 2012. The dividend is payable on April 13, 2012 to shareholders of record as of the close of business on March 30, 2012.

Reserves

Canadian $ millions, for the years ended December 31	Note	**2011**	2010
Stated capital reserve[(2)]			
Balance, beginning of the year		**$ 190.3**	$ 190.3
Balance, end of the year		**$ 190.3**	$ 190.3
Stock-based compensation reserve[(3)]			
Balance, beginning of the year		**$ 2.4**	$ 0.4
Restricted stock plan (vested)		**(0.1)**	–
Restricted stock plan amortization	22	**0.7**	0.8
Employee share purchase plan expense	22	**0.7**	1.2
Stock option plan expense	22	**1.1**	–
Balance, end of the year		**4.8**	2.4
Cross-guarantee reserve[(1)]			
Balance, beginning of the year		**13.9**	27.8
Issuance of common shares		**(13.9)**	(13.9)
Balance, end of the year		**–**	13.9
Total reserves, end of the year		**$ 195.1**	$ 206.6

(1) On December 30, 2011, the Corporation issued 943,276 common shares valued at $14.74 per common share as the final annual issuance in relation to the cross-guarantees provided by Sumitomo and SNC-Lavalin on the Ambatovy senior credit facility. The issuance resulted in a total of $13.9 million being reclassified from the cross-guarantee reserve to capital stock (note 14).

(2) In May 2000, the Corporation's shareholders approved the elimination of the December 31, 1999 accumulated deficit of $6.9 million through a $200.0 million reduction in the stated value of the Corporation's restricted voting shares and the creation of a $193.1 million stated capital reserve. Between 2000 and 2007, this reserve was reduced to $190.3 million as a result of losses on repurchase of common shares and the redemption of convertible debentures.

(3) Stock-based compensation reserve relates to equity-settled compensation plans issued by the Corporation to its directors, officers and employees.

Accumulated foreign currency translation reserve

Shareholders' equity includes a reserve pertaining to the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation's foreign operations which have a foreign dollar functional currency.

NOTE 21 EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per common share:

Net earnings per share

Canadian $ millions, except per share amounts, for the years ended December 31	2011	2010
Earnings from continuing operations	$ 198.5	$ 159.5
Loss from discontinued operation	1.2	14.7
Net earnings – basic	$ 197.3	$ 144.8
Earnings from continuing operations	$ 198.5	$ 159.5
Adjustment to cash-settled share-based compensation expense[1]	–	(0.6)
Earnings from continuing operations – diluted	198.5	158.9
Loss from discontinued operation	1.2	14.7
Net earnings – diluted	$ 197.3	$ 144.2
Weighted-average number of common shares – basic	295.1	294.0
Weighted-average effect of dilutive securities:[1]		
Employee share purchase	–	0.1
Stock options	–	0.1
Restricted stock	0.3	0.2
Cross-guarantee	0.9	1.9
Weighted-average number of common shares – diluted	296.3	296.3
Earnings from continuing operations per common share		
Basic	$ 0.67	$ 0.54
Diluted	$ 0.67	$ 0.54
Loss from discontinued operation per common share		
Basic	$ 0.00	$ 0.05
Diluted	$ 0.00	$ 0.05
Net earnings per common share		
Basic	$ 0.67	$ 0.49
Diluted	$ 0.67	$ 0.49

[1] The determination of the weighted-average number of common shares – diluted excludes 5.0 million shares related to stock options that were anti-dilutive for the year ended December 31, 2011 (4.7 million for the year ended December 31, 2010). There were 0.8 million shares related to the employee share purchase plan that were anti-dilutive for the year ended December 31, 2011 (0.8 million shares for the year ended December 31, 2010).

NOTE 22 STOCK-BASED COMPENSATION PLANS

Stock options and options with tandem stock appreciation rights

The Corporation maintains a stock option plan, pursuant to which securities of the Corporation may be issued as compensation. Eligible participants are those persons designated from time to time by the Human Resources Committee of the Board of Directors (the Committee) from among the executive officers and key employees of the Corporation or its subsidiaries who occupy responsible managerial or professional positions and who have the capacity to contribute to the success of the Corporation. Only executives and key employees of the Corporation have been eligible to participate in the stock option plan since May 1, 2005.

Under the Corporation's stock option plan, the Committee has the discretion to attach tandem share appreciation rights (SARs) to options, which entitles the holder to a cash payment of the difference between the option's exercise price and the volume-weighted average trading price of a share on the Toronto Stock Exchange for the five trading days preceding the exercise date.

The maximum number of stock options issuable is 17,500,000. The remaining number of options which may be issued under the stock option plan is 6,308,187 as at December 31, 2011. Under the stock option plan, the exercise price of each option equals the volume-weighted average trading price over the five days prior to the date the option is granted. An option's maximum term is 10 years. Options vest on such terms as the Committee determines, generally in three or five equal instalments on the anniversary date of the grant of the options. When tandem SARs are exercised, the related options are cancelled and the shares underlying such options are cancelled and no longer available for issuance under the stock option plan.

The following is a summary of stock option activity:

For the years ended December 31		**2011**		2010
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of the year	**4,819,146**	**$ 10.37**	4,774,906	$ 10.69
Granted	**638,100**	**8.69**	724,240	8.33
Exercised for cash	**(154,999)**	**5.16**	–	–
Exercised for shares	**(20,000)**	**5.05**	–	–
Forfeited	**(255,430)**	**8.69**	(680,000)	10.42
Expired	**(50,000)**	**15.02**	–	–
Outstanding, end of the year	**4,976,817**	**10.38**	4,819,146	10.37
Options exercisable, end of the year	**3,801,760**	**$ 11.14**	3,195,443	$ 11.48

The following table summarizes information on stock options outstanding and exercisable at December 31, 2011:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable number	Exercisable weighted-average exercise price
$3.05–5.05	40,000	6.9 years	$ 3.69	40,000	$ 3.69
$5.06–9.77	1,853,482	8.3 years	7.37	678,425	6.41
$9.78–11.64	1,828,335	3.3 years	10.42	1,828,335	10.42
$11.65–15.23	1,255,000	5.5 years	14.98	1,255,000	14.98
Total	4,976,817	5.7 years	$ 10.38	3,801,760	$ 11.14

As at December 31, 2011, 4,409,017 options with tandem SARs (December 31, 2010 – 4,799,146) and 567,800 options (December 31, 2010 – 20,000) remained outstanding for which the Corporation has recognized a compensation recovery of $3.6 million for the year ended December 31, 2011 (compensation expense of $5.2 million for the year ended December 31, 2010). The carrying amount of liabilities associated with cash-settled compensation arrangements is $5.5 million at December 31, 2011 (December 31, 2010 – $10.4 million).

INPUTS FOR MEASUREMENT OF GRANT DATE FAIR VALUES

The fair value at the grant date of the stock options and options with tandem SARs (described below) was measured using Black-Scholes. The following summarizes the fair value measurement factors for options granted during the year:

For the years ended December 31	**2011**	2010
Share price at grant date	**$6.14–$8.95**	$ 8.62
Exercise price	**$6.22–$9.10**	$ 8.33
Risk-free interest rate (based on 10-year Government of Canada bonds)	**3.09%–3.33%**	3.45%
Expected volatility	**48.42%–48.48%**	49.07%
Expected dividend yield	**1.63%–2.41%**	1.72%
Expected life of options	**10 years**	10 years
Weighted-average fair value of options granted during the year	**$ 4.24**	$ 4.23

Expected volatility is estimated based on the average historical share price volatility for a period equal to the expected life of the option. The expected life of the option is estimated to equal its legal life at the time of grant. The expected dividend yield is determined by comparing total dividends paid during the preceding 12 months to the share price at grant date.

Other stock-based compensation

SHARE APPRECIATION RIGHTS (SARS)

SARs were issued to non-executive directors, executives and other employees. The SARs represent a right to receive a cash amount from the Corporation equivalent to the amount by which the market price of the Corporation's common shares at the time of exercise exceeds the market price of such shares at the time of the grant.

RESTRICTED SHARE UNITS (RSUS)

Under the terms of the RSU plan, the RSUs are available to be granted to executives and employees. The RSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period for RSUs determined by reference to the market price of the common shares multiplied by the number of RSUs held by the participant as adjusted for dividend equivalents credited. RSUs are issued subject to vesting conditions, including performance criteria, if any, which are set by the Committee. The RSUs vest at the sole discretion of the Committee. Provided a participant remains employed by the Corporation, RSUs vest not later than the earlier of (a) the earlier of: (i) December 31 of the third calendar year following the calendar year in respect of which the RSUs were granted and (ii) the date set out in the RSU grant agreement; and (b) the date of death of a participant. The vesting date set out in the grant agreement is generally the third anniversary of the grant date. The Corporation shall redeem all of a participant's vested RSUs on the vesting date, and may, at the discretion of the Committee, redeem all or any part of a participant's unvested RSUs prior to the vesting date.

DEFERRED SHARE UNITS (DSUS)

Under the terms of the DSU plan, the DSUs are available to be granted to non-executive directors. The DSUs represent a right to receive a cash amount payable by the Corporation to a participant following departure from the Board of Directors. The value payable is determined by reference to the market price of the common shares multiplied by the number of DSUs held by the participant as adjusted for dividend equivalents credited. DSUs vest on the later of (a) the grant date and (b) the date that any terms of conditions vesting attached to the DSUs are satisfied. DSUs generally vest on the grant date. DSUs are redeemed by the Corporation at the election of the participant by filing a notice of redemption not earlier than the participant's termination date and not later than December 15 of the calendar year following the termination date.

RESTRICTED STOCK PLAN (RSP)

The Corporation has a Restricted Stock Plan intended for senior executives, under which the Committee may grant restricted shares to employees of the Corporation. Under the terms of the plan, shares that are issued are subject to vesting conditions, which are set by the Committee for each grant of restricted stock. The shares granted under this plan are purchased on the open market by a trustee and held in each participant's custodial account until the vesting conditions have been met, or the shares forfeited. The participant owns the restricted shares but cannot dispose or otherwise transfer ownership of them until the restrictions and performance conditions, if any, specified by the Committee at the time of grant have been satisfied.

For accounting purposes, these shares are excluded from the number of outstanding common shares of the Corporation and reduce the capital stock of the Corporation. As the shares vest, the shares are included in the number of outstanding common shares of the Corporation and the capital stock of the Corporation is increased accordingly. The Corporation purchased 88,500 common shares during the year for total consideration of $0.7 million. These shares are excluded from the calculation of weighted-average number of common shares used for the purposes of calculating basic earnings per share.

EMPLOYEE SHARE PURCHASE PLAN

The Employee Share Purchase Plan (Share Purchase Plan) is intended to allow eligible employees of the Corporation to purchase shares of the Corporation by means of automatic payroll deductions. All full-time employees of the Corporation are eligible to participate in the Share Purchase Plan after one year of continuous service. Under the terms of the Share Purchase Plan, participating employees may purchase shares by electing to have an amount (up to 5% of their previous year's earnings) withheld by payroll deduction over a two-year period (Purchase Period). The purchase price of the shares is the lower of the share price at the beginning of the two-year Purchase Period and the share price at the end of the Purchase Period.

The Corporation is authorized to issue up to 3,300,000 shares under the Share Purchase Plan. The Corporation issued 477,560 common shares to employees during the year ended December 31, 2011 (December 31, 2010 – 186,820) under the Share Purchase Plan for total consideration of $2.4 million and has, since its inception in 1996, issued an aggregate of 1,516,780 common shares to employees.

A summary of the Share Purchase Plan, SARs, RSUs, DSUs and RSPs outstanding as at December 31, 2011 and 2010 and changes during the year is as follows:

For the year ended December 31					**2011**
	Share Purchase Plan	**SAR**	**RSU**	**DSU**	**RSP**
Outstanding, beginning of year	**948,652**	**140,000**	**1,531,914**	**283,359**	**203,730**
Issued	**424,839**	**–**	**548,240**	**44,000**	**88,500**
Dividends credited	**–**	**–**	**45,395**	**8,801**	**–**
Exercised	**(477,560)**	**(140,000)**	**(316,568)**	**–**	**–**
Forfeited	**(126,876)**	**–**	**(54,452)**	**–**	**–**
Vested	**–**	**–**	**–**	**–**	**(21,856)**
Outstanding, end of year	**769,055**	**–**	**1,754,529**	**336,160**	**270,374**
Units exercisable, end of year	**n/a**	**–**	**n/a**	**336,160**	**n/a**
Weighted-average exercise price	**$ 5.05**	**–**	**n/a**	**n/a**	**n/a**

For the year ended December 31					2010
	Share Purchase Plan	SAR	RSU	DSU	RSP
Outstanding, beginning of year	692,083	212,500	1,304,689	216,946	108,856
Issued	543,411	–	703,900	60,880	94,874
Dividends credited	–	–	33,158	5,533	–
Exercised	(186,820)	(72,500)	(230,948)	–	–
Forfeited	(100,022)	–	(278,885)	–	–
Outstanding, end of year	948,652	140,000	1,531,914	283,359	203,730
Units exercisable, end of year	n/a	140,000	n/a	283,359	n/a
Weighted-average exercise price	$ 6.07	$ 5.56	n/a	n/a	n/a

The Corporation recorded a compensation expense of $3.0 million for the year ended December 31, 2011 for other stock-based compensation plans (December 31, 2010 – $6.9 million compensation expense). The carrying amount of liabilities associated with cash-settled compensation arrangements is $5.7 million at December 31, 2011 (December 31, 2010 – $6.4 million).

MEASUREMENT OF FAIR VALUES AT GRANT DATE

The fair values of the Share Purchase Plan, RSUs, DSUs and RSPs are determined by reference to the market value of the shares at the time of grant. The following summarizes the fair value measurement factor for the Share Purchase Plan, RSU, DSU and RSP grants during the year:

For the year ended December 31				**2011**
	Share Purchase Plan	**RSU**	**DSU**	**RSP**
Weighted-average share price at grant date	**$ 6.14**	**$ 8.84**	**$ 8.95**	**$ 8.27**

For the year ended December 31				2010
	Share Purchase Plan	RSU	DSU	RSP
Weighted-average share price at grant date	$ 5.72	$ 6.70	$ 6.57	$ 8.90

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at December 31, 2011 was $6.3 million (December 31, 2010 – $8.3 million).

NOTE 23 NET FINANCE EXPENSE

Canadian $ millions, for the years ended December 31		2011		2010
Net gain on financial instruments	**$**	**3.2**	$	12.1
Interest income on cash, cash equivalents and short-term investments		**5.7**		3.0
Interest income on investments		**9.5**		13.2
Interest income on advances and loans receivable		**11.4**		14.8
Interest income on finance leases		**17.7**		17.0
Total financing income		**47.5**		60.1
Interest expense and accretion on loans and borrowings	**$**	**108.7**	$	101.8
Interest expense on other liabilities		**3.4**		4.0
Interest expense on finance lease obligations		**7.5**		5.7
Accretion expense on environmental rehabilitation provisions		**5.4**		4.8
Foreign exchange loss		**3.8**		4.9
Cross-guarantee fee amortization		**12.0**		12.0
Premium on debenture redemption		**16.3**		–
Other finance charges		**13.4**		8.4
Total financing expense		**170.5**		141.6
Net finance expense	**$**	**123.0**	$	81.5

NOTE 24 GOVERNMENT GRANTS

For the year ended December 31, 2011, the Corporation recognized government grants relating to Energas re-investment credits of $1.3 million ($2.1 million for the year ended December 31, 2010). Re-investment credits are earned as a result of providing financing for construction projects approved by the Cuban government. Receipt of these credits is contingent on Energas generating taxable income, and therefore re-investment credits are included in income only as Energas accrues income tax.

NOTE 25 COST OF SALES

Cost of sales includes the following select information:

Canadian $ millions, for the years ended December 31		2011		2010
Employee costs	**$**	**358.0**	$	320.9
Depletion, depreciation and amortization of property, plant and equipment and intangible assets		**211.8**		194.2
Exploration and evaluation expenses		**8.7**		0.6
Impairment losses		**5.6**		10.1

The exploration and evaluation expenses incurred by the Corporation relate mainly to the Sulawesi Project in Indonesia. Of this amount, no amounts were included in liabilities as at December 31, 2011 (December 31, 2010 – $nil).

NOTE 26 INCOME TAXES

Canadian $ millions, for the years ended December 31		2011		2010
Current income tax expense				
Current period	**$**	**94.3**	$	75.0
		94.3		75.0
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences		**(9.8)**		29.6
Reduction in tax rate		**(0.7)**		–
Initial recognition of tax assets		**–**		(1.8)
Non-recognition/(recognition) of tax assets previously recognized		**5.4**		(1.1)
		(5.1)		26.7
Income tax expense	**$**	**89.2**	$	101.7

The following table reconciles income taxes calculated at a combined Canadian federal/provincial income tax rate with the income tax expense in the consolidated financial statements for the years ended December 31:

Canadian $ millions, for the years ended December 31	**2011**	2010
Earnings before tax	**$ 287.7**	$ 261.2
Income tax expense at the combined basic rate of 26.74% (2010 – 28.21%)	**76.9**	73.7
Increase (decrease) in taxes resulting from:		
Difference between Canadian and foreign tax rates	**18.1**	27.4
Reduction in deferred income tax rates	**(0.7)**	(0.7)
Tax rate differential on temporary difference movements	**(1.8)**	(3.0)
Non-deductible/(non-taxable) losses and write-downs/(income)	**(7.5)**	3.5
Non-recognition/(recognition) of tax assets	**5.4**	(1.1)
Tax rate differential on loss carryback	**–**	(3.1)
Cuban tax contingency reserve[1]	**–**	12.4
Movement in deferred taxes on business acquisition	**–**	(9.8)
Other items	**(1.2)**	2.4
	$ 89.2	$ 101.7

[1] The Cuban tax contingency reserve is a deduction that is permitted to the Corporation in computing its current income taxes in Cuba. As this reserve is likely to be taxable in subsequent years, a future tax liability has been recognized by the Corporation.

Deferred tax assets (liabilities) relate to the following temporary differences and loss carryforwards:

Canadian $ millions, for the year ended December 31, 2011	**Opening balance**	**Recognized in net earnings**	**Recognized in other comprehensive income**	**Recognized in equity**	**Closing balance**
Deferred tax assets					
Tax loss carryforwards	**$ 47.9**	**$ 16.7**	**$ –**	**$ 1.0**	**$ 65.6**
Environmental rehabilitation obligations	**41.0**	**15.7**	**(0.2)**	**–**	**56.5**
Finance lease obligations	**27.3**	**8.5**	**–**	**–**	**35.8**
Pension and other benefit plans and reserves	**7.9**	**(0.2)**	**–**	**–**	**7.7**
Property, plant and equipment	**7.3**	**19.0**	**–**	**–**	**26.3**
MAV note impairment	**3.1**	**(3.1)**	**–**	**–**	**–**
Deferred financing costs	**–**	**5.1**	**–**	**(1.0)**	**4.1**
	134.5	**61.7**	**(0.2)**	**–**	**196.0**
Set off of deferred tax liabilities	**(133.1)**	**–**	**–**	**–**	**(193.2)**
Net deferred tax assets	**1.4**				**2.8**
Deferred tax liabilities					
Property, plant and equipment	**$ (329.2)**	**$ (48.4)**	**$ (0.8)**	**$ –**	**$ (378.4)**
Cuban tax contingency reserve	**(15.1)**	**(3.1)**	**(0.2)**	**–**	**(18.4)**
Foreign currency denominated loans	**(6.1)**	**0.7**	**–**	**–**	**(5.4)**
Pension and other benefit plans and reserves	**(4.3)**	**(0.8)**	**–**	**–**	**(5.1)**
Ambatovy call option	**(4.2)**	**0.4**	**–**	**–**	**(3.8)**
Deferred financing costs	**(2.1)**	**0.1**	**–**	**–**	**(2.0)**
Environmental rehabilitation obligation	**–**	**(3.9)**	**–**	**–**	**(3.9)**
Other	**(6.6)**	**(1.6)**	**(0.1)**	**–**	**(8.3)**
	(367.6)	**(56.6)**	**(1.1)**	**–**	**(425.3)**
Set off of deferred tax assets	**133.1**				**193.2**
Net deferred tax liabilities	**(234.5)**				**(232.1)**
Net deferred tax (liabilities) assets	**$ (233.1)**	**$ 5.1**	**$ (1.3)**	**$ –**	**$ (229.3)**

Canadian $ millions, for the year ended December 31, 2010	Opening balance	Recognized in net earnings	Recognized in other comprehensive income	Business acquisition	Closing balance
Deferred tax assets					
Tax loss carryforwards	$ 64.4	$ (17.8)	$ –	$ 1.3	$ 47.9
Environmental rehabilitation obligations	29.4	3.6	(0.4)	8.4	41.0
Finance lease obligations	23.0	0.7	–	3.6	27.3
Pension and other benefit plans and reserves	7.7	0.2	–	–	7.9
Property, plant and equipment	17.5	(10.8)	0.6	–	7.3
MAV note impairment	4.6	(1.5)	–	–	3.1
Deferred financing costs	0.7	(0.7)	–	–	–
Foreign currency denominated loans	–	–	–	–	–
Other	–	–	–	–	–
	147.3	(26.3)	0.2	13.3	134.5
Set off of deferred tax liabilities	(127.6)	–	–	–	(133.1)
Net deferred tax assets	19.7				1.4
Deferred tax liabilities					
Property, plant and equipment	$ (321.5)	$ 13.2	$ 2.3	$ (23.2)	$ (329.2)
Cuban tax contingency reserve	(3.4)	(12.0)	0.3	–	(15.1)
Foreign currency denominated loans	(3.9)	(2.2)	–	–	(6.1)
Pension and other benefit plans and reserves	(5.1)	0.7	0.2	(0.1)	(4.3)
Ambatovy call option	(4.3)	0.1	–	–	(4.2)
Deferred financing costs	(0.8)	(0.3)	(1.0)	–	(2.1)
Other	(7.4)	0.1	0.5	0.2	(6.6)
Environmental rehabilitation obligation	–	–	–	–	–
Finance lease obligations	–	–	–	–	–
	(346.4)	(0.4)	2.3	(23.1)	(367.6)
Set off of deferred tax assets	127.6	–	–	–	133.1
Net deferred tax liabilities	(218.8)				(234.5)
Net deferred tax (liabilities) assets	$ (199.1)	$ (26.7)	$ 2.5	$ (9.8)	$ (233.1)

As at December 31, 2011 the Corporation had temporary differences of $1,085.0 million (December 31, 2010 – $1,049.2 million) associated with investments in subsidiaries, associated entities and interests in joint ventures for which no deferred tax liabilities have been recognized, as the Corporation is able to control the timing of the reversal of these temporary differences and it is not probable that these temporary differences will reverse in the foreseeable future.

As at December 31, 2011, the Corporation had non-capital losses of $262.7 million (December 31, 2010 – $175.6 million) and capital losses of $140.8 million (December 31, 2010 – $119.9 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred income tax asset on $10.3 million of non-capital losses, $109.1 million of capital losses and $14.7 million of other deductible temporary differences since the realization of any related tax benefit through future taxable profits is not probable. The capital losses have no expiry dates and the other deductible temporary differences do not expire under current tax legislation. The non-capital losses are located in Canada and expire as follows:

Canadian $ millions, for the years ended December 31	Recognized losses	Unrecognized losses	Total
Expiration Date			
2014	$ 15.2	$ 0.1	$ 15.3
2015	20.9	0.1	21.0
2026	44.3	0.1	44.4
2027	18.7	2.0	20.7
2028	36.6	2.6	39.2
2029	32.8	1.0	33.8
2030	47.8	0.9	48.7
2031	36.1	3.5	39.6
Total	$ 252.4	$ 10.3	$ 262.7

The Corporation reviews all available positive and negative evidence to evaluate the recoverability of the deferred income tax assets associated with these losses and other deductible temporary differences. This includes a review of (i) the carry forward periods of the losses, (ii) the timing of future reversals of taxable temporary differences, (iii) projected taxable income in future years and (iv) prudent and feasible tax planning that could be implemented. Based on this review, the Corporation concluded that it is probable that the benefits of the deferred income tax assets associated with these losses and other deductible temporary differences for which such benefits have been recognized will be realized prior to their expiration.

NOTE 27 RELATED PARTY TRANSACTIONS

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly controlled entities and an associate at fair value. The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt and certain by-products produced by certain jointly controlled entities and an associate in the Metals business.

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated and are not disclosed in this note. A listing of the Corporation's subsidiaries is included in note 3, under principles of consolidation.

A description of the Corporation's interest in jointly controlled entities and an associate is included in notes 8 and 9, respectively.

Jointly controlled entities and associate

Canadian $ millions, for the years ended December 31	2011	2010
Total value of goods and services:		
Provided to jointly controlled entities	$ 105.9	$ 86.2
Provided to associate	4.4	4.0
Purchased from jointly controlled entities	40.4	37.1
Net financing income from jointly controlled entities	24.2	22.2

Canadian $ millions, as at	Note	2011 December 31	2010 December 31	2010 January 1
Accounts receivable from jointly controlled entities	28	$ 4.1	$ 5.5	$ 6.9
Accounts receivable from associate	28	22.1	11.9	5.8
Accounts payable to jointly controlled entities		–	0.3	1.4
Accounts payable to associate		0.3	–	0.3
Advances and loans receivable from associate	14	968.9	620.9	391.8
Advances and loans receivable from certain Moa Joint Venture entities	14	142.8	168.1	210.0
Loan receivable from Coal Valley Resources Inc.		–	–	5.0
Advances and loans receivable from Energas	14	166.9	134.1	144.8

All transactions between related parties are based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior year for bad debts in respect of amounts owed by related parties.

Key management personnel

The following is a summary of key management personnel compensation:

Canadian $ millions, for the years ended December 31	2011	2010
Short-term benefits	$ 11.3	$ 11.4
Post-employment benefits[1]	1.1	1.0
Share-based payments	3.7	4.4
	$ 16.1	$ 16.8

[1] Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was $0.9 million for the year ended December 31, 2011 ($0.6 million for the year ended December 31, 2011). The total pension expense that is attributable to key management personnel was $1.0 million for the year ended December 31, 2011 ($1.2 million for the year ended December 31, 2010).

Key management personnel is composed of the Board of Directors, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice Presidents of the Corporation.

NOTE 28 FINANCIAL INSTRUMENTS

Financial instrument hierarchy

Financial instruments measured at fair value have been ranked using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The following table identifies the hierarchy levels and values:

Canadian $ millions, as at	Note	Hierarchy level	**2011 December 31**	2010 December 31	2010 January 1
Financial assets:					
Held for trading, measured at fair value					
Cash equivalents		1	**$ 64.9**	$ 167.2	$ 102.9
Short-term investments		1	**456.8**	496.7	420.8
Ambatovy call option	14	3	**38.0**	34.5	34.8
Fair value option, measured at fair value					
MAV notes	13	3	–	39.3	28.8

The following assets have been ranked Level 1 as their market value is readily observable:

CASH EQUIVALENTS

Cash equivalents are liquid Canadian government treasury bills having original maturity dates of three months or less.

SHORT-TERM INVESTMENTS

Short-term investments are liquid Canadian government treasury bills having original maturity dates greater than three months but less than one year.

The following is a reconciliation of the beginning to ending balance for financial instruments included in Level 3:

Canadian $ millions, for the year ended December 31			**2011**
	MAV notes	**Ambatovy call option**	**Total**
Balance, beginning of the year	**$ 39.3**	**$ 34.5**	**$ 73.8**
Total gains in net earnings[1]	**0.5**	**2.7**	**3.2**
Effect of movements in exchange rates	**–**	**0.8**	**0.8**
Derecognition on sale	**(39.8)**	**–**	**(39.8)**
Balance, end of the year	**$ –**	**$ 38.0**	**$ 38.0**

Canadian $ millions, for the year ended December 31			2010
	MAV notes	Ambatovy call option	Total
Balance, beginning of the year	$ 28.8	$ 34.8	$ 63.6
Total gains in net earnings[1]	10.5	1.6	12.1
Effect of movements in exchange rates	–	(1.9)	(1.9)
Balance, end of the year	$ 39.3	$ 34.5	$ 73.8

[1] Gains are recognized in net financing expense (note 23).

MAV NOTES

In September 2011, the Corporation sold the MAV notes for proceeds of $39.8 million (note 13). The MAV notes were designated as fair value through profit or loss using the fair value option. In determining the fair value, the Corporation historically used credit spreads based on the current market bids available for A1, A2, B, C and Class 15 tracking and non-tracking notes.
The remaining notes held by the Corporation were not widely traded and the fair value was determined using discounted cash flows; the interest rate used was based on management's estimate of credit and other risk factors.

During the year ended December 31, 2011, the Corporation recognized an upward fair value adjustment of $0.5 million (upward fair value adjustment for the year ended December 31, 2010 – $10.5 million) in financing income on its MAV notes primarily due to a decrease in credit spreads.

AMBATOVY CALL OPTION

The fair value of the call option is determined by applying the Black-Scholes option pricing model. The Black-Scholes model requires several inputs: exercise price of the option; fair value of the Ambatovy Project; risk-free interest rate; estimated date that certain project milestones will be met; and volatility, which is based on a blend of historical commodity prices and the publicly traded stock prices of companies with comparable projects.

During the year ended December 31, 2011, the Corporation recognized an upward fair value adjustment of $2.7 million (upward fair value adjustment of $1.6 million for the year ended December 31, 2010) in financing income on the Ambatovy call option primarily due to an increase in estimated fair value of the Ambatovy Project.

Fair values

Financial instruments with carrying amounts different from their fair values include the following[1]:

Canadian $ millions, as at	**2011 December 31**		2010 December 31		2010 January 1	
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
7.875% senior unsecured debentures due 2012	**$ –**	**$ –**	$ 269.8	$ 289.9	$ 267.8	$ 279.2
8.25% senior unsecured debentures due 2014	**223.0**	**233.0**	222.4	244.1	221.8	231.3
7.75% senior unsecured debentures due 2015	**272.9**	**283.1**	272.4	294.3	272.0	278.2
8.00% senior unsecured debentures due 2018	**391.2**	**408.4**	–	–	–	–

(1) The carrying values are net of financing costs (note 17). Fair values exclude financing costs and are based on market closing prices.

At December 31, 2011, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of advances and loans receivable, current portion of other financial assets, current portion of finance lease receivables, current portion of loans and borrowings, current portion of other financial liabilities, trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The fair values of non-current loans and borrowings and other financial liabilities approximate their carrying amount. The fair value of a financial instrument on initial recognition is normally the transaction price, the fair value of the consideration given or received. The fair values of non-current advances and loans receivable and finance lease receivables are estimated based on discounted cash flows. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

At December 31, 2011, the carrying amount for the Cuban certificates of deposit is approximately equal to the fair value (note 13).

At December 31, 2011, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to the fair value (note 14).

Cash, cash equivalents and short-term investments

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was $14.8 million at December 31, 2011 (December 31, 2010 – $20.5 million).

As at December 31, 2011, $6.6 million of cash on the Corporation's consolidated statements of financial position was held by Energas and $30.0 million by the Moa Joint Venture (December 31, 2010 – $7.0 million and $34.3 million, respectively). These funds are for the use of each joint venture, respectively.

As at December 31, 2011, the Corporation had $521.7 million in Government of Canada treasury bills (December 31, 2010 – $663.9 million) included in cash and cash equivalents and short-term investments.

Trade accounts receivable

The Corporation's trade accounts receivable are composed of the following:

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Trade accounts receivable	**$ 345.0**	$ 287.9	$ 267.5
Allowance for doubtful accounts	**(0.1)**	(2.2)	(6.6)
Accounts receivable from jointly controlled entities	**4.1**	5.5	6.9
Accounts receivable from associate	**22.1**	11.9	5.8
Other	**15.4**	32.8	17.0
	$ 386.5	$ 335.9	$ 290.6

Of which are:

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Not past due	**$ 323.9**	$ 292.6	$ 271.1
Past due no more than 30 days	**33.2**	22.7	14.5
Past due for more than 30 days but no more than 60 days	**19.5**	10.3	2.4
Past due for more than 60 days	**10.0**	12.5	9.2
	$ 386.6	$ 338.1	$ 297.2

Current payment terms for oil sales to an agency of the Cuban government are based on West Texas Intermediate (WTI) reference prices. When the WTI price exceeds US$29.50, payment terms are 180 days from the date of invoice.

Payment terms for electricity and by-product sales to Cuban state enterprises are 60 days from the date of invoice.

NOTE 29 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

Risk management policies and hedging activities

The Corporation is sensitive to changes in commodity prices, foreign exchange and interest rates. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Although the Corporation has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification.

Credit risk

Sherritt's sales of nickel, cobalt, oil, gas, electricity and coal expose the Corporation to the risk of non-payment by customers. Sherritt manages this risk by monitoring the creditworthiness of its customers, covering some exposure through receivables insurance, documentary credit and seeking prepayment or other forms of payment security from customers with an unacceptable level of credit risk. In addition, there are certain credit risks that arise due to the fact that all sales of oil and electricity in Cuba are made to agencies of the Cuban government. Although Sherritt seeks to manage its credit risk exposure, there can be no assurance that the Corporation will be successful in eliminating the potential material adverse impacts of such risks.

The Corporation has credit risk exposure related to its share of cash, accounts receivable and advances and loans associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Cash	**$ 14.8**	$ 20.5	$ 22.7
Trade accounts receivable, net	**218.7**	165.8	157.2
Advances and loans receivable	**539.4**	550.0	664.6
Cuban certificates of deposit	**58.2**	82.4	112.6
Total	**$ 831.1**	$ 818.7	$ 957.1

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties which may differ from loan balances in the consolidated results due to eliminations in accordance with accounting principles for subsidiaries and joint ventures.

Liquidity risk

Liquidity risk arises from the Corporation's financial obligations and in the management of its assets, liabilities and capital structure. The Corporation manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, capital-expenditure requirements, scheduled repayments of long-term loans and borrowing obligations, credit capacity and debt and equity capital market conditions.

The Corporation's liquidity requirements are met through a variety of sources, including cash and cash equivalents, cash generated from operations, existing credit facilities, leases, and debt and equity capital markets.

At December 31, 2011, considering the Corporation's financial position and available credit facilities, the Corporation currently does not need to access public debt and equity capital markets for financing over the next 12 months. However, the Corporation may access these markets.

Based on management's assessment of its financial position and liquidity profile at December 31, 2011, the Corporation will be able to satisfy its current and long-term obligations as they come due.

In respect of the Ambatovy Joint Venture financing, Sherritt has a completion guarantee of US$840.0 million, all of which is cross-guaranteed or covered by letters of credit to be provided by its partners (note 14).

The agreements establishing certain jointly controlled entities require the unanimous consent of shareholders to pay dividends. It is not expected that this restriction will have a material impact on the ability of the Corporation to meet its obligations.

Financial obligation maturity analysis

The Corporation's significant contractual commitments, obligations, and interest and principal repayments on its financial liabilities are presented in the following table:

Canadian $ millions, as at December 31, 2011	Total	Falling due within 1 year	Falling due between 1–2 years	Falling due between 2–3 years	Falling due between 3–4 years	Falling due between 4–5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	**$ 179.8**	**$ 179.8**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Advances and loans payable	**153.1**	**15.2**	**12.6**	**11.1**	**10.3**	**14.9**	**89.0**
Income taxes payable	**25.9**	**25.9**	**–**	**–**	**–**	**–**	**–**
Loans and borrowings	**2,849.6**	**131.0**	**71.9**	**423.0**	**465.5**	**184.6**	**1,573.6**
Finance leases and other equipment financing	**168.4**	**55.8**	**43.3**	**28.0**	**25.9**	**15.4**	**–**
Environmental rehabilitation provision	**395.4**	**32.0**	**35.7**	**36.0**	**26.5**	**24.1**	**241.1**
Operating leases	**57.1**	**18.7**	**14.2**	**6.3**	**3.2**	**2.9**	**11.8**
Total	**$3,829.3**	**$ 458.4**	**$ 177.7**	**$ 504.4**	**$ 531.4**	**$ 241.9**	**$1,915.5**

Loans and borrowings is composed primarily of $887.1 million in three public issues of senior unsecured debentures having interest rates of between 7.75% and 8.25% and maturities in 2014, 2015 and 2018, and $708.5 million and $92.2 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of LIBOR plus a margin of 7.0% and 1.125%, respectively. These partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture (note 17). The amounts above are based on management's b s s m M n % a

Market risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including interest rates, foreign exchange rates, commodity prices and stock-based compensation costs.

FOREIGN EXCHANGE RISK

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is sensitive to foreign exchange exposure when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Corporation is also sensitive to foreign exchange risk arising from the translation of the subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

Based on financial instrument balances as at December 31, 2011, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $2.9 million, respectively, on net earnings, and $38.0 million on other comprehensive income.

COMMODITY PRICE RISK

The Corporation is exposed to fluctuations in certain commodity prices. Realized prices for finished products and for input commodities are the most significant factors affecting the Corporation's revenue and earnings. Revenue, earnings and cash flows from the sale of nickel, cobalt, oil and export-destined coal are sensitive to changes in market prices over which the Corporation has little or no control.

The Corporation has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but generally does not enter into such arrangements. Sherritt reduces the business-cycle risks inherent in its commodity operations through industry diversification.

The Corporation has certain provisional pricing agreements in Metals. These provisionally priced transactions are periodically adjusted to actual as prices are confirmed as the settlement occurs within a short period of time. In periods of volatile price movements, adjustments may be material.

INTEREST RATE RISK

The Corporation is exposed to interest rate risk based on its outstanding loans and borrowings and short-term and other investments. A change in interest rates could affect future cash flows or the fair value of financial instruments.

Based on the balance of short-term and long-term loans and borrowings, cash equivalents, short-term and long-term investments, and advances and loans receivable at December 31, 2011, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $2.2 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

STOCK-BASED COMPENSATION COST RISK

The Corporation is exposed to a financial risk related to stock-based compensation costs.

Potential fluctuations in the price of Sherritt's common shares would have an impact on the stock-based compensation expense. Based on balances at December 31, 2011, a strengthening or weakening of $1.00 in the price of the Corporation's common shares would have had an unfavourable or favourable impact of approximately $2.9 million on annual net earnings, respectively.

Capital risk management

In the definition of capital, the Corporation includes, as disclosed on its consolidated statements of financial position: retained earnings, capital stock and un-drawn credit facilities.

Canadian $ millions, as at	**2011 December 31**	2010 December 31	2010 January 1
Capital stock	**$ 2,803.1**	$ 2,787.3	$ 2,771.9
Retained earnings	**784.9**	632.5	530.7
Un-drawn credit facilities	**423.6**	408.6	439.2

The Corporation's objectives, when managing capital, are to maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations throughout the various resource cycles with sufficient capital and capacity to manage unforeseen operational and industry developments and to ensure the Corporation has the capital and capacity to allow for business growth opportunities and/or to support the growth of its existing businesses.

In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets or adjust the amount of cash and short-term investment balances.

Certain of the Corporation's credit facilities, loans and debentures have financial tests and other covenants with which the Corporation and its affiliates must comply. Non-compliance with such covenants could result in accelerated repayment of the related debt or credit facilities and reclassification of the amounts to current. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

The Corporation and its divisions were in compliance with all of their financial covenants as at December 31, 2011. The Corporation is not subject to any externally imposed capital restrictions.

NOTE 30 SEGMENTED INFORMATION

Business segments

Canadian $ millions, for the year ended December 31						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 550.4	$ 1,050.5	$ 304.9	$ 60.0	$ 12.5	$ 1,978.3
Cost of sales	366.2	930.0	123.8	44.6	17.1	1,481.7
Gross profit (loss)	184.2	120.5	181.1	15.4	(4.6)	496.6
Administrative expenses	14.4	16.0	11.1	0.9	40.0	82.4
Operating profit (loss)	169.8	104.5	170.0	14.5	(44.6)	414.2
Share of loss of associate	(3.5)	–	–	–	–	(3.5)
Earnings (loss) from operations and associate	166.3	104.5	170.0	14.5	(44.6)	410.7
Financing income	(2.9)	(18.5)	(7.1)	(2.3)	(16.7)	(47.5)
Financing expense	71.1	16.0	14.5	(15.7)	84.6	170.5
Net finance expense (income)	68.2	(2.5)	7.4	(18.0)	67.9	123.0
Earnings (loss) before tax	98.1	107.0	162.6	32.5	(112.5)	287.7
Income tax expense (recovery)	31.4	11.7	57.0	1.1	(12.0)	89.2
Net earnings (loss) from continuing operations	$ 66.7	$ 95.3	$ 105.6	$ 31.4	$ (100.5)	$ 198.5
Loss from discontinued operation	–	–	–	–	1.2	1.2
Net earnings (loss) for the year	$ 66.7	$ 95.3	$ 105.6	$ 31.4	$ (101.7)	$ 197.3
Supplementary information						
Depletion, depreciation and amortization	$ 30.6	$ 119.7	$ 61.1	$ 10.6	$ 2.2	$ 224.2
Property, plant and equipment expenditures	37.2	22.3	59.3	2.7	0.8	122.3
Intangible asset expenditures	–	–	3.7	3.0	–	6.7

Canadian $ millions, as at December 31						2011
Non-current assets[1]	$ 666.7	$ 1,432.9	$ 234.9	$ 173.1	$ 16.9	$ 2,524.5
Total assets	$ 2,926.1	$ 1,937.2	$ 919.0	$ 436.5	$ 278.7	$ 6,497.5

Canadian $ millions, for the year ended December 31						2010
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 529.0	$ 846.3	$ 238.2	$ 47.0	$ 10.1	$ 1,670.6
Cost of sales	325.2	766.3	125.4	25.9	7.4	1,250.2
Gross profit	203.8	80.0	112.8	21.1	2.7	420.4
Administrative expenses	13.2	14.4	11.6	2.4	46.1	87.7
Operating profit (loss)	190.6	65.6	101.2	18.7	(43.4)	332.7
Share of loss of associate	(5.6)	–	–	–	–	(5.6)
Gain on acquisition of CVP	–	15.6	–	–	–	15.6
Earnings (loss) from operations and associate	185.0	81.2	101.2	18.7	(43.4)	342.7
Financing income	(1.8)	(18.1)	(10.1)	(3.1)	(27.0)	(60.1)
Financing expense	64.2	14.6	(11.0)	(3.7)	77.5	141.6
Net finance expense (income)	62.4	(3.5)	(21.1)	(6.8)	50.5	81.5
Earnings (loss) before tax	122.6	84.7	122.3	25.5	(93.9)	261.2
Income tax expense (recovery)	55.0	(8.7)	52.4	2.7	0.3	101.7
Net earnings (loss) from continuing operations	$ 67.6	$ 93.4	$ 69.9	$ 22.8	$ (94.2)	$ 159.5
Loss from discontinued operation	–	–	–	–	14.7	14.7
Net earnings (loss) for the year	$ 67.6	$ 93.4	$ 69.9	$ 22.8	$ (108.9)	$ 144.8
Supplementary information						
Depletion, depreciation and amortization	$ 31.2	$ 94.3	$ 66.8	$ 11.0	$ 1.0	$ 204.3
Property, plant and equipment expenditures	47.5	38.0	51.7	2.7	1.4	141.3
Intangible asset expenditures	–	–	2.9	2.1	–	5.0

Canadian $ millions, as at December 31						2010
Non-current assets[(1)]	$ 607.6	$ 1,427.1	$ 233.1	$ 155.0	$ 18.7	$ 2,441.5
Total assets	$ 2,413.0	$ 1,891.4	$ 782.0	$ 392.9	$ 588.9	$ 6,068.2

(1) Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

Geographic segments

The Corporation carries on business in the following geographic areas:

Canadian $ millions, as at	2011 December 31		2010 December 31	
	Non-current assets[1]	**Total assets**	Non-current assets[1]	Total assets
Canada	**$ 1,735.9**	**$ 3,058.4**	$ 1,691.1	$ 3,190.1
Cuba	**765.6**	**1,281.1**	728.5	1,206.8
Madagascar	**12.9**	**2,052.2**	15.6	1,577.8
Europe	**8.6**	**24.5**	5.9	18.1
Asia	**1.5**	**2.2**	0.3	0.7
Other	**–**	**79.1**	0.1	74.7
	$ 2,524.5	**$ 6,497.5**	$ 2,441.5	$ 6,068.2

[1] Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

Canadian $ millions, for the years ended December 31	2011	2010
	Total revenue	Total revenue
Canada	**$ 705.3**	$ 651.9
Cuba	**344.5**	266.1
Madagascar	**10.0**	9.4
Europe	**280.4**	237.1
Asia	**480.3**	376.4
Other	**157.8**	129.7
	$ 1,978.3	$ 1,670.6

For its geographic segments, the Corporation has allocated assets based on their physical location and revenue based on the location of the customer.

Revenue segments

Revenue includes the following significant categories:

Canadian $ millions, for the years ended December 31	2011	2010
Commodity and electricity	**$ 1,845.6**	$ 1,551.0
Royalty	**59.2**	57.7
Other	**73.5**	61.9
	$ 1,978.3	$ 1,670.6

Significant customers

In Coal's Prairie Operations, one customer located in Canada accounted for $198.0 million of revenue for the year ended December 31, 2011 ($180.3 million for the year ended December 31, 2010).

Oil and Gas derived $287.1 million of its revenue for the year ended December 31, 2011 ($223.3 million for the year ended December 31, 2010) directly and indirectly from agencies of the Government of Cuba.

NOTE 31 TRANSITION TO IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the amount of cash the Corporation generates, it has resulted in significant changes to the Corporation's consolidated financial statements.

The accounting policies described in note 3 have been applied in preparing these consolidated financial statements for the year ended December 31, 2011 as well as the comparative information presented in the consolidated financial statement for the year ended December 31, 2010 and the opening IFRS consolidated statement of financial position at January 1, 2010.

The most significant difference from Canadian GAAP is the change in the method of accounting for the Corporation's investments in the Ambatovy Joint Venture and Energas. Under Canadian GAAP, these entities are considered investments in variable interest entities as defined by Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15) and are fully consolidated with non-controlling interest in the net assets reported separately. Under IFRS, Ambatovy Joint Venture and Energas do not meet the criteria to be fully consolidated under IAS 27 "Consolidated and Separate Financial Statements". Ambatovy is an investment in an associate and is accounted for using the equity method of accounting; and Energas is a jointly controlled entity and accounted for using proportionate consolidation. Given the magnitude of the adjustments resulting from deconsolidating these entities, the impact on the consolidated statements of financial position has been included in a separate column in the various reconciliations of the consolidated financial statements from Canadian GAAP to IFRS.

In order for users of the consolidated financial statements to better understand all of these changes, the Corporation's consolidated Canadian GAAP balance sheet, statements of operations and statements of cash flow have been reconciled to consolidated financial statements prepared under IFRS. The following reconciliations have been provided:

(i) Reconciliation of consolidated statements of financial position as at:
- → January 1, 2010; and
- → December 31, 2010.

(ii) Reconciliation of the change in consolidated shareholders' equity as at:
- → January 1, 2010; and
- → December 31, 2010.

(iii) Reconciliation of consolidated statement of comprehensive income for:
- → The year ended December 31, 2010.

(iv) Reconciliation of consolidated statement of cash flow for:
- → The year ended December 31, 2010.

TRANSITION DATE STATEMENTS

January 1, 2010 Statements

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010

(Canadian $ millions) Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27) (m)	IFRS adjust-ments (Other)	IFRS reclassi-fications (j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 449.8	$ (276.1)	$ (9.0)	$ –	$ 164.7	Cash and cash equivalents
Restricted cash		1.8	–	–	–	1.8	Restricted cash
Short-term investments		420.8	–	–	–	420.8	Short-term investments
Current portion of long-term investments		40.5	(5.9)	–	–	34.6	Investments
Current portion of other assets		66.0	18.5	4.5	(0.2)	88.8	Advances, loans receivable and other financial assets
					0.2	0.2	Other non-financial assets
	(h)	–	–	19.9	–	19.9	Finance lease receivables
Accounts receivable, net	(f)(k)	320.7	(31.6)	1.5	–	290.6	Trade accounts receivable, net
		–	–	–	21.2	21.2	Income taxes receivable
Inventories	(k)	168.7	(12.4)	16.0	–	172.3	Inventories
Prepaid expenses		11.5	(0.9)	0.3	–	10.9	Prepaid expenses
Future income taxes		29.1	–	(7.7)	(21.4)	–	
Assets of discontinued operation		3.1	–	(3.1)	–	–	
		1,512.0	(308.4)	22.4	(0.2)	1,225.8	
							Non-current assets
	(b)(k)	–	88.7	418.6	240.4	747.7	Advances, loans receivable and other financial assets
		–	(0.3)	(2.4)	45.1	42.4	Other non-financial assets
	(h)	–	–	202.8	–	202.8	Finance lease receivables
Long-term receivables		21.2	–	–	(21.2)	–	
Property, plant and equipment	(a)(d)(e)(h)(i)(k)(l)(n)	7,162.9	(5,306.6)	(597.5)	10.8	1,269.6	Property, plant and equipment
Investments		125.8	(13.3)	–	–	112.5	Investments
	(k)	–	1,364.8	(371.8)	–	993.0	Investment in an associate
Other assets	(b)(i)(k)(o)	285.5	–	–	(285.5)	–	
Goodwill		307.9	–	–	–	307.9	Goodwill
Intangible assets	(e)(i)	483.4	(3.4)	333.9	(10.8)	803.1	Intangible assets
Future income taxes	(d)(f)	8.3	–	3.0	8.4	19.7	Deferred income taxes
Assets of discontinued operation		1.4	–	(1.4)	–	–	
		$ 9,908.4	$ (4,178.5)	$ 7.6	$ (13.0)	$ 5,724.5	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current liabilities							**Current liabilities**
		–	–	–	34.4	34.4	Loans and borrowings
Accounts payable and accrued liabilities	(f)	359.9	(197.4)	8.0	(10.0)	160.5	Trade accounts payable and accrued liabilities
Income taxes payable		10.8	(1.1)	–	–	9.7	Income taxes payable
Deferred revenue		2.0	–	–	(2.0)	–	
		–	–	–	52.8	52.8	Other financial liabilities
		–	–	–	1.2	1.2	Other non-financial liabilities
Current portion of long-term debt and other long-term liabilities		77.4	–	–	(77.4)	–	
Current portion of asset-retirement obligations		24.1	–	–	–	24.1	Environmental rehabilitation provisions
Future income taxes		0.8	–	–	(0.8)	–	
Liabilities of discontinued operation		9.7	–	(9.7)	–	–	
		484.7	(198.5)	(1.7)	(1.8)	282.7	
							Non-current liabilities
Long-term debt and other long-term liabilities		3,167.7	(1,616.7)	(0.1)	(208.1)	1,342.8	Loans and borrowings
	(b)	–	–	–	196.9	196.9	Other financial liabilities
		–	–	10.0	12.2	22.2	Other non-financial liabilities
Asset-retirement obligations	(d)	137.0	(24.6)	27.6	–	140.0	Environmental rehabilitation provisions
Future income taxes	(b)(d)(f)(h)(l)(n)(o)	552.5	(312.7)	(8.8)	(12.2)	218.8	Deferred income taxes
Liabilities of discontinued operation		1.3	–	(1.3)	–	–	
		4,343.2	(2,152.5)	25.7	(13.0)	2,203.4	
Non-controlling interests		2,110.8	(2,110.8)	–	–	–	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,771.9	–	–	–	2,771.9	Capital stock
Retained earnings	(a)(b)(c)(d)(f)(h)(k)(l)(n)(o)	549.3	96.5	(115.1)	–	530.7	Retained earnings
Contributed surplus	(f)	218.1	–	0.4	–	218.5	Reserves
Accumulated other comprehensive loss	(c)(k)	(84.9)	(11.7)	96.6	–	–	Accumulated other foreign currency translation reserve
		3,454.4	84.8	(18.1)	–	3,521.1	
		$ 9,908.4	$ (4,178.5)	$ 7.6	$ (13.0)	$ 5,724.5	

RECONCILIATION OF CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT JANUARY 1, 2010

Canadian $ millions, as at	Reference	2010 January 1
Shareholders' equity under Canadian GAAP		$ 3,454.4
Share-based payments	(f)	(4.2)
Income taxes		(7.5)
Property, plant and equipment	(a)	14.8
Employee benefits	(b)	(9.2)
The effects of changes in foreign exchange rate	(c)(k)	(4.6)
Borrowing costs	(l)	(32.0)
Change in accounting for Ambatovy Joint Venture and Energas	(m)	84.8
Impairment of assets	(n)	9.4
Provisions, contingent liabilities and contingent assets	(d)	(11.2)
Lease arrangements	(h)	1.6
Financial instruments	(o)	24.8
Total shareholders' equity under IFRS		$ 3,521.1

December 31, 2010 Statements

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

(Canadian $ millions) Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27) (m)	IFRS adjust-ments (Other)	IFRS reclassi-fications (j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 330.8	$ (67.7)	$ –	$ –	$ 263.1	Cash and cash equivalents
Restricted cash		1.1	–	–	–	1.1	Restricted cash
Short-term investments		496.7	–	–	–	496.7	Short-term investments
Current portion of long-term investments		36.0	(5.2)	–	–	30.8	Investments
Current portion of other assets		63.1	16.1	4.5	(0.1)	83.6	Advances, loans receivable and other financial assets
		–	–	–	0.2	0.2	Other non-financial assets
	(h)	–	–	19.9	–	19.9	Finance lease receivables
Accounts receivable, net	(f)(k)	361.5	(25.7)	1.8	(1.7)	335.9	Trade accounts receivable, net
		–	–	–	25.6	25.6	Income taxes receivable
Inventories	(k)	195.0	(18.9)	13.7	0.8	190.6	Inventories
Prepaid expenses	(k)	11.1	(0.7)	(0.1)	–	10.3	Prepaid expenses
Future income taxes		21.4	–	(8.8)	(12.6)	–	
Assets of discontinued operation		0.2	–	–	(0.2)	–	
		1,516.9	(102.1)	31.0	12.0	1,457.8	
							Non-current assets
	(b)(k)	–	97.7	655.1	159.6	912.4	Advances, loans receivable and other financial assets
		–	(0.2)	(2.1)	30.5	28.2	Other non-financial assets
	(h)	–	–	196.7	–	196.7	Finance lease receivables
Long-term receivables		23.9	–	–	(23.9)	–	
Property, plant and equipment	(a)(d)(e)(g)(h)(i)(k)(l)(n)	8,099.2	(6,150.7)	(618.8)	11.0	1,340.7	Property, plant and equipment
Investments		105.3	(8.8)	–	–	96.5	Investments
	(k)	–	1,539.9	(607.9)	–	932.0	Investment in an associate
Other assets	(b)(i)(k)(o)	190.2	–	–	(190.2)	–	
Goodwill		307.9	–	–	–	307.9	Goodwill
Intangibles assets	(e)(g)(i)	476.6	(3.5)	330.6	(10.8)	792.9	Intangible assets
Future income taxes	(d)(f)(g)	–	–	4.4	(3.0)	1.4	Deferred income taxes
Assets of discontinued operation		1.5	–	–	0.2	1.7	Assets of discontinued operation
		$10,721.5	$ (4,627.7)	$ (11.0)	$ (14.6)	$ 6,068.2	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current liabilities							**Current liabilities**
Short-term debt		–	–	–	33.1	33.1	Loans and borrowings
Accounts payable and accrued liabilities	(f)	384.3	(207.7)	8.6	(15.8)	169.4	Trade accounts payable and accrued liabilities
Income taxes payable		63.5	(37.5)	–	–	26.0	Income taxes payable
Deferred revenue		23.5	–	–	(23.5)	–	
		–	–	0.3	67.4	67.7	Other financial liabilities
		–	–	–	23.5	23.5	Other non-financial liabilities
Current portion of long-term debt and other long-term liabilities		86.3	–	0.1	(86.4)	–	
Current portion of asset-retirement obligations		25.5	–	–	–	25.5	Environmental rehabilitation provisions
Liabilities of discontinued operation		19.5	–	–	(19.5)	–	
		602.6	(245.2)	9.0	(21.2)	345.2	
							Non-current liabilities
Long-term debt and other long-term liabilities		3,500.7	(1,767.0)	–	(203.2)	1,530.5	Loans and borrowings
	(b)(g)	–	–	8.0	183.1	191.1	Other financial liabilities
				8.5	9.1	17.6	Other non-financial liabilities
		–	–	–	13.7	13.7	Intangible liability
Asset-retirement obligations	(d)(g)	180.8	(32.6)	34.6	–	182.8	Environmental rehabilitation provisions
Future income taxes	(b)(d)(f)(g)(h)(l)(n)(o)	554.8	(300.3)	(4.4)	(15.6)	234.5	Deferred income taxes
Liabilities of discontinued operation		4.7	–	0.3	19.5	24.5	Liabilities of discontinued operation
		4,843.6	(2,345.1)	56.0	(14.6)	2,539.9	
Non-controlling interest		2,367.7	(2,367.7)	–	–	–	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,787.3	–	–	–	2,787.3	Capital stock
Retained earnings	(a)(b)(c)(d)(f)(g)(h)(i)(k)(l)(m)(n)(o)	720.3	96.5	(184.3)	–	632.5	Retained earnings
Contributed surplus	(f)	205.0	–	1.6	–	206.6	Reserves
Accumulated other comprehensive income (loss)	(c)(k)	(202.4)	(11.4)	115.7	–	(98.1)	Accumulated other foreign currency translation reserve
		3,510.2	85.1	(67.0)	–	3,528.3	
		$10,721.5	$ (4,627.7)	$ (11.0)	$ (14.6)	$ 6,068.2	

RECONCILIATION OF CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT DECEMBER 31, 2010

Canadian $ millions, as at	Reference	2010 December 31
Shareholders' equity under Canadian GAAP		$ 3,510.2
Share-based payments	(f)	(6.1)
Income taxes		(8.8)
Property, plant and equipment	(a)	14.4
Employee benefits	(b)	(8.2)
The effects of changes in foreign exchange rate	(c)(k)	(15.3)
Borrowing costs	(l)	(82.5)
Change in accounting for Ambatovy Joint Venture and Energas	(m)	85.1
Impairment of assets	(n)	10.1
Provisions, contingent liabilities and contingent assets	(d)	(11.8)
Business combinations	(g)	13.2
Service concession arrangements	(i)	0.8
Lease arrangements	(h)	2.6
Financial instruments	(o)	24.6
Total shareholders' equity under IFRS		$ 3,528.3

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

(Canadian $ millions) Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27) (m)	IFRS adjust-ments (Other)	IFRS reclassi-fications (j)	IFRS balance	IFRS accounts
Revenue	(h)(i)	$ 1,771.1	$ (68.7)	$ (33.8)	$ 2.0	$ 1,670.6	**Revenue**
Operating, selling, general and administrative expenses	(g)(h)(i)(k)	1,234.4	(45.9)	(16.4)	78.1	1,250.2	Cost of sales
			(22.8)	(17.4)	(76.1)	420.4	**Gross profit**
	(f)(g)(k)		(2.1)	4.9	84.9	87.7	Administrative expenses
			(20.7)	(22.3)	(161.0)	332.7	**Operating profit**
			(5.6)	–	–	(5.6)	Share of loss of an associate, net of tax
			–	15.6	–	15.6	Gain on acquisition of Coal Valley Partnership
Earnings before undernoted items		536.7	(26.3)	(6.7)	(161.0)	342.7	**Earnings from operations and associate**
Depletion, amortization and accretion		162.6	–	–	(162.6)	–	
Impairment of property, plant and equipment		7.9	–	–	(7.9)	–	
Net financing expense		15.8	(1.0)	–	(14.8)	–	
	(h)(o)		3.9	(18.5)	(45.5)	(60.1)	Financing income
	(g)(k)(l)(o)		(10.9)	82.7	69.8	141.6	Financing expense
			(7.0)	64.2	24.3	81.5	**Net finance expense**
Earnings from operations before income taxes and non-controlling interests		350.4	(18.3)	(70.9)	–	261.2	**Earnings before tax**
Non-controlling interests		11.4	(11.4)	–	–	–	
Income taxes	(f)(g)(h)(l)(o)	110.6	(6.9)	(2.0)	–	101.7	Income tax expense
Earnings from continuing operations		228.4	–	(68.9)	–	159.5	**Earnings from continuing operations**
Loss from discontinued operation		14.4	–	0.3	–	14.7	Loss from discontinued operation, net of tax
Net earnings		$ 214.0	$ –	$ (69.2)	$ –	$ 144.8	**Net earnings for the year**
Other comprehensive loss							
Unrealized foreign currency loss on self-sustaining foreign operations	(k)	(117.5)	0.3	19.1	–	(98.1)	Foreign currency translation differences on foreign operations
Comprehensive income		$ 96.5	$ 0.3	$ (50.1)	$ –	$ 46.7	**Comprehensive income**
Earnings from continuing operations per common share							**Earnings from continuing operations per common share**
Basic		$ 0.78				$ 0.54	Basic
Diluted		$ 0.77				$ 0.54	Diluted
Net earnings per share							**Net earnings per common share**
Basic		$ 0.73				$ 0.49	Basic
Diluted		$ 0.72				$ 0.49	Diluted

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Impact of applying IFRS 1 – First-time Adoption of IFRS

IFRS 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1) provides guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at January 1, 2010 with adjustments to assets and liabilities taken to retained earnings unless certain mandatory exceptions and optional exemptions are applied.

Mandatory exceptions

The mandatory exceptions applicable to the Corporation include the following:

(i) Estimates

In accordance with IFRS 1, hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies between Canadian GAAP and IFRS.

(ii) Asset and liabilities of subsidiaries, associates and joint ventures

If a parent adopts IFRS after a subsidiary, associate or joint venture, the exemptions otherwise available to it to revalue assets and liabilities are not permitted. The Ambatovy Joint Venture has reported under IFRS since its inception, which was previous to the Corporation acquiring an interest in this investment in an associate. This mandatory exception did not have an impact on the Corporation as there were no accounting policy differences that were identified between the Ambatovy Joint Venture and the Corporation.

Optional exemptions

In addition to the mandatory exceptions, the Corporation has applied some exemptions available to it under IFRS at the Transition Date to its January 1, 2010 consolidated statement of financial position. Note that only material adjustments are discussed qualitatively below and that a reader may not be able to directly tie numbers with a specific letter reference to the various reconciliations of the consolidated financial statements on the preceding pages. Also note that the impact at January 1, 2010, is the same as December 31, 2010 for the exemptions described below:

IFRS 2 – SHARE-BASED PAYMENT

IFRS 1 encourages, but does not require, first time adopters to apply IFRS 2, "Share-based Payment" (IFRS 2), to equity and liability instruments that were granted on or before November 7, 2002, or equity and liability instruments that were granted subsequent to November 7, 2002 and vested or were settled before the Transition Date. The Corporation has elected not to apply IFRS 2 for awards that vested or were settled prior to January 1, 2010.

The transition rules in IFRS 1 and IFRS 2 applied by the Corporation resulted in the following:

- Share-based payments granted prior to November 7, 2002 are exempt from the application of IFRS 2 as a result of applying the IFRS 1 exemption;
- Share-based payments granted subsequent to November 7, 2002 are impacted if they have not vested or remain unsettled as at January 1, 2010; and
- At January 1, 2010, and on a prospective basis, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 3.

IFRS 3 – BUSINESS COMBINATIONS

IFRS 1 provides an exemption not to apply IFRS 3, "Business Combinations" (IFRS 3), retrospectively to business combinations that occurred before the Transition Date. The Corporation has elected not to restate any business combinations that occurred prior to its Transition Date. Additionally, goodwill arising on business combinations occurring before the Transition Date has not been adjusted from the carrying amount previously determined under Canadian GAAP as a result of applying this exemption.

IFRS 6 – EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

IFRS 1 provides an exemption from retrospectively applying the full cost method of accounting for Oil and Gas assets in accordance with IFRS 6, "Exploration for and Evaluation of Mineral Resources" (IFRS 6).

The Corporation has applied this exemption that permits the following capitalization measurement basis to be retained for E&E costs incurred prior to the Transition Date:

→ Capitalized amounts for E&E assets determined under Canadian GAAP; and

→ Capitalized development and production assets determined for the cost centre under Canadian GAAP and the allocation of this amount to the respective assets based on reserve volumes.

IFRIC 4 – DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

IFRS 1 permits first time adopters to determine whether an arrangement contains a lease on the basis of facts and circumstances existing at the Transition Date, rather than the date when the arrangement was entered into or amended. The Corporation has elected to apply this exemption and has assessed its agreements based on the facts and circumstances existing at the Transition Date.

An additional exemption is provided to a first time adopter that, under its previous GAAP, has already made an assessment as to whether an arrangement contains a lease, provided their previous conclusion is consistent with the criteria within IAS 17, and IFRS Interpretations Committee Interpretation 4 (IFRIC 4). Conclusions made under Emerging Issues Abstract 150, “Determining Whether an Arrangement Contains a Lease” (EIC 150), are eligible for this exemption, however EIC 150 did not apply to arrangements entered into or modified before 2005. The Corporation assessed all arrangements that were previously “grandfathered” by EIC 150 under IFRIC 4.

IFRIC 12 – SERVICE CONCESSION ARRANGEMENTS

IFRS 1 permits first time adopters to apply the transitional provisions in IFRIC 12. The Corporation has elected to apply this exemption and has used the previous carrying amounts of plant and equipment that were subject to IFRIC 12, as the carrying amount of the intangible asset subject to the service concession arrangement at the Transition Date.

IFRIC 18 – TRANSFERS OF ASSETS FROM CUSTOMERS

An entity may receive equipment or other assets from its customers to be used to provide goods or services to these customers. Coal has been provided with certain mining equipment from customers as part of the coal supply agreements at various mines. The mining equipment is then used to deliver coal to these customers. IFRS 1 provides an exemption not to apply IFRIC 18 to transfers of assets that occurred before the Transition Date. The Corporation has applied this exemption to all transfers of assets that occurred before the Transition Date.

IAS 16 – PROPERTY, PLANT AND EQUIPMENT (A)

At the Transition Date, an entity may elect to measure an item of property, plant and equipment, including E&E costs, at its fair value and use that fair value as its deemed cost at that date. It may also elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as the item’s deemed cost if it is comparable to fair value or reflects the cost or depreciated cost under IFRS. This exemption is available on an item-by-item basis and need not be applied to an entire class of assets. The Corporation has applied this exemption to certain equipment that was valued by an independent valuator.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at January 1		2010
Consolidated statement of financial position		
Increase in property, plant and equipment	$	12.3
Increase to retained earnings	$	(12.3)

IAS 19 – EMPLOYEE BENEFITS (B)

IFRS 1 provides the option under IAS 19, “Employee Benefits” (IAS 19), to retrospectively measure net defined benefit plans assets or liabilities as determined under IAS 19 or to recognize cumulative actuarial gains and losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Corporation has elected to recognize all cumulative actuarial losses that existed at the Transition Date in opening retained earnings for all of its employee benefit plans.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at January 1		2010
Consolidated statement of financial position		
Decrease in other non-financial assets	$	(2.4)
Increase in other non-financial liabilities (non-current)		(10.0)
Decrease in deferred income tax liability (non-current)		3.2
Decrease to retained earnings	$	9.2

IAS 21 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (C)

IFRS 1 provides an exemption to not apply the guidance of IAS 21, "The Effects of Changes in Foreign Exchange Rates" (IAS 21), retrospectively for cumulative translation differences relating to foreign operations that existed at the Transition Date. Retrospective application of IAS 21 would require the Corporation to determine cumulative currency translation differences from the date a subsidiary or other investee was formed or acquired. The Corporation has elected to apply the exemption under IFRS 1 and reset all cumulative translation gains and losses to zero at its Transition Date. This election is only permitted upon transition to IFRS. For the entities already reporting at the entity level under IFRS, this election is not available, except for any cumulative translation differences that would be created as a result of consolidation at the corporate level.

The accumulated other comprehensive loss was $84.9 million under Canadian GAAP at January 1, 2010. The net adjustment made under the IFRS 1 exemption at January 1, 2010, totalled $96.6 million.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at January 1		2010
Consolidated statement of financial position		
Increase in accumulated other comprehensive income	$	(96.6)
Decrease to retained earnings	$	96.6

The above adjustment to accumulated other comprehensive loss includes the following:

- The change in the method of accounting for the Corporation's investment in the Ambatovy Joint Venture. See IAS 21 – The Effect of Changes in Foreign Exchange Rates (k), and IAS 27, IAS 28 and IAS 31 – Accounting for Investments in Joint Ventures (m);
- The change in the method of accounting for the Corporation's investment in Energas on adoption of IFRS, and a change in the functional currency of Energas. See IAS 21 – The Effect of Changes in Foreign Exchange Rates (k);
- Any remaining cumulative translation difference balance was reset to zero through the application of the IFRS 1 exemption.

IAS 23 – BORROWING COSTS

IFRS 1 provides that where an application of IAS 23, "Borrowing Costs" (IAS 23), constitutes a change in accounting policy, an entity shall apply the standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the Transition Date. An exemption under this standard permits prospective treatment of borrowing costs on such qualifying assets. The Corporation has chosen to apply the exemption for qualifying assets. In applying this exemption, other than the impact of applying IAS 27, IAS 28 and IAS 31 (as described below), there was no change to the opening consolidated statements of financial position at the Transition Date.

IAS 37 – PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS – CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITIES INCLUDED IN THE COST OF PROPERTY, PLANT AND EQUIPMENT (D)

IFRIC 1, Changes in Existing Decommission, Restoration and Similar Liabilities, requires specified changes in a decommissioning, restoration or a similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. IFRS 1 allows a first-time adopter to elect not to comply with the requirements of IFRIC 1 for changes that occurred in such rehabilitation obligations before the date of transition to IFRS.

In order to meet this requirement, the Corporation has elected to apply this exemption to certain environmental rehabilitation provisions by measuring the liability at the date of transition to IFRS in accordance with IAS 37, "Provisions, Contingent Liabilities, and Contingent Assets". To do this, the Corporation estimated the amount to be included in the cost of the related

asset when the liability first arose by discounting the liability back to that date using the weighted-average historical risk-adjusted discount rate for the intervening period and then calculated the accumulated depreciation on that amount, as at the Transition Date, on the basis of the estimated useful life under IFRS.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at January 1		2010
Consolidated statement of financial position		
Increase in property, plant and equipment	$	10.7
Increase in environmental rehabilitation and other provisions (non-current)		(26.3)
Increase in deferred income tax assets (non-current)		3.0
Decrease in deferred income tax liability (non-current)		1.9
Decrease to retained earnings	$	10.7

IAS 38 – INTANGIBLE ASSETS (E)

IFRS 1 permits first time adopters to elect to use the fair value of an intangible asset at the date of an event such as privatization or initial public offering as its deemed cost at the date of the event provided that the intangible asset qualifies for recognition in accordance with IAS 38. As a result, certain amounts related to fair value increases that were applied to Property, plant and equipment on the Corporation's acquisition of the remaining units of Royal Utilities it did not already own on May 2, 2008, were reclassified from Property, plant and equipment to Intangible assets.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at January 1		2010
Consolidated statement of financial position		
Decrease in property, plant and equipment	$	(252.8)
Increase in intangible assets		252.8
(Increase) decrease to retained earnings	$	–

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39) indicates an exemption to classify financial instruments as fair value through profit and loss (FVTPL) is available for all financial assets and liabilities that have a reliably measurable fair value and are designated as FVTPL upon initial recognition. Recognition as FVTPL results in all changes in fair value being recorded through the statement of comprehensive income (loss). The Corporation elected to designate the MAV notes as FVTPL.

Impact of adoption of IFRS accounting policies

The following provides a summary of the most significant changes in policy resulting in differences in transitioning the consolidated financial statements from Canadian GAAP to IFRS. Note that only material adjustments are discussed qualitatively below and that a reader may not be able to directly tie respective adjustments with a specific letter reference to the various reconciliations of the consolidated financial statements on the preceding pages.

IFRS 2 – SHARE-BASED PAYMENTS (F)

FORFEITURES

Canadian GAAP – Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required at the time the award is granted of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Corporation adjusted its expense to reflect this difference.

CASH-SETTLED SHARE-BASED PAYMENTS (RSUS, DSUS, OPTIONS WITH TANDEM SARS, SARS)

Canadian GAAP – A liability is accrued based upon the intrinsic value of the award with changes recognized in the consolidated statement of comprehensive income (loss) each period as the awards vest. Options with Tandem SARs and SARs are accrued to the extent they have appreciated above the grant price.

IFRS – The liability for options with tandem SARs and SARs is measured at fair value at the grant date by applying the Black-Scholes option pricing model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date with changes in fair value recognized in the consolidated statements of comprehensive income (loss) over the remaining vesting period. Changes in fair value of awards that have vested are immediately recognized in the consolidated statements of comprehensive income (loss). The determination of the liability and expense for RSUs and DSUs is unchanged from Canadian GAAP, except to estimate forfeitures for RSUs.

EQUITY-SETTLED SHARE-BASED PAYMENTS (EQUITY-SETTLED OPTIONS, RSPS AND SHARES ISSUED UNDER THE SHARE PURCHASE PLAN)

At the Transition Date, the Corporation has equity-settled employee share-based payment plans (settled by the issue of shares from treasury) composed of 20,000 fully vested stock options and 947,600 common shares issuable under its Share Purchase Plan.

Canadian GAAP – The equity-settled stock options were fully vested at the Transition Date and therefore the related expense had been fully recognized in prior periods. An exemption available under Canadian GAAP, when specific requirements are met, permits the Share Purchase Plan to be treated as non-compensatory.

IFRS – Transactions for shares issued under the Share Purchase Plan are measured at fair value on the date of grant using the Black-Scholes model with the expense and equity recorded each period to recognize the compensation cost over the related vesting period. At the Transition Date, the Corporation also used the Black-Scholes model in order to measure the fair value of the shares under its Share Purchase Plan on a retrospective basis.

The Corporation applied the exemption under IFRS 1 and therefore did not revalue shares that were fully vested at the transition date.

Shares issuable under the RSP are purchased in the market at the date of grant and valued at the grant/purchase value and the cost is amortized over the vesting period but not re-measured after the initial recognition.

The impact arising from these changes is summarized as follows:

Canadian $ millions, for the year ended December 31	2010
Consolidated statement of comprehensive income	
Increase in administrative expenses	$ 3.8
Decrease in income tax expense	(0.7)
Decrease in net earnings	$ 3.1

Canadian $ millions, as at	2010 December 31	2010 January 1
Consolidated statement of financial position		
Increase in reserves	$ (1.6)	$ (0.4)
Increase in accounts receivable	0.4	0.2
Increase in trade accounts payable and accrued liabilities	(8.7)	(6.0)
Increase in deferred income tax asset (non-current)	0.2	0.2
Decrease in deferred income tax liability (non-current)	2.0	1.4
Decrease to retained earnings	$ 7.7	$ 4.6

IFRS 3 – BUSINESS COMBINATIONS (G)

Refer to note 6 for a description of the acquisition of Coal Valley Partnership on June 30, 2010.

Canadian GAAP – For step acquisitions, the acquirer is not required to re-measure the previously held equity interest. Canadian GAAP also requires direct costs of the business combination to be included as part of the purchase price. Any excess of fair value over purchase price paid (negative goodwill) is allocated to fair values of the acquired assets such that no gain is recognized.

IFRS – For step acquisitions, the acquirer is required to re-measure the previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss in the consolidated statements of comprehensive earnings (loss). IFRS requires all transaction costs to be expensed. Any excess of fair value over purchase paid is treated as a bargain purchase, with the resulting gain recognized in net earnings (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31		2010
Consolidated statement of comprehensive income		
Decrease in cost of sales	$	(12.7)
Increase in administrative expenses		0.4
Decrease in financing expense		(0.1)
Decrease in income tax expense		(0.8)
Increase in net earnings	$	(13.2)

Canadian $ millions, as at December 31		2010
Consolidated statement of financial position		
Increase in property, plant and equipment	$	20.5
Increase in deferred income tax asset (non-current)		2.2
Increase in intangible assets		8.8
Increase in intangible liability		(6.9)
Increase in deferred income tax liability (non-current)		(7.4)
Increase in environmental rehabilitation and other provisions (non-current)		(4.0)
Increase to retained earnings	$	(13.2)

IFRIC 4 – DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE (H)

Canadian GAAP – EIC 150 permitted an entity to not revisit arrangements that existed prior to the issuance date of the standard, December 9, 2004.

IFRS – At the Transition Date, based on the criteria within IFRIC 4 the Corporation was required to assess whether any of its arrangements that were not previously assessed under EIC 150 contained leases. An arrangement contains a lease if the fulfillment of the arrangement is dependent on the use of a specific asset, and the arrangement conveys a right to use that specific asset. At Coal's Prairie operations, it was determined that coal supply arrangements related to the operation of a 50% owned mine Genesee and a contract mine Highvale, as well as certain agreements to operate draglines, and other assets, were leasing arrangements. It was determined that Sherritt contributed assets to these arrangements; however, the utility customer had the primary right to use those assets. In effect, Sherritt performs leasing services and is reimbursed with a return on its investment in these assets. As a result, property, plant and equipment was derecognized and a finance lease receivable was recognized equal to the Corporation's net investment in the lease. The difference between the original carrying amount of the assets and the net investment in the lease was recognized in retained earnings on the Transition Date. Lease principal payments are recorded as a reduction in the lease receivable and interest payments are recorded as finance income.

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31		2010
Consolidated statement of comprehensive income		
Decrease in revenue	$	41.3
Decrease in cost of sales		(25.7)
Increase in financing income		(17.0)
Increase in deferred income tax expense		0.4
Increase in net earnings	$	(1.0)

Canadian $ millions, as at		2010 December 31		2010 January 1
Consolidated statement of financial position				
Decrease in property, plant and equipment	$	(232.2)	$	(239.0)
Increase in advances and loans receivable and finance lease receivable		235.8		241.3
Increase in deferred income tax liability (non-current)		(1.0)		(0.7)
Increase to retained earnings	$	(2.6)	$	(1.6)

IFRIC 12 – SERVICE CONCESSION ARRANGEMENTS (I)

Canadian GAAP – No specific guidance under Canadian GAAP.

IFRS – IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concessions whereby the private sector entity provides a service to the public sector entity, which sets or regulates the services provided with the infrastructure and their prices, and obtains any significant residual interest in the infrastructure.

At Power, the Boca de Jaruco and Puerto Escondido facilities located in Cuba were determined to be operating under service concession arrangements. Sherritt constructs infrastructure used to provide a public service, and operates and maintains that infrastructure for a fee received over a specified period of time. At the end of the service concession arrangement the residual interest in the infrastructure is transferred to the Cuban government for proceeds of $nil. Energas bears the demand risk on revenues related to assets covered under service concession arrangements as receipts are based on usage rather than an unconditional right to receive cash. As a result these assets have been classified as intangible assets that represent the Corporation's right to charge the Government of Cuba for future electricity and by-products delivered.

As the operator, Sherritt derecognized the property, plant and equipment it had previously recorded and reclassified the carrying values to service concession intangible assets. The amortization of the service concession intangible asset is recognized in cost of sales over the remaining term of the service concession arrangement, which ends in 2023. For certain assets reclassified upon transition, the remaining term of the service concession arrangement was greater than the useful lives previously used to calculate depreciation, which resulted in an increase in net earnings compared to Canadian GAAP.

In exchange for the design, construction and operating services provided at Boca de Jaruco or Puerto Escondido, Cuba, the Corporation records a new intangible asset and a corresponding construction revenue amount to reflect the right to charge the Cuban government for the future supply of electricity. New construction, enhancements and upgrades are expensed as incurred and are classified as construction expenses. The net result of the construction activity is a $nil impact to net earnings. Once operational the carrying amount of the new service concession intangible asset, including capitalized interest, is amortized on a straight-line basis over the remaining contract term. There are no other impacts to the consolidated statements of comprehensive income (loss). Repair, maintenance and replacement costs incurred in relation to service concession intangible assets are expensed as incurred.

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31	2010
Consolidated statement of comprehensive income	
Increase in revenue	$ (5.1)
Increase in cost of sales	4.3
Increase in net earnings	$ (0.8)

Canadian $ millions, as at	2010 December 31	2010 January 1
Consolidated statement of financial position		
Decrease in property, plant and equipment	$ (63.6)	$ (57.2)
Increase in intangible assets	71.9	73.3
Decrease in other non-financial assets	(7.5)	(16.1)
Increase to retained earnings	$ (0.8)	$ –

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS (J)

At the Transition Date, the Corporation made several changes to the presentation of its consolidated statements of financial position. These changes are primarily a result of reclassifying all or a portion of certain accounts and/or renaming of accounts as a result of differences in IFRS terminology:

→ Long-term advances and loans receivable were reclassified from Other assets to Advances, loans receivable and other assets;

→ Current portion of Long-term debt and other long-term liabilities were reclassified to separate Loans and borrowings from Other liabilities;

→ Deferred revenue was reclassified to Current portion of other liabilities; and

→ Long-term debt and other long-term liabilities were reclassified to separate Loans and borrowings from Other liabilities.

Under IFRS, the presentation of certain accounts is prescribed. Adopting IFRS resulted in the reclassifications for deferred income taxes. Deferred income tax assets and liabilities must be presented as non-current, resulting in the following:

→ Under Canadian GAAP, the term used was future taxes. The IFRS term is deferred taxes.

→ Future income taxes (current asset and current liability) were reallocated to deferred income taxes (non-current asset and non-current liability).

Also, IFRS permits the components of net earnings to be classified by either their function or nature. The Corporation has chosen to present by function. Under Canadian GAAP, the income and expenses were presented as a hybrid between function and nature.

IAS 21 – THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES (K)

TRANSITION OF ENERGAS

Canadian GAAP – Energas was considered an integrated foreign operation that used the temporal method for translating foreign currencies and had a Canadian dollar functional currency. The indicators used to determine if a foreign operation is integrated or self-sustaining are equally weighted. Gains or losses resulting from these translation adjustments are recognized in the consolidated statements of comprehensive income (loss).

IFRS – The concept of an integrated or self-sustaining foreign operation does not exist under IFRS. The Corporation determined that the functional currency of Energas is the United States dollar. The indicators used to determine the functional currency of a foreign operation are based on the transactions carried out in the entity's primary economic environment. The various factors evaluated in making the determination of functional currency are ranked differently between Canadian GAAP and IFRS. As a result of a United States dollar functional currency, Energas' operations have been translated at the current rate, which translates foreign denominated assets, liabilities and transactions at the exchange rate at the reporting date with all exchange gains and losses included in comprehensive income (loss) and deferred in accumulated other comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31		2010
Consolidated statement of comprehensive income		
Decrease in cost of sales	$	(1.6)
Decrease in administrative expense		(0.2)
Increase in financing expense		2.6
Decrease in net earnings	$	0.8
Foreign currency translation adjustment	$	3.3

Canadian $ millions, as at		2010 December 31		2010 January 1
Consolidated statement of financial position				
Decrease in inventories	$	(0.2)	$	(0.2)
Decrease in prepaids		(0.1)		–
Decrease in property, plant and equipment		(29.2)		(25.2)
Increase in accumulated other comprehensive income (foreign exchange)		3.3		–
Decrease to retained earnings	$	26.2	$	25.4

The change in the functional currency for Energas resulted in an increase in the accumulated other comprehensive loss of $24.5 million at the Transition Date. However, this amount was reset to zero through the application of the IFRS 1 exemption and had no net impact on the accumulated other comprehensive loss balance.

SUBORDINATED LOANS TO AMBATOVY

Canadian GAAP – The subordinated loans receivable from the Ambatovy Project is included as part of the net investment in the Ambatovy Joint Venture because the loans meet the criteria of being long-term in nature. The loans were eliminated on consolidation.

IFRS – Loans are to be included in the net investment in an associate if the settlement is neither planned nor likely in the foreseeable future. The subordinated loans to Ambatovy are expected to be settled in the future. Therefore, the criteria to include the loan in the net investment account are not met and are presented as a separate line on the consolidated statements of financial position. The loan is in U.S. dollars and will be revalued each month. As a result, foreign exchange gains and losses are reflected in the consolidated statements of comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31		2010
Consolidated statement of comprehensive income		
Increase in financing expense	$	28.4
Decrease in net earnings	$	28.4
Foreign currency translation adjustment	$	(35.1)

Canadian $ millions, as at		2010 December 31		2010 January 1
Consolidated statement of financial position				
Increase in advances, loans receivable and other financial assets	$	620.9	$	391.8
Increase in accounts receivable		1.4		0.8
Decrease in investment in associated entity		(607.9)		(384.9)
Increase in accumulated other comprehensive income		(58.2)		(23.1)
Decrease to retained earnings	$	43.8	$	15.4

The change in the method of accounting for the Corporation's investment in the Ambatovy Joint Venture on adoption of IFRS resulted in a decrease of approximately $23.1 million of opening accumulated other comprehensive loss. The IFRS 1 election was applied to this amount to reset this balance to zero at the Transition Date.

IAS 23 – BORROWING COSTS (L)

BORROWING COSTS AND CROSS-GUARANTEE FEE ASSET AMORTIZATION RELATED TO THE AMBATOVY JOINT VENTURE

Canadian GAAP – Interest on loans directly attributable to the development of the Ambatovy mine and amortization of a cross-guarantee fee asset were capitalized to Property, plant and equipment.

IFRS – Under IFRS, the Ambatovy Joint Venture is accounted for using the equity method. As such, the investment is not a qualifying asset that permits the Corporation to capitalize interest costs and the capitalization of amortization of the cross-guarantee fee asset.

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31		2010
Consolidated statement of comprehensive income		
Increase in financing expense	$	54.8
Decrease in income tax expense		(4.3)
Decrease in net earnings	$	50.5

Canadian $ millions, as at		2010 December 31		2010 January 1
Consolidated statement of financial position				
Decrease in property, plant and equipment	$	(93.0)	$	(38.2)
Decrease in deferred income tax liability (non-current)		10.5		6.2
Decrease to Retained earnings	$	82.5	$	32.0

IAS 27, IAS 28 AND IAS 31 – ACCOUNTING FOR INVESTMENTS IN JOINT VENTURES (M)

Canadian GAAP – The Corporation's investment in the Moa Joint Venture and Carbon Development Partnership are accounted for using proportionate consolidation. The Corporation's investments in the Ambatovy Joint Venture and Energas are considered investments in variable interest entities as defined by Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15) and are therefore fully consolidated with non-controlling interest in the net assets reported separately.

IFRS – The Moa Joint Venture and Carbon Development Partnership continue to be accounted for using proportionate consolidation. IFRS has guidance relating to Special Purpose Entities (SPE) that requires consolidation if control existed on a basis other than ownership interest. The criteria to be an SPE under IFRS are different than VIE under Canadian GAAP.

The Corporation determined that Energas and Ambatovy Joint Venture were not SPEs to Sherritt resulting in the deconsolidation of the entities on the Transition Date. Under IFRS, Energas is considered a jointly controlled entity and is accounted for using proportionate consolidation and the Ambatovy Joint Venture is considered an investment in an associate and is accounted for using the equity method.

In June 2009, Sherritt entered into the additional loan agreements that resulted in amendments to the shareholders' agreement. As a result of interpreting the Ambatovy Joint Venture shareholders' agreement under IFRS, it was determined that the appropriate accounting would be to account for the Ambatovy Joint Venture as an Investment in an associate which is presented as a single line item on the statement of financial position and the statement of comprehensive income. Also at June 30, 2009, the Corporation was required to determine its initial cost in the investee which included the cost of acquired mineral rights and the Corporation's share of net loss to the Transition Date. The Corporation recorded an adjustment of $118.3 million to increase its investment in Ambatovy to reflect fair value. The acquired mineral rights within the investment will be amortized using the units-of-production method once the Ambatovy Project commences operations. These adjustments were denominated in U.S. dollars, and as a result increased accumulated other comprehensive income at the Transition Date. This amount was reversed through the application of the IFRS 1 election. See adjustment IAS 21 – The Effects of Changes in Foreign Exchange Rates (c).

IFRS requires the Corporation to classify the funding it has provided in the form of debt towards the development of Ambatovy as a separate loan receivable recorded in Advances, loans receivable and other assets, and not part of the net investment: see adjustment IAS 21 – The Effect of Changes in Foreign Exchange Rates (k). Interest revenue relating to the loans is eliminated. This is an accounting policy choice as IFRS is silent on how to account for revenue generated between group companies and an associate.

The change in the method of accounting for the Corporation's investment in Energas on adoption of IFRS, and the change in functional currency of Energas resulted in an increase in the accumulated other comprehensive loss. See adjustment IAS 21 – The Effects of Changes in Foreign Exchange Rates (c).

Given the magnitude of the adjustments resulting from deconsolidating the Ambatovy Joint Venture and Energas, the impact on the consolidated statements of financial position has been included in a separate column in the various reconciliations of the financial statements under Canadian GAAP to IFRS.

IAS 36 – IMPAIRMENT OF ASSETS (N)

Canadian GAAP – If an indication of impairment is identified, the asset's carrying amount is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying amount, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying amount. A reversal of a previously recognized impairment is not permitted.

IFRS – If an indication of impairment is identified, the asset's carrying amount is compared to the asset's recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. Reversal of impairment losses up to the expected depreciated value is required for assets other than goodwill if certain criteria are met.

At the Transition Date, the Corporation performed impairment testing on its long-lived assets which resulted in no material impairment. The Corporation reversed impairment losses previously recognized on certain equipment.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at	2010 December 31	2010 January 1
Consolidated statement of financial position		
Increase in property, plant and equipment	$ 10.7	$ 10.7
Increase in deferred income tax liability (non-current)	(0.5)	(0.5)
Increase to retained earnings	$ (10.2)	$ (10.2)

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (O)

Canadian GAAP – The fair value of the Ambatovy call option was assumed to be the original cost ascribed to it when the Corporation acquired its ownership in the Ambatovy Joint Venture with its acquisition of Dynatec Corporation. Management determined that, given the nature of the asset, the fair value of the call option could not be reliably determined as the variability in the range of reasonable fair value estimates was significant, and the probabilities of the various estimates within the range could not be reasonably assessed. Under Canadian GAAP, if fair value cannot initially be reliably determined, it is common practice to continue to carry the item at cost until expiry.

IFRS – Under IFRS, an instrument is measured at cost only as long as it can be demonstrated that fair value cannot be reliably determined and only in rare circumstances is fair value not reliably measurable. At the Transition Date, the variability in the range of reasonable fair value estimates allowed a reliable determination of fair value to be made.

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31	2010
Consolidated statement of comprehensive income	
Increase in financing income	$ (1.6)
Increase in financing expense	1.9
Decrease in income tax expense	(0.1)
Decrease in net earnings	$ 0.2

Canadian $ millions, as at	2010 December 31	2010 January 1
Consolidated statement of financial position		
Increase in other financial assets	$ 27.0	$ 27.3
Increase in deferred income tax liability (non-current)	(2.4)	(2.5)
Increase to retained earnings	$ (24.6)	$ (24.8)

Board of Directors

Ian W. Delaney
Chairman
Sherritt International Corporation
Toronto, Canada

David V. Pathe
President and Chief Executive Officer
Sherritt International Corporation
Toronto, Canada

Michael F. Garvey[1, 2, 3, 4, 6]
Corporate Director
Toronto, Canada

R. Peter Gillin[1, 2, 4]
Corporate Director
Toronto, Canada

The Honourable Marc Lalonde[1, 2, 4, 5]
(Lead Director)
Lawyer
Montreal, Canada

Sir Richard Lapthorne[1, 4]
Corporate Director
London, England

Edythe A. Marcoux[2, 3, 4, 5]
Corporate Director
Gibsons, Canada

Bernard Michel[1, 4, 6]
Corporate Director
Canmore, Canada

John R. Moses[3, 4, 5, 6]
Corporate Director
Toronto, Canada

Daniel P. Owen[3, 4, 6]
Chairman
Molin Holdings Ltd.
Toronto, Canada

Sir Patrick Sheehy[1, 4, 5]
Corporate Director
London, England

1 Audit Committee.
2 Human Resources Committee.
3 Environment, Health and Safety Committee.
4 Nominating and Corporate Governance Committee.
5 Reserve Committee.
6 Capital Projects Committee.

Shareholder information

Investor inquiries

Investor Relations
Sherritt International Corporation
1133 Yonge Street
Toronto, ON Canada M4T 2Y7

Telephone: 416.935.2451
Toll-free: 1.800.704.6698
Fax: 416.935.2283
Email: info@sherritt.com or
investor@sherritt.com
Website: www.sherritt.com

Transfer agent and registrar

Canadian Stock Transfer Company Inc.
320 Bay Street, P.O. Box 1
Toronto, ON Canada M5H 4A6

Tel: 416.643.5564
Fax: 416.643.5570

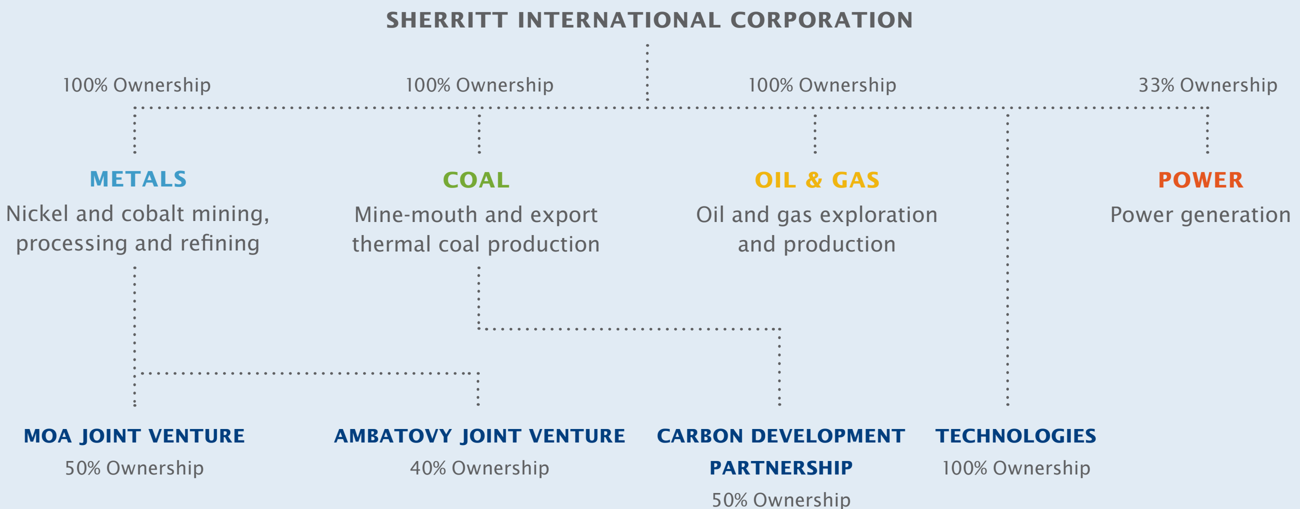
Auditors

Deloitte & Touche LLP, Toronto

Stock exchange listing

Toronto Stock Exchange
Common shares – S

Corporate structure



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Sherritt International Corporation
1133 Yonge Street
Toronto, ON Canada M4T 2Y7

www.sherritt.com