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Sherritt International Corporation Management's Discussion and Analysis

For the three and nine months ended September 30, 2009

Third Quarter - Management's Discussion and Analysis

We have prepared this Management's discussion and analysis for the three months and nine months ended September 30, 2009 as of October 23, 2009 and it should be read in conjunction with our audited consolidated financial statements and our management's discussion and analysis for the year ended December 31, 2008. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com.

References to "Sherritt", "the Corporation", "we", "us", and "our" 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 our future financial condition, results of operations and business. See page 43 of this report for further information on forward-looking statements.

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Third-quarter highlights

- The Corporation's net earnings for the third quarter of 2009 were $55.9 million compared to $133.1 million in the same period in the prior year.

- Revenue of $389.6 million and EBITDA[1] of $136.5 million in the third quarter of 2009 compared to revenue of $478.3 million and EBITDA of $214.1 million in the same period in the prior year. Lower revenue and EBITDA were primarily a result of lower cobalt, export thermal coal and oil prices and lower production volume at Oil and Gas as a result of the termination by Sherritt's joint operating partner of the Block 7 production-sharing contract, partially offset by lower operating costs in Metals.

- Gross oil and gas production in Cuba during the third quarter was 6,921 barrels per day or 24% lower than the same period in the prior year, primarily due to the termination of the Block 7 production-sharing contract.

- The Ambatovy Project continues to progress with an additional $330.9 million being spent primarily on site-based construction activities during the third quarter.

- The Corporation continues to maintain a strong liquidity position with a current ratio of 3.53:1, a net working capital balance of $1.4 billion and cash, cash equivalents, and short-term investments of $1.3 billion. These amounts include $646.9 million in cash and cash equivalents that are held by the Ambatovy Joint Venture and must be used to fund the joint venture's activities. The Corporation's long-term debt-to-capitalization ratio is 36%[2].

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[1]For additional information, see the Non-GAAP Measures section.

[2]Calculated as Total long-term debt divided by the sum of Total long-term debt, Non-controlling interests and Shareholders' equity. For the purposes of this calculation, total long-term debt does not include other long-term liabilities.

Key financial and operational data

$ millions	For the three months ended 2009 September 30	2008 September 30	For the nine months ended 2009 September 30	2008 September 30
Financial highlights[1]				
Revenue[6]	**$ 389.6**	$ 478.3	**$ 1,097.7**	$ 1,236.2
EBITDA[2][6]	**136.5**	214.1	**344.4**	579.5
Operating earnings[2][6]	**70.2**	143.7	**149.6**	405.3
Net earnings	**55.9**	133.1	**37.4**	302.4
Net earnings per share, diluted ($ per share)	**0.19**	0.45	**0.13**	1.11
Cash flow[1]				
Cash provided by operating activities	**$ 198.5**	$ 42.5	**$ 340.8**	$ 215.3
Capital expenditures[1]	**$ 397.0**	$ 479.7	**$ 1,202.1**	$ 1,561.2
Production volumes				
Nickel (tonnes)(50% basis)	**4,341**	4,415	**12,675**	11,867
Cobalt (tonnes)(50% basis)	**489**	438	**1,428**	1,250
Coal - Prairie Operations[3] (millions of tonnes)	**9.0**	8.8	**25.8**	26.4
Coal - Mountain Operations (millions of tonnes)(50% basis)	**0.5**	0.5	**1.5**	1.3
Oil - Cuba - net production (barrels per day)	**12,152**	15,960	**12,633**	16,873
Electricity (gigawatt hours)	**588**	577	**1,644**	1,742
Unit operating costs				
Nickel[4] (US$ per pound)	**$ 2.89**	$ 4.50	**$ 3.23**	$ 3.14
Coal - Prairie Operations ($ per tonne)	**11.28**	12.26	**11.37**	11.44
Coal - Mountain Operations ($ per tonne)	**68.99**	64.51	**64.34**	63.82
Oil - Cuba ($ per barrel)	**6.63**	5.97	**7.88**	5.86
Electricity ($ per megawatt hour)	**11.82**	11.89	**14.82**	10.71
Averaged-realized sales prices				
Nickel ($ per pound)	**$ 8.78**	$ 9.16	**$ 7.16**	$ 11.28
Cobalt ($ per pound)	**18.19**	33.64	**17.00**	41.74
Coal - Prarie Operations ($ per tonne)	**14.07**	15.54	**14.47**	14.59
Coal - Mountain Operations ($ per tonne)	**70.06**	87.19	**83.27**	80.93
Oil - Cuba ($ per barrel)	**50.54**	72.51	**43.01**	61.68
Electricity ($ per megawatt hour)	**45.07**	42.32	**47.83**	41.25

$ millions, except as noted, as at	2009 September 30	2008 December 31
Financial Condition		
Current ratio[7]	**3.53:1**	1.68:1
Net working capital balance[7]	**$ 1,401.3**	$ 554.3
Cash, cash equivalents and short-term investments	**1,288.1**	607.3
Total assets	**10,171.5**	9,547.2
Total long-term debt	**3,112.6**	2,255.9
Non-controlling interests	**2,157.2**	1,668.4
Shareholders' equity	**3,465.5**	3,727.1
Long-term debt-to-capitalization[5]	**36%**	29%

(1) Operating results and capital expenditures include those of Royal Utilities Income Fund (Royal Utilities) from date of acquisition, May 2, 2008. The Corporation recognized in its financial statements $8.3 million in the nine-month period ended September 30, 2008 as its share of equity earnings for the period January 1, 2008 to May 1, 2008.
(2) For additional information see the Non-GAAP Measures section.
(3) For comparative purposes, Prairie Operations' volumes for the nine month period ended September 30, 2008 includes production for the period January 1, 2008 to May 1, 2008.
(4) Net direct cash cost inclusive of by-product credits and third-party feed costs.
(5) Calculated as Total long-term debt divided by the sum of Total long-term debt, Non-controlling interests and Shareholders' equity. For the purposes of this calculation, total long-term debt does not include other long-term liabilities.
(6) Amounts for the three and nine month periods ended September 30, 2008 and the nine month period ended September 30, 2009 have been amended to include the results of the Mineral Products division which had previously been accounted for as a discontinued operation.
(7) Working capital at September 30, 2009 includes $646.9 million of cash and cash equivalents held by the Ambatovy Joint Venture that must be used to fund the joint venture's activities. Not including this cash, the Corporation's current ratio is 2.36:1.

Current market environment

Impact on operating results

Our results were significantly impacted by market-driven commodity prices of nickel, cobalt, oil and gas and by changes in the Canadian dollar relative to the U.S. dollar. Our export thermal coal and electricity prices are typically established at the beginning of a negotiated supply contract and are therefore less susceptible to commodity price fluctuations during the term of the contract. Changes in commodity prices also have a significant impact on the majority of our input costs, such as natural gas, sulphur and sulphuric acid that impact our operating earnings. As our results are reported in Canadian dollars, the fluctuation in foreign exchange rates has the potential to cause significant volatility in our results.

Our average-realized price for nickel and oil continued to strengthen during the third quarter of 2009 compared to the past three quarters. Our average-realized cobalt price also increased, albeit at a slower pace, compared to the previous two quarters.

While the average-realized price of nickel in the third quarter of 2009 was only slightly lower than in the same period in the prior year, the average-realized price of cobalt and oil produced in Cuba were 46% and 30% lower, respectively. The approximate impact of these lower average-realized prices was a $56 million reduction in operating earnings in the third quarter of 2009 compared to the same period in the prior year. For the first nine months of 2009, the approximate impact was $369 million.

We have provided estimates of the sensitivity of our third-quarter earnings to changes in key parameters on page 38.

Impact on liquidity

We continue to maintain our strong financial position despite challenges resulting from a weaker economy. At September 30, 2009, total cash, cash equivalents and short-term investments were $1.3 billion. This amount includes $646.9 million held by the Ambatovy Joint Venture to be used towards the development of the Ambatovy Project (the Project). The majority of the remaining $641.2 million was held in Canada in Government of Canada treasury bills or in cash deposit accounts with major Canadian financial institutions rated A- or higher by Standard and Poor's.

We continue to implement the following cost containment initiatives: restricting divisional capital spending to divisional cash flows; the suspension of certain expansion programs; the reduction of controllable operating costs and the ongoing review of the Project costs.

During the second quarter of 2009, the Corporation completed negotiations with its partners in the Project that established a mechanism through which the partners could finance the Corporation's pro rata share of shareholder funding requirements for the Project. As a result, Sherritt will not be required to directly contribute any new shareholder funding to the Project. See page 29 for further information.

In respect of Oil and Gas and Power receivables due in 2009, the Corporation received $204.7 million to September 30, 2009 and $13.8 million subsequent to that date. At September 30, 2009, $26.1 million of Oil and Gas and $10.4 million of Power receivables were overdue. The amounts outstanding are guaranteed by the National Bank of Cuba. The Corporation and certain Cuban government agencies continue to negotiate an agreement with respect to Oil and Gas and Power receivables. The Cuban government agencies continue to make monthly payments against outstanding balances. We expect that all 2009 receivables will be collected by the end of first quarter 2010.

During the third quarter of 2009, Coal Valley Resources Inc. (CVRI), a subsidiary of the Coal Valley Partnership (in which the Corporation has a 50% interest and owns the Obed Mountain mine), issued a Demand to Arbitrate to its counterparty in an off-take contract. The contract, signed in 2008 for 100% of the increase in Mountain Operations production resulting from the re-opening of the Obed Mountain mine, provides a guaranteed floor price for three years with a sharing of the price upside. In September 2009, the counterparty refused to take delivery of coal under this contract. CVRI will be seeking enforcement of the terms of the contract. In addition, CVRI will seek full compensation for any and all costs or lost profits that result from having to sell the coal to other customers.

At September 30, 2009, CVRI was not in compliance with a financial covenant applicable to the $38.0 million (100% basis) 3-year non-revolving term facility used to finance the re-opening of the Obed Mountain mine that requires CVRI to maintain a current ratio of not less than 1:1. CVRI's working capital balance was reduced as it was unable to record expected levels of revenue related to production from the re-opening of the Obed Mountain mine. The financial institution granted a waiver of this covenant for the quarter ended September 30, 2009. See Liquidity and financial condition for more information.

Ambatovy Project

The continued political uncertainty in Madagascar has not resulted in any material disruptions in activities at the Project. See Review of operations – Metals section on page 13 for further information.

Financial results

$ millions	For the three months ended **2009** **September 30**	2008[3] September 30	For the nine months ended **2009[3]** **September 30**	2008[3] September 30
Revenue by segment				
Metals	**$ 114.3**	$ 137.5	**$ 305.1**	$ 477.5
Coal[1]	**181.2**	189.9	**535.8**	345.3
Oil and Gas	**59.9**	112.9	**156.7**	304.9
Power	**30.6**	30.9	**89.6**	91.0
Corporate and other	**3.6**	7.1	**10.5**	17.5
	389.6	478.3	**1,097.7**	1,236.2
EBITDA[2] by segment				
Metals	**$ 45.0**	$ 39.1	**$ 70.1**	$ 199.6
Coal[1]	**36.4**	56.2	**138.3**	83.5
Oil and Gas	**42.8**	96.2	**103.6**	250.7
Power	**22.0**	23.7	**61.4**	70.4
Corporate and other	**(9.7)**	(1.1)	**(29.0)**	(24.7)
	136.5	214.1	**344.4**	579.5
Operating earnings (loss)[2] by segment				
Metals	**$ 37.6**	$ 32.3	**$ 48.8**	$ 182.1
Coal[1]	**9.1**	25.6	**61.8**	30.0
Oil and Gas	**20.3**	72.0	**33.6**	173.6
Power	**14.2**	16.4	**38.3**	48.4
Corporate and other	**(11.0)**	(2.6)	**(32.9)**	(28.8)
	70.2	143.7	**149.6**	405.3
Loss on disposal of property, plant and equipment	**-**	-	**79.5**	-
Net financing expense	**0.7**	2.1	**15.0**	14.7
Share of earnings of equity accounted investments	**-**	(0.1)	**-**	(9.5)
Other items	**-**	-	**1.5**	-
Income taxes	**8.8**	(0.4)	**(0.3)**	75.8
Non-controlling interests	**4.8**	9.0	**16.5**	21.9
Net earnings	**$ 55.9**	$ 133.1	**$ 37.4**	$ 302.4
Net earnings per share				
Basic	**$ 0.19**	$ 0.45	**$ 0.13**	$ 1.12
Diluted	**$ 0.19**	$ 0.45	**$ 0.13**	$ 1.11
Effective Tax Rate	**13%**	- %	**- %**	19%

(1) The Coal segment includes the following:
- The Corporation's 50% proportionate interest in Mountain Operations and coal development assets.
- The Corporation's consolidated results of Royal Utilities since the date of acquisition, May 2, 2008. Prior to the date of acquisition, the Corporation recognized its share of earnings in "Share of earnings in equity accounted investments".

(2) For additional information see the Non-GAAP Measures section.

(3) Amounts for the three and nine month periods ended September 30, 2008 and the nine month period ended September 30, 2009 have been amended to include the results of the Mineral Products division which had previously been accounted for as a discontinued operation.

The prices of nickel, cobalt and oil have been trending up in the current year, although our average-realized prices on a year-to-date basis are significantly lower than the same period in the prior year. During the third quarter of 2009, thermal coal prices declined from the prior year; however, on a year-to-date basis the average-realized price has remained relatively constant. Our diverse asset base and the implementation of cost containment initiatives has allowed us to generate positive operating cash flows despite the significant decline in the market price of nickel, cobalt, and oil as compared to the prior year-to-date period. Detailed information on the performance of each of our operations can be found in the Review of operations sections. In summary:

- Metals' operating earnings of $37.6 million during the third quarter of 2009 were $5.3 million higher than in the same period in the prior year as lower average-realized prices, primarily for cobalt, were more than offset by the reduction in mining, processing, refining and third-party feed costs mainly as a result of lower commodity-input prices. For the nine months ended September 30, 2009, operating earnings of $48.8 million were $133.3 million lower than in the same period in the prior year as the impact of lower average-realized prices for nickel and cobalt exceeded the reduction in mining, processing, refining costs and third-party feed costs.

- Coal's operating earnings during the third quarter of 2009 decreased by $16.5 million to $9.1 million compared to the same period in the prior year. In Mountain operations, the decrease in operating earnings reflected lower average-realized prices and higher operating costs as a result of reduced yields at the Coal Valley mine related to temporary reductions in coal quality partially offset by higher sales volumes. Operating earnings in the third quarter of 2009 at Prairie Operations were impacted by lower potash royalties resulting from reduced market prices and production, as well as higher repair costs compared to the same period in the prior year due to the cyclical nature of equipment repairs. For the nine months ended September 30, 2009, operating earnings for Coal increased by $31.8 million compared to the same period in the prior year primarily as a result of the inclusion of the operating results of Prairie Operations for each of the 2009 periods compared to 2008 which only included results from May 2, 2008. As well, the impact of a stronger U.S. dollar and higher export sales volumes in Mountain Operations more than offset the impact of lower settlement prices and higher operating costs.

- Oil and Gas' operating earnings of $20.3 million and $33.6 million for the third quarter and first nine months of 2009 were $51.7 million and $140.0 million lower, respectively, than in the same periods in the prior year primarily due to a reduction in oil production resulting from the termination of the Block 7 production-sharing contract and a 30% decrease in the average-realized price for oil produced in Cuba over each period. The year-to-date net earnings reflect a $79.5 million ($57.4 million after-tax) loss on disposal of assets associated with Block 7 that was recognized in the first quarter of 2009.

- Power's operating earnings decreased $2.2 million and $10.1 million to $14.2 million and $38.3 million for the third quarter and first nine months of 2009, respectively, as higher average-realized electricity prices, primarily due to changes in the foreign exchange rate, were more than offset by higher maintenance and repair costs and lower by-product sales compared to the same periods in the prior year.

- The effective consolidated tax rate for the third quarter and first nine months of 2009 was 13% and nil, respectively, compared to nil and 19% for the same periods in 2008 primarily due to changes in the relative mix of earnings and losses incurred by our businesses which are carried out in different tax rate jurisdictions. Removing the impact of the $79.5 million ($57.4 million after-tax) loss on disposal of assets realized by Oil and Gas, the normalized effective consolidated tax rate for the first nine months of 2009 was 17%.

Review of operations - Metals

Financial data

$ millions	For the three months ended 2009 September 30	2008 September 30	For the nine months ended 2009 September 30	2008 September 30
Revenue				
Nickel	**$ 85.9**	$ 89.4	**$ 201.3**	$ 296.9
Cobalt	**18.2**	31.5	**52.3**	115.1
Fertilizers	**8.1**	13.4	**45.7**	55.4
Other	**2.1**	3.2	**5.8**	10.1
	114.3	137.5	**305.1**	477.5
Operating costs (1)				
Mining, processing and refining	**(54.2)**	(72.4)	**(167.7)**	(176.8)
Third-party feed costs	**(1.1)**	(5.5)	**(6.4)**	(25.1)
Fertilizers	**(7.3)**	(11.9)	**(41.5)**	(52.3)
Other	**(1.4)**	(4.3)	**(4.7)**	(9.9)
	(64.0)	(94.1)	**(220.3)**	(264.1)
Selling costs	**(2.5)**	(3.3)	**(9.5)**	(10.6)
General and administrative costs	**(2.8)**	(1.0)	**(5.2)**	(3.2)
EBITDA (2)	**45.0**	39.1	**70.1**	199.6
Depletion, amortization and accretion	**(7.4)**	(6.8)	**(21.3)**	(17.5)
Operating earnings (2)	**$ 37.6**	$ 32.3	**$ 48.8**	$ 182.1

(1) Excluding depreciation and amortization of $4.1 million and $4.5 million for the three-month periods ended September 30, 2009 and September 30, 2008, respectively, and $15.0 million and $11.0 million for the nine-month periods ended September 30, 2009 and September 30, 2008, respectively.
(2) For additional information see the Non-GAAP Measures section.

The change in operating earnings between comparative periods in 2009 and 2008 is detailed below.

$ millions	**For the three months ended 2009 September 30**	**For the nine months ended 2009 September 30**
Lower realized nickel prices	$ (8.3)	$ (167.7)
Lower realized cobalt prices	(17.3)	(97.4)
Higher metals sales volumes net of lower fertilizer sales volumes	2.0	17.1
Lower mining, processing, refining and third-party feed costs	31.6	81.5
Impact of stronger U.S. dollar	3.0	46.7
Other	(5.7)	(13.5)
Change in operating earnings, compared to 2008	$ 5.3	$ (133.3)

Metal prices

Prices	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Nickel - average-realized ($/lb)	**$ 8.78**	$ 9.16	**$ 7.16**	$ 11.28
Cobalt - average-realized ($/lb)	**18.19**	33.64	**17.00**	41.74
Nickel - average-reference (US$/lb)	**7.99**	8.61	**6.23**	11.09
Cobalt - average-reference (US$/lb) (1)	**17.30**	32.54	**15.10**	41.49

(1) Average low-grade cobalt published price per Metals Bulletin.

The average nickel and cobalt reference prices during the third quarter of 2009 decreased by US$0.62 per pound and US$15.24 per pound, respectively, compared to the same period in the prior year. On a year-to-date basis, average nickel and cobalt reference prices decreased US$4.86 per pound and US$26.39 per pound, respectively, compared to the same period in the prior year. During 2009, average-realized prices have benefited from a stronger U.S. dollar relative to the Canadian dollar.

Production and sales

Production	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
tonnes (50% basis)	**September 30**	September 30	**September 30**	September 30
Mixed sulphides	**4,647**	4,350	**13,971**	12,997
Finished nickel	**4,341**	4,415	**12,675**	11,867
Finished cobalt	**489**	438	**1,428**	1,250

Sales (50% basis)				
Finished nickel (thousands of pounds)	**9,779**	9,762	**28,097**	26,324
Finished cobalt (thousands of pounds)	**1,002**	936	**3,078**	2,758
Fertilizer (tonnes)	**21,522**	25,795	**121,960**	131,500

During the third quarter of 2009, production of 9,293 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides was 593 tonnes higher than the same period in the prior year reflecting the impact of Hurricane Ike in September 2008. Total finished metals production during the third quarter was relatively consistent with the same period in the prior year, as a lower nickel to cobalt ratio in the refinery feed increased cobalt production while decreasing nickel production. For the first nine months of 2009, total finished metals production was higher than the same period last year reflecting increased mixed sulphide availability, the production contribution of Phase 1 expansion assets at the Fort Saskatchewan site and the timing of maintenance activities. Negotiations to finalize the terms of the mixed sulphides supply agreement that expired on September 30, 2007 are ongoing. In the interim, as negotiations proceed, the joint venture companies continue to operate under the terms of the expired agreement.

Sherritt's share of finished nickel sales in the third quarter of 2009 was consistent with the same period in the prior year. Sales of finished cobalt in the third quarter were 66,000 pounds higher than in the same period in the prior year reflecting higher production. On a year-to-date basis, sales of finished nickel and cobalt were higher than the first nine months of 2008 reflecting the impact of higher finished metals production. Third quarter fertilizer sales volumes were 4,273 tonnes lower than in the same period in the prior year due to weaker demand. For the first nine months of 2009, fertilizer sales volumes were 9,540 tonnes lower compared to the same period in the prior year reflecting poor spring weather conditions and the impact of an extended acid plant maintenance outage in Fort Saskatchewan earlier in the year.

Operating costs

Unit operating costs	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Mining, processing and refining costs	**$ 4.47**	$ 7.12	**$ 4.59**	$ 6.59
Third- party feed costs	**0.11**	0.54	**0.19**	0.94
Cobalt by- product credits	**(1.70)**	(3.10)	**(1.60)**	(4.30)
Other (1)	**0.01**	(0.06)	**0.05**	(0.09)
Net direct cash cost (US$/lb of nickel)	**$ 2.89**	$ 4.50	**$ 3.23**	$ 3.14
Natural gas costs ($/gigajoule)	**2.89**	9.61	**3.69**	8.47
Sulphur costs (US$/tonne)	**115.65**	576.22	**151.90**	412.74
Sulphuric acid costs (US$/tonne)	**142.33**	222.52	**153.21**	219.24

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

Components of mining, processing and refining costs(1)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Fixed Costs	**22%**	15%	**22%**	17%
Sulphur	**5%**	17%	**8%**	12%
Sulphuric acid	**19%**	17%	**20%**	19%
Fuel oil	**18%**	17%	**15%**	16%
Maintenance	**13%**	8%	**13%**	11%
Other variable	**23%**	26%	**22%**	25%
	100%	100%	**100%**	100%

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

The net direct cash cost for the third quarter of 2009 was US$1.61 per pound of nickel lower than in the same period in the prior year primarily reflecting lower mining, processing and refining costs and reduced third-party feed costs, partially offset by lower cobalt by-product credits. On a year-to-date basis, the net direct cash cost was relatively consistent with the same period in the prior year as the benefits of lower mining, processing, refining and third-party feed costs were offset by lower cobalt by-product credits resulting from lower cobalt prices. Lower mining, processing and refining costs largely reflect lower commodity-input prices and the impact of the stronger U.S. dollar on Canadian dollar denominated refining costs. Lower third-party feed costs are a result of lower nickel and cobalt reference prices and the increased availability of Moa mixed sulphides, which have partially displaced third-party feed.

Capital spending

Capital Spending[1]	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Moa Joint Venture				
Sustaining	**$ 5.2**	$ 15.6	**$ 12.0**	$ 38.4
Expansion	**2.1**	50.7	**8.1**	142.8
	7.3	66.3	**20.1**	181.2
Ambatovy Joint Venture	**330.9**	366.5	**1,034.6**	1,251.1
Total	**$ 338.2**	$ 432.8	**$ 1,054.7**	$ 1,432.3

(1) Capital expenditures include the Corporation's 50% interest in the Moa Joint Venture, 100% of utility and fertilizer operations in Fort Saskatchewan and 100% of the Ambatovy Joint Venture.

Capital spending by the Moa Joint Venture was $59.0 million and $161.1 million lower for the third quarter and for the first nine months of 2009, respectively, compared to the same periods in the prior year, reflecting the suspension of expansion activities and curtailment of the sustaining capital program earlier in the year when nickel reference prices were lower. Expansion spending during the third quarter of 2009 reflected the on-going capitalization of interest related to financing of the Phase 2 expansion and the Moa acid plant, and the construction of certain Phase 2 expansion assets at Fort Saskatchewan.

Capital spending for the Ambatovy Project was primarily for site-based construction activities.

Ambatovy Project Update

- Capital spending for the Project was $330.9 million in the third quarter.
- Construction activities during the quarter continued with the installation of mechanical equipment and piping at both the mine site and plant site. Also, all major foundation work has been completed and the hydrotest of the first boiler in the Power Plant was completed successfully.
- A total of $271.5 million was provided by the Ambatovy Joint Venture partners during the third quarter. Sherritt contributed $108.6 million of the $271.5 million, through loans from the other joint venture partners.
- A total of $568.0 million was drawn from the Ambatovy Project financing in the third quarter.
- The projected capital cost of the Project remains unchanged at US$4.52 billion, excluding accrued financing charges, foreign exchange and working capital requirements. Initiatives are on-going to realize reductions in material and labour costs.
- Mechanical completion is anticipated to occur by the latter part of 2010.

Madagascar Political Update

In April, 2009, the African Union initiated the formation of an International Contact Group (ICG) to help mediate and ensure countries took a common position in encouraging a return to constitutional order in Madagascar. Meetings of Madagascar's four leading political interests and the ICG have been held in Madagascar and Mozambique.

The agreement reached in Maputo, Mozambique established, among other things, the requirement to appoint a new Prime Minister and to set up a national unity government for the transition toward elections. The four Malagasy parties did not, however, agree on the distribution of power within the group. A third meeting was held in Antananarivo, Madagascar on October 6, 2009 where three of the parties reached agreement on the top government positions whereby Andry Rajoelina would remain as President of the Transitional

Government. This agreement still requires ratification.

To date there have been no material disruptions in activities at the Ambatovy Project in conjunction with the political uncertainties in Madagascar. The Corporation has established communication with officials of the Transitional Government and continues its communication with multilateral institutions and key embassies.

Outlook for 2009

Production volumes and capital spending	Actual 2009	**Projected 2009**
For the nine and twelve months ended	September 30	**December 31**
Production		
Mixed sulphides (tonnes, 100% basis)	27,942	**37,000**
Finished Nickel (tonnes, 100% basis)	25,350	**33,500**
Finished Cobalt (tonnes, 100% basis)	2,856	**3,700**
Capital Expenditures ($ millions)		
Moa Joint Venture (50% basis)	$ 20	**$ 39**
Ambatovy (100% basis, U.S.$)	$ 882	**$ 1,400**

Net direct cash cost of nickel for 2009 is expected to remain near the average for the first nine months of 2009 if the current level of commodity input prices and cobalt prices continues through the fourth quarter. The staged maintenance approach has proven successful in terms of minimizing the impact on production, and production levels are expected to be at capacity for the year. The capital expenditure guidance for the Moa Joint Venture in 2009 remains unchanged from last quarter.

In the Ambatovy Project, the previous 2009 capital expenditure estimate of US$1.8 billion has been revised to US$1.4 billion, reflecting the impact of the Project review early in 2009 that slowed the rate of expenditures.

Review of operations – Coal

Financial data

	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Prairie Operations (100% basis) (1)(2)				
Mining revenue	**$ 124.5**	$ 133.1	**$ 369.1**	$ 380.4
Coal royalties	**13.2**	12.5	**39.3**	32.0
Potash royalties	**1.8**	5.0	**8.4**	13.1
	139.5	150.6	**416.8**	425.5
Operating costs (3)	**(99.8)**	(105.1)	**(290.0)**	(298.3)
General and administrative costs (4)	**(3.3)**	1.3	**(11.8)**	(9.4)
EBITDA (5)	**36.4**	46.8	**115.0**	117.8
Depletion, amortization and accretion	**(23.6)**	(28.1)	**(65.9)**	(79.9)
Operating earnings (5)	**$ 12.8**	$ 18.7	**$ 49.1**	$ 37.9

Mountain Operations and coal development assets (50% basis)				
Revenue	**$ 41.7**	$ 39.3	**$ 119.0**	$ 104.4
Operating costs (6)	**(41.1)**	(29.2)	**(92.0)**	(82.3)
General and administrative costs	**(0.6)**	(0.7)	**(3.7)**	(1.8)
EBITDA (5)	**-**	9.4	**23.3**	20.3
Depletion, amortization and accretion	**(3.7)**	(2.5)	**(10.6)**	(7.3)
Operating (loss) earnings (5)	**$ (3.7)**	$ 6.9	**$ 12.7**	$ 13.0

(1) The results of Prairie Operations have been consolidated from May 2, 2008. Prior to May 2, 2008, Sherritt equity accounted for its investment in Royal Utilities. In order to provide a meaningful discussion of results on a consolidated basis, the table above and the financial analysis below discuss Prairie Operations on a 100% basis for the prior-year periods. Prairie Operations' operating results have been included in the financial statements of the Corporation since May 2, 2008.

(2) For the three-month and nine-month periods ended September 30, 2008, the Corporation recognized in its financial statements total Coal operating earnings of $25.6 million and $30.0 million, respectively, including operating earnings for Prairie Operations of $17.0 million for the period May 2, 2008 to September 30, 2008. In addition to operating earnings, the Corporation recognized in its financial statements $8.3 million in the nine-month period ended September 30, 2008 as its share of equity earnings for the period January 1, 2008 to May 2, 2008.

(3) Excluding depreciation and amortization of $13.2 million and $10.5 million for the three-month periods ended September 30, 2009 and September 30, 2008, respectively, and $37.0 million and $28.7 million for the nine-month periods ended September 30, 2009 and September 30, 2008, respectively.

(4) Includes restructuring and other costs of $6.8 million for the nine-month period ended September 30, 2008 related to the acquisition of the remaining units of Royal Utilities.

(5) For additional information see the Non-GAAP Measures section.

(6) Excluding depreciation and amortization of $3.2 million and $2.1 million for the three-month periods ended September 30, 2009 and September 30, 2008, respectively, and $9.2 million and $6.1 million for the nine-month periods ended September 30, 2009 and September 30, 2008, respectively.

The change in operating earnings between comparative periods in 2009 and 2008 is detailed below.

$ millions	For the three months ended 2009 September 30	For the nine months ended 2009 September 30
Prarie Operations:		
(Lower)/higher royalties	$ (2.5)	$ 2.6
Higher operating costs, net of mining revenue	(3.3)	(3.0)
Higher pension expense	(2.4)	(6.7)
(Higher)/lower other general and administrative costs	(2.2)	4.3
Lower depletion, amortization and accretion	4.5	14.0
Change in operating earnings, compared to 2008	$ (5.9)	$ 11.2
Mountain Operations and coal development assets:		
Lower export coal prices, denominated in U.S. dollars	$ (11.1)	$ (11.0)
Impact of stronger U.S. dollar	1.9	14.3
Impact of higher export sales volumes	12.6	13.4
Higher operating costs	(11.9)	(9.7)
Higher depletion, amortization and accretion	(1.2)	(3.3)
Other	(0.9)	(4.0)
Change in operating earnings, compared to 2008	$ (10.6)	$ (0.3)

Depletion, amortization and accretion for Prairie Operations decreased in the third quarter and first nine months of 2009 by $4.5 million and $14.0 million, respectively, due to fair-value adjustments realized on the acquisition of Royal Utilities as well as certain property, plant, and equipment becoming fully amortized. Mountain Operations' increase in depletion, amortization and accretion in the third quarter and first nine months of 2009 is a result of an increased asset base.

Coal prices and royalty revenue

Prices ($/tonne)	For the three months ended		For the nine months ended	
	2009 September 30	2008 September 30	**2009 September 30**	2008 September 30
Prairie Operations - average-realized [(1)]	**$ 14.07**	$ 15.54	**$ 14.47**	$ 14.59
Mountain Operations - average-realized	**70.06**	87.19	**83.27**	80.93

(1) Excludes royalty revenue.

During the third quarter and for the first nine months of 2009, coal royalties in Prairie Operations increased due to the timing of mining in royalty areas and higher coal royalties per tonne. Potash royalties decreased due to both lower production and lower market prices. Also in Prairie Operations, changes in the average-realized price of coal reflected index-adjusted prices at owned mines and lower cost and capital recoveries at the contract and Genesee mines.

In Mountain Operations, the average-realized price decreased $17.13 per tonne in the third quarter of 2009 compared to the same period in the prior year due to reduced pricing on export thermal coal contracts. The reduced price was partially offset by a stronger U.S. dollar relative to the Canadian dollar. For the first nine months of 2009, the average-realized price increased by $2.34 per tonne compared to the same period in the prior year primarily due to the impact of the stronger U.S. dollar relative to the Canadian dollar on thermal coal contracts entered into in the prior year at record high prices that carried into the first half of 2009.

Operating costs

Unit operating costs ($/tonne)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Prairie Operations	**$ 11.28**	$ 12.26	**$ 11.37**	$ 11.44
Mountain Operations	**68.99**	64.51	**64.34**	63.82

Components of operating costs (%)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Prairie Operations				
Labour	**38%**	35%	**40%**	37%
Repairs and maintenance	**34%**	27%	**30%**	26%
Fuel	**11%**	18%	**12%**	17%
Other (1)	**17%**	20%	**18%**	20%
Total	**100%**	100%	**100%**	100%
Mountain Operations				
Labour	**21%**	19%	**21%**	19%
Repairs and maintenance	**14%**	14%	**14%**	13%
Fuel	**9%**	15%	**9%**	14%
Rentals and contractors	**13%**	13%	**14%**	12%
Ex-Mine (2)	**39%**	33%	**35%**	33%
Other (3)	**4%**	6%	**7%**	9%
Total	**100%**	100%	**100%**	100%

(1) Comprised of rentals, subcontracts, explosives, power, taxes, tires, licenses and other miscellaneous expenses.
(2) Comprised largely of commissions, royalties, freight and port fees.
(3) Comprised of tires, explosives, power, taxes, licenses, other miscellaneous expenses.

In Prairie Operations, operating costs decreased $0.98 per tonne in the third quarter of 2009 and $0.07 per tonne for the first nine months of 2009 compared to the same periods in the prior year primarily due to a decline in commodity prices, particularly diesel. These cost reductions were partially offset by maintenance activities at certain owned mines on equipment that had reached specified operating-hour thresholds. During the first nine months of 2009, operating costs also increased because of two unplanned dragline outages in the first quarter at the Boundary Dam mine which required more costly mining techniques to be employed.

In Mountain Operations, operating costs increased $4.48 per tonne in the third quarter and $0.52 per tonne for the first nine months of 2009 compared to the same periods in the prior year primarily due to reduced plant yields at Coal Valley realized during the third quarter of 2009 and higher costs associated with the start-up of production at the Obed Mountain mine. The reduced plant yields were a result of temporary fluctuations in the quality of coal being mined at the Coal Valley mine.

Production and sales

Production (millions of tonnes)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Prairie Operations (100% basis)	**9.0**	8.8	**25.8**	26.4
Mountain Operations (50% basis)	**0.5**	0.5	**1.5**	1.3

Sales (millions of tonnes)				
Prairie Operations (100% basis)	**8.9**	8.6	**25.5**	26.1
Mountain Operations (50% basis)	**0.6**	0.5	**1.4**	1.3

In Prairie Operations, reduced production and sales volumes for the first nine months of 2009 compared to the same period in the prior year were primarily due to lower volumes at the contract mines as a result of reduced demand in the first half of the year. Sales were also impacted by lower power prices that reduced demand at certain owned mines.

In Mountain Operations, production for the first nine months of 2009 was higher due to improved equipment availability.

Capital Spending

Capital Spending	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Prairie Operations				
Sustaining (100% basis)	**$ 13.4**	$ 1.7	**$ 38.4**	$ 13.2
Growth (50% basis)	**7.6**	-	**13.2**	-
Mountain Operations (50% basis)				
Sustaining (1)	**1.6**	1.3	**8.3**	2.4
Growth (2)	**1.9**	-	**10.9**	-
Total	**$ 24.5**	$ 3.0	**$ 70.8**	$ 15.6

(1) Includes $3.6 million of equipment financed through a bank credit facility during the nine months ended September 30, 2009 that previously would have been acquired under a capital lease.

(2) Includes $2.9 million of equipment financed through a bank credit facility during the nine months ended September 30, 2009 that previously would have been acquired under a capital lease.

Prairie Operations leases the majority of its mobile equipment under long-term mine support equipment agreements entered into in 2004. In the first nine months of 2009, working capital was used to purchase $25.5 million of equipment due to limited availability of lease financing at acceptable terms. In the same period, Prairie Operations incurred capital costs of $12.9 million for infrastructure development and capital repairs on mobile equipment.

During the third quarter of 2009, $7.6 million (our proportionate contribution pursuant to the joint venture with Norit Canada Inc.) was spent on the construction of the activated carbon plants at the Bienfait mine bringing total 2009 spending to $13.2 million. Commissioning is expected in early 2010.

In Mountain Operations, capital spending for infrastructure development was higher than in the prior year periods as the Coal Valley mine prepared to enter new mining areas. Growth capital spending at the Obed Mountain mine project was completed in the third quarter with a further $1.9 million being spent predominantly on refurbishing the wash plant.

Outlook for 2009

Production volumes, royalties and capital expenditures For the nine and twelve months ended	Actual 2009 September 30	**Projected 2009 December 31**
Production		
Prairie Operations (millions of tonnes, 100% basis)	25.8	**35**
Mountain Operations (millions of tonnes, 100% basis)	2.9	**4.3**
Royalties ($ millions)		
Coal	39	**48**
Potash	8	**11**
Capital Expenditures ($ millions)		
Prairie Operations[1]	38	**35**
Mountain Operations (50% basis)	8	**9**
Activated carbon project (50% basis)	13	**25**
Obed Mountain mine (50% basis)[2]	8	**9**

(1) For the nine months ended September 30, 2009, includes equipment that is expected to be financed through new borrowings in fourth-quarter 2009. These anticipated new borrowings have been reflected in the projected annual amount.
(2) Excludes equipment financed through a bank credit facility.

Estimated annual production levels at Prairie Operations are consistent with the estimate provided in the second quarter. In Mountain Operations, production volumes for 2009 on a 100% basis are expected to be down slightly from the previous estimate of 4.4 million tonnes to 4.3 million tonnes, due to lower-than-projected production volumes in the third quarter. In Mountain Operations, with the exception of the disputed guaranteed floor price contract, contract prices have been established for the balance of the year, but realized prices will fluctuate with foreign exchange rate changes as settlement pricing for exports is denominated in U.S. dollars. In order to mitigate the impact of the disputed guaranteed floor price contract, CVRI will use its best efforts to sell the volumes committed under that contract to other customers at prevailing contract or market prices, which are expected to be lower than the guaranteed floor price. Royalties are expected to be slightly lower than previously estimated, as the impact of lower potash royalties, due to declining pricing and production is expected to be largely offset by more robust coal royalties resulting from the mining sequence in royalty assessable areas. The commissioning of the first Activated Carbon plant is on schedule for early 2010.

At September 30, 2009, CVRI was not in compliance with a financial covenant applicable to the $38.0 million (100% basis) 3-year non-revolving term facility used to finance the re-opening of the Obed Mountain mine that requires CVRI to maintain a current ratio of not less than 1:1. CVRI's working capital balance was reduced as it was unable to record expected levels of revenue related to production from the re-opening of the Obed Mountain mine. The financial institution granted a waiver of this covenant for the quarter ended September 30, 2009. See Liquidity and financial condition for more information.

Review of operations – Oil and Gas

Financial data

$ millions	For the three months ended 2009 September 30	2008 September 30	For the nine months ended 2009 September 30	2008 September 30
Revenue				
Cuba	**$ 56.5**	$ 106.5	**$ 148.3**	$ 285.1
Spain	**2.6**	4.8	**5.9**	14.6
Pakistan	**0.2**	0.3	**0.8**	0.8
Processing and other	**0.6**	1.3	**1.7**	4.4
	59.9	112.9	**156.7**	304.9
Operating costs	**(9.1)**	(10.1)	**(32.5)**	(31.3)
General and administrative costs	**(8.0)**	(6.6)	**(20.6)**	(22.9)
EBITDA [1]	**42.8**	96.2	**103.6**	250.7
Depletion, amortization and accretion	**(22.5)**	(24.2)	**(70.0)**	(77.1)
Operating earnings [1]	**$ 20.3**	$ 72.0	**$ 33.6**	$ 173.6

(1) For additional information see the Non-GAAP Measures section.

The change in operating earnings between comparable periods in 2009 and 2008 is detailed below.

$ millions	**For the three months ended 2009 September 30**	**For the nine months ended 2009 September 30**
Operating earnings from Block 7 in 2008	$ (18.2)	$ (47.2)
Continuing operations:		
Lower realized oil and gas prices	(30.8)	(103.3)
Increases in depletion, amortization and accretion	(2.3)	(6.3)
Impact of stronger U.S. dollar	3.2	22.3
Other	(3.6)	(5.5)
Change in operating earnings, compared to 2008	$ (51.7)	$ (140.0)

Oil prices

Prices	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Average-realized prices:				
Cuba ($/barrel)	**$ 50.54**	$ 72.51	**$ 43.01**	$ 61.68
Spain ($/barrel)	**74.14**	117.26	**67.36**	112.84
Pakistan ($/boe) (1)	**8.07**	7.61	**8.30**	7.35
Reference price (U.S.$/barrel)				
Gulf Coast Fuel Oil No. 6	**63.30**	95.25	**51.33**	83.48
Brent	**68.46**	114.41	**57.44**	112.98

(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 net oil production in Cuba decreased by $21.97 per barrel in the third quarter and by $18.67 per barrel for the first nine months of 2009 as a result of lower oil reference prices, partially offset by a stronger U.S. dollar relative to the Canadian dollar, which weakened during the third quarter. The average-realized price in Spain was lower in the third quarter of 2009 for the same reasons.

Production and sales

Daily Production Volumes (1) (2)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Gross working-interest oil production in Cuba (3) (5)	**22,031**	28,952	**21,296**	31,248
Net oil production (4)				
Cuba (heavy oil)				
Cost recovery (5)	**5,345**	6,878	**6,694**	6,748
Profit oil (5)	**6,807**	9,082	**5,939**	10,125
Total	**12,152**	15,960	**12,633**	16,873
Spain (light/ medium oil) (4)	**373**	447	**318**	473
Pakistan (natural gas) (4)	**350**	390	**368**	391
Total	**12,875**	16,797	**13,319**	17,737

(1) Production figures exclude production from wells for which commerciality has not been established.
(2) Oil production is stated in barrels per day (bpd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per boepd.
(3) 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 commerciality has not been established in accordance with production-sharing contracts; and (ii) working interests of other participants in the production-sharing contracts.
(4) Net production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net oil production volumes equal 100% of gross working-interest production volumes.
(5) For further information on gross working-interest oil production in Cuba, cost recovery, and profit oil see page 51 of the 2008 annual report.

In January 2009, Sherritt's joint operating partner, Peberco Limited, entered into an agreement with an agency of the Cuban government which resulted in the termination of the Block 7 production-sharing contract. As a result, no Block 7 production was recorded in 2009. Excluding Block 7, gross working-interest production in the third quarter of 2008 and for the first nine months of 2008 was 20,851 bpd and 22,685 bpd, respectively.

Excluding Block 7, gross working-interest oil production in Cuba was higher by 1,180 bpd in the third quarter of 2009 compared to the same period in the prior year primarily as a result of successful drilling activity in the second and third quarter of 2009 and reduced production in the prior year due to the impact of two hurricanes. Decreased production of 1,389 bpd in the first nine months of 2009 compared to the same period in the prior year was primarily due to the temporary suspension of development drilling activity during the fourth quarter of 2008 and the first quarter of 2009. Drilling activity resumed late in the first quarter of 2009.

Net production in Cuba in the third quarter of 2008, excluding Block 7, was 12,115 bpd including 6,179 bpd for cost recovery and 5,936 bpd for profit oil. Excluding Block 7, the cost recovery component of net production in Cuba decreased by 834 bpd in the third quarter of 2009 due to a decrease in costs eligible for recovery. For the nine months ended September 30, 2008, net production in Cuba, excluding Block 7, was 12,703 bpd consisting of 5,826 bpd of cost recovery oil and 6,877 bpd of profit oil. The increase in cost recovery oil, excluding Block 7, for the first nine months of 2009 was due mainly to the decrease in the oil price partially offset by a decrease in costs eligible for recovery. The profit oil component of net production is Sherritt's share of production after the cost recovery component is subtracted from gross working-interest production. Sherritt's average share of profit oil in Cuba was 41% for both for the third quarter and the first nine months of 2009.

Production in Spain was lower due to natural reservoir declines and the impact of a series of workovers.

Operating costs

Unit operating costs ($/boe)[1]	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Cuba	**$ 6.63**	$ 5.97	**$ 7.88**	$ 5.86
Spain	**48.15**	32.75	**60.14**	31.82
Pakistan	**0.50**	0.78	**0.99**	0.92
Weighted-average	**$ 7.67**	$ 6.56	**$ 8.94**	$ 6.45

(1) Excludes the impact of loss on disposal of Block 7 assets.

Components of unit operating costs - Cuba (%)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Cuba				
Labour	**5%**	7%	**3%**	9%
Maintenance	**19%**	23%	**11%**	30%
Treatment and transportation	**45%**	37%	**45%**	36%
Other [1]	**31%**	33%	**41%**	25%
	100%	100%	**100%**	100%

(1) Comprised mainly of chemicals, insurance, yard maintenance costs, fuel and net of capitalized equipment costs.

Unit operating costs in Cuba increased by $0.66 per barrel and $2.02 per barrel in the third quarter and first nine months of 2009, respectively, primarily due to fixed operating costs being applied against a smaller production base following the termination of the Block 7 contract and higher treatment and transportation rates. In addition, a retroactive adjustment to 2008 treatment and transportation rates was recorded during the first quarter of 2009. Labour and maintenance costs both decreased as a percentage of total costs due to the termination of the Block 7 contract and the suspension of drilling activity in the first quarter of 2009.

Capital Spending

Capital Spending	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Development and facilities	**$ 17.1**	$ 32.1	**$ 36.3**	$ 76.7
Exploration	**5.0**	0.5	**8.2**	11.0
Total	**$ 22.1**	$ 32.6	**$ 44.5**	$ 87.7

In the third quarter of 2009, capital spending included $11.3 million for development drilling activities and $1.5 million for equipment. In the first nine months of 2009, capital spending included $15.4 million for development drilling activities, $6.4 million related to facilities, $5.0 million for equipment and $1.9 million for workovers.

Exploration costs related mainly to a well drilled offshore in Turkey. The expected structures were encountered; however, the well was a dry hole. Sherritt and its partners are reviewing the drilling results to determine whether further exploration activity is warranted in this area.

Reduced capital expenditures in 2009 reflect the termination of the Block 7 contract and the suspension of drilling activity in Cuba up to the end of the first quarter of 2009. In the third quarter of 2009, one development well was initiated and two were completed.

Outlook for 2009

Production volumes and capital expenditures	Actual	**Projected**
	2009	**2009**
For the nine and twelve months ended	September 30	**December 31**
Production		
Gross working-interest oil (Cuba) (bpd)	21,296	**21,000**
Net working-interest production, all operations (bpd)(1)	13,319	**12,600**
Capital Expenditures ($ millions)		
Cuba	$ 31	**$ 59**
Other	$ 13	**$ 14**

(1) Net oil production predicated on the WTI/Fuel Oil No. 6 price differential remaining consistent with historical levels.

The capital expenditure estimate for 2009 has been revised to reflect planned drilling activity for the remainder of 2009. Cuban receivables continue to be received on a consistent basis. At September 30, 2009 receivables of $26.1 were overdue, a decrease of $14 million since June 30, 2009.

Review of operations - Power

Financial data

	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Revenue				
Electricity sales	**$ 26.5**	$ 24.4	**$ 78.5**	$ 71.8
By-products and other	**4.1**	6.5	**11.1**	19.2
	30.6	30.9	**89.6**	91.0
Operating costs	**(7.0)**	(6.8)	**(24.4)**	(18.7)
General and administrative costs	**(1.6)**	(0.4)	**(3.8)**	(1.9)
EBITDA [(1)]	**22.0**	23.7	**61.4**	70.4
Depletion, amortization and accretion	**(7.8)**	(7.3)	**(23.1)**	(22.0)
Operating earnings [(1)]	**$ 14.2**	$ 16.4	**$ 38.3**	$ 48.4

(1) For additional information see the Non-GAAP Measures section.

The change in operating earnings between comparable periods in 2009 and 2008 is detailed below.

$ millions	**For the three months ended 2009 September 30**	**For the nine months ended 2009 September 30**
Higher realized electricity prices, denominated in Canadian dollars	1.4	10.1
Lower by-products prices	(2.4)	(8.0)
Lower electricity and by-products sales volumes	0.7	(3.4)
Higher maintenance costs	(1.0)	(2.7)
Higher costs related to turbine rotor overhaul	-	(2.7)
Higher general and adminstration costs	(1.2)	(1.9)
Other	0.3	(1.5)
Change in operating earnings, compared to 2008	(2.2)	(10.1)

Electricity Prices

Prices ($/MWh) [(1)]	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Average-realized price	**$ 45.07**	$ 42.32	**$ 47.83**	$ 41.25

(1) Megawatt hours (MWh).

The average-realized price of electricity was $2.75 per MWh and $6.58 per MWh higher in the third quarter and first nine months of 2009 compared to the same periods in the prior year primarily due to a stronger U.S. dollar relative to the Canadian dollar.

During the third quarter and first nine months of 2009, by-product revenue decreased compared to the same periods in the prior year mainly as a result of lower commodity prices, which are linked to market prices for petroleum products.

Production and sales

Production/Sales (GWh)[2]	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Electricity sold [1]	**588**	577	**1,644**	1,742

(1) Including non-controlling interest's share.
(2) Gigawatt hours (GWh).

Electricity sales volume increased 11 GWh in the third quarter of 2009 due to increased gas availability during the period and decreased by 98 GWh for the first nine months of 2009 due to intermittent gas supply shortages at Boca de Jaruco, an increase in scheduled maintenance, and turbine failures in the first two quarters of 2009.

Operating costs

Unit operating costs ($/MWh)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Operating cost	**$ 11.82**	$ 11.89	**$ 14.82**	$ 10.71

Components of unit operating costs (%)	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
	September 30	September 30	**September 30**	September 30
Labour	**36%**	41%	**34%**	44%
Maintenance	**49%**	42%	**54%**	38%
Other [1]	**15%**	17%	**12%**	18%
Total	**100%**	100%	**100%**	100%

(1) Comprised mainly of insurance, freight and duty.

Unit operating costs in the third quarter of 2009 were relatively consistent compared with the same period in the prior year. In the first nine months of 2009 operating costs were $4.11 per MWh higher compared to the same period in the prior year primarily as a result of higher costs and lower production caused by gas shortages at Boca de Jaruco, increased scheduled maintenance and turbine failures in the first two quarters of 2009.

Capital Spending

Capital Spending	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Sustaining	**$ 1.6**	$ 0.7	**$ 10.5**	$ 5.3
Growth	**2.5**	4.2	**12.6**	10.9
Total	**$ 4.1**	$ 4.9	**$ 23.1**	$ 16.2

Growth capital spending of $2.5 million in the third quarter of 2009 and $12.6 million in the first nine months of 2009 related mainly to construction activity and equipment purchases for the 25 MW project in Madagascar. Spending on the 150 MW Boca de Jaruco Combined Cycle Project in Cuba was minimal as a result of the ongoing review of the project.

Outlook for 2009

Production volumes and capital expenditures	Actual	**Projected**
	2009	**2009**
For the nine and twelve months ended	September 30	**December 31**
Production		
Electricity (GWh)	1,644	**2,100**
Capital Expenditures ($ millions)		
Cuba	$ 19	**$ 28**
Madagascar	$ 4	**$ 5**

The 25 MW facility in Madagascar is complete and, in accordance with the relevant agreements, was turned over to the state-run electricity company early in the fourth quarter of 2009. A maintenance turnaround on the steam turbine at the Varadero facility is scheduled for the fourth quarter and, as a result, approximately 70 MW of capacity will not be available for an estimated 40 day period. As with Oil and Gas, regular receivables payments in Cuba continue to be received. The 150 MW Boca de Jaruco Combined Cycle Project continues to be reviewed, and the Project option value will be maintained through the continuation of progress payments.

Review of operations - Other

Technologies

For the three and nine month periods ended September 30, 2009, Technologies generated revenue of $2.7 million and $8.2 million, respectively, compared to $2.9 million and $10.8 million for the same periods in the prior year. Revenue decreased in the third quarter and the first nine months of 2009 primarily due to the decreased demand for services resulting from the weaker global economic conditions.

Sherritt's Clean Coal Technology Centre in Fort Saskatchewan, which develops processes for cleaning and upgrading western Canadian lignite and sub-bituminous coals, had its opening ceremony on September 29, 2009. This centre conducts innovative research in the field of coal beneficiation techniques for producing clean coal from raw coal to minimize or eliminate environmental pollutants prior to combustion or during gasification operations thus significantly reducing the impact of green house gas emissions on the environment. Another focus area of the centre is to find ways to diversify the use of Alberta coal in markets other than traditional combustion operations. This centre is unique to Alberta and Canada.

Mineral Products

During the third quarter of 2009, the Corporation determined that its Mineral Products division no longer met the criteria to be classified and accounted for as a discontinued operation as the Corporation was no longer actively marketing this division for sale. For the three and nine month periods ended September 30, 2009, Mineral Products incurred losses of $0.6 million and $2.7 million, respectively, compared to losses of $2.3 million and $3.0 million for the same periods in the prior year. The Mineral Products division is included in the “Corporate and Other” segment.

Liquidity and financial condition

Liquidity

Although current economic conditions and commodity prices have improved in the last several months, we continue to focus on effectively managing liquidity. The primary factors affecting our liquidity and how we manage capital are described in detail in our annual MD&A for the year ended December 31, 2008. Management believes that the Corporation will be able to satisfy its current and long-term debt obligations as they come due based on its financial position and liquidity profile at September 30, 2009.

Sources and uses of cash

$ millions	For the three months ended **2009 September 30**	For the three months ended 2008 September 30	For the nine months ended **2009 September 30**	For the nine months ended 2008 September 30
Cash from operating activities				
Cash from operating activities before change in non-cash working capital	**$ 120**	$ 155	**$ 310**	$ 438
Change in non-cash working capital	**79**	(112)	**31**	(223)
Cash provided by operating activites	**$ 199**	$ 43	**$ 341**	$ 215
Cash from investing and financing				
Cash capital spending	**$ (628)**	$ (508)	**$ (1,358)**	$ (1,408)
Short-term debt borrowings (repayments)	**(92)**	1	**(40)**	(52)
Long-term debt borrowings (net of repayments)	**665**	281	**1,042**	1,197
Funding from Ambatovy Joint Venture partners	**164**	36	**734**	100
Royal Utilities acquisition	**-**	-	**-**	(240)
Issuance of common shares	**1**	1	**1**	418
Dividends paid on common shares	**(11)**	(11)	**(32)**	(28)
Change in other assets	**3**	(41)	**5**	(112)
Other	**(29)**	27	**(12)**	29
	$ 73	$ (214)	**$ 340**	$ (96)
Increase in cash and short-term investments	**$ 272**	$ (171)	**$ 681**	$ 119
Cash, cash equivalents, and short-term investments:				
Beginning of period	**$ 1,016**	$ 749	**$ 607**	$ 459
End of period	**$ 1,288**	$ 578	**$ 1,288**	$ 578

Factors affecting cash flow

Operating cash flow for the third quarter and first nine months of 2009 was significantly impacted by the reduction in earnings. In general, our operating cash flow can be significantly impacted by our ability to collect Oil and Gas and Power receivables on a timely basis. We continue to work with Cuban government agencies to bring their accounts to current following the economic downturn in 2008.

The receipt of funds on the overdue 2008 Oil and Gas and Power receivables in the first quarter of 2009 of approximately US$161.0 million had a minimal impact on our overall cash position as the Corporation was required to purchase an approximately-equal amount of certificates of deposit. We continue to collect principal and interest on these certificates on a weekly basis, in accordance with the terms of the certificates.

Included in the cash and cash equivalents balance at September 30, 2009 is $646.9 million that is held by the Ambatovy Joint Venture of which $568.0 million was provided through borrowings on the Ambatovy Project financing facility at the end of the third quarter of 2009. All cash held by the Ambatovy Joint Venture is for the exclusive use of the Joint Venture and therefore not available for general corporate use. The majority of our capital expenditures relate to spending on the Ambatovy Project. As such, any impact on cash flow is temporary as these expenditures are fully funded by the Ambatovy Project financing facility or through the Ambatovy additional partner loans.

During the first quarter of 2009, we received $74.1 million as our share of proceeds related to the termination of the Block 7 production-sharing contract.

Capital expenditures

Total capital expenditures for the third quarter and first nine months of 2009 were $397.0 million and $1.2 billion, respectively. The majority of this spending, $330.9 million and $1.0 billion, for each of the respective periods, related to the development of the Ambatovy Project. We continue to pursue the measures initiated in late 2008 as a response to the economic climate to bring spending in line with the projected cash flows from each of Sherritt's operations and available project-specific credit facilities in order to maintain a strong liquidity position. A discussion of capital expenditures is included in each of the Review of operations sections.

Available Credit Facilities

At September 30, 2009, the amount of credit available under various credit facilities, inclusive of approximately $544 million (US$507 million) (100% basis) available under the Ambatovy Joint Venture limited recourse project financing, was $899 million.

The following table outlines the maximum amount and amounts available to the Corporation under its credit facilities as at September 30, 2009 and December 31, 2008. A description of these facilities is provided in our 2008 annual MD&A or as updated below.

$ millions, as at	**2009 September 30**				2008 December 31			
		Maximum		Available		Maximum		Available
Syndicated 364-day revolving term credit facility		**140**		**110**		140		89
Ambatovy Project financing (U.S.$) (100%)		**2,100**		**507**		2,100		1,030
Ambatovy J.V. partner loans (U.S.$)(1)(2)		**213**		**128**		236		173
Ambatovy J.V. additional partner loans (U.S.$)(2)		**23**		**-**				
Senior credit facility agreement		**235**		**55**		235		52
MAV note loans(4)		**33**		**33**		40		15
MAV liquidity line of credit(5)		**20**		**20**		20		4
Total Canadian Equivalent	**$**	**2,933**	**$**	**899**	$	3,296	$	1,633
Capital leases		**92**		**-**		87		-
Proportionate share of credit facility(3)		**Maximum**		Available		Maximum		Available
Ambatovy Project financing (U.S.$) (40%)		**840**		**203**		840		412
Total Canadian Equivalent	**$**	**901**	**$**	**218**		1,029		505

(1) The availability under this loan has been reduced by US$22.9 million, the amount repaid to Kores.
(2) The Ambatovy Joint Venture additional partner loans are uncommitted except for a commitment of US$22.9 million. The US$22.9 million is committed to offset the reduction in amounts available under the original Ambatovy Joint Venture partner loans. (See footnote 1, above)
(3) To illustrate our 40% proportion of the available credit under the Ambatovy Project financing. On a proportionate basis, at September 30, 2009, we have drawn a total of $683.2 million.
(4) These facilities replaced the $40.0 million 364-day liquidity line of credit. The balance at December 31, 2008 reflects those of the previous facility.
(5) This $20.0 million facility, originally called the 6-month liquidity line of credit, was renamed the MAV liquidity line of credit. The balance at December 31, 2008 reflects those of the 6-month liquidity line of credit.

Ambatovy Project financing

During the third quarter of 2009, $568.0 million was drawn on this facility. At September 30, 2009, a total of $1.7 billion (US$1.6 billion) had been drawn on this facility. Our 40% proportionate share of this amount is $683.2 million.

Ambatovy Joint Venture additional partner loan agreements

On June 24, 2009, Sherritt finalized arrangements with its Ambatovy partners, Sumitomo Corporation, Korea Resources Corporation (Kores) and SNC-Lavalin Inc. for a mechanism to fund Sherritt's pro rata share of shareholder funding for the Ambatovy Project (the Ambatovy Joint Venture additional partner loans).

These additional loans are not committed except for a commitment of US$22.9 million to offset a reduction in amounts available under the Ambatovy Joint Venture partner loans. They are non-recourse to Sherritt except in circumstances where there is a direct breach by Sherritt of restrictions in the loan documents, which limit the activities of certain subsidiaries and the use of proceeds from the loans to the Project

Interest and principal on these loans will be repaid solely through Sherritt's share of the distributions from the Ambatovy Joint Venture. However, Sherritt has the right to prepay some or all of the loans at its option. Until the Ambatovy Joint Venture partner loans and the Ambatovy Joint Venture additional partner loans are fully repaid, 100% of Sherritt's distributions from the Project will be applied to these loans. Initially, 75% of Sherritt's share of distributions will be applied to the Ambatovy Joint Venture additional partner loans and 25% will be applied to the Ambatovy Joint Venture partner loans with 100% of such distributions being applied to whichever loans remain outstanding when one has been repaid in full.

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, in the Project at any time. Exercise of these rights in full would reduce Sherritt's interest in the Project 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. If the capital costs of the Project were to exceed US$4.52 billion and Sherritt did not provide its pro rata share of funding for the cost overrun, the partners could dilute Sherritt's interest in the Project below the 25% threshold. There are no other penalties to Sherritt for a failure to fund its pro rata share of shareholder funding.

These loans carry interest at a rate of LIBOR plus 7% per annum. The interest charges on the Ambatovy Joint Venture additional partner loans will be capitalized to deferred development costs as the Project is constructed.

At September 30, 2009, the Corporation had borrowed $421.9 million under this facility.

In conjunction with the Ambatovy Joint Venture additional partner loans, Sherritt received additional completion guarantee protection related to the US$2.1 billion senior project financing facility. Sherritt's pro rata share of these completion guarantees is US$840.0 million and, under existing arrangements, US$598.0 million of Sherritt's obligations have been cross-guaranteed by the other partners. Under the new agreements, the other Project partners have agreed to provide letters of credit to the senior lenders to cover any guarantee obligation of Sherritt not covered by the existing cross-guarantees.

The Project's US$2.1 billion senior project financing is unaffected by these arrangements.

Ambatovy Joint Venture partner loans

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 the new loans US$50.0 million of the existing Ambatovy Joint Venture partner loans such that the principal amount of the original loans was reduced to US$85.4 million at September 30, 2009. Including accrued interest, $92.8 million was outstanding on these loans at September 30, 2009. The advances that are outstanding at September 30, 2009 continue to bear interest at a rate of LIBOR plus 1.125%. There is no intention to borrow additional amounts under these loan agreements. Additional advances on these loans are subject to interest at a rate of LIBOR plus 10% per annum. As well, the share of Sherritt's distributions from the Ambatovy Joint Venture to be used to repay interest and principal under this facility has been reduced from 70% to 25%.

Coal - lease market

As a result of a difficult lease financing market, Coal has continued to use working capital or other credit facilities to fund purchases of certain equipment that it would have previously leased. As a result, in the three and nine months ended September 30, 2009, Coal purchased approximately $6.6 million and $25.5 million, respectively, of equipment using working capital. For the balance of the year, in the absence of available lease financing under acceptable terms, an additional $2.6 million of equipment that previously would have been leased may be purchased using working capital or other credit facilities.

Equipment financing term facility

On October 2, 2009, Prairie Mines & Royalty Ltd. (PMRL), a subsidiary of Royal Utilities, established a new non-revolving term credit facility with a financial institution to finance certain equipment. On October 6, 2009, PMRL borrowed $4.6 million less a pre-payment amount of $1.6 million. Under the terms of the loan, PMRL must pre-pay 15 installments, which represents security under the facility, which will be applied against the final 15 payments of the loan amount. The principal amount is subject to a fixed interest rate of 9.85% per annum and repayable over 48 months in equal blended payments. The loans are guaranteed by Royal Utilities.

Master Asset Vehicle (MAV) note loans

In August 2009, the Corporation replaced its $40.0 million 364-day liquidity line of credit, which provides liquidity in place of its current MAV notes, with two new facilities (the "MAV Eligible Notes loan" related to Class 1 Restructured notes and the "MAV Ineligible Notes loan" related to the Class 2 Restructured notes):

The MAV Eligible Notes loan provides a principal amount of $32.1 million which consists of Tranche A in the amount of $13.9 million and Tranche B in the amount of $18.2 million. Under the terms of this facility, the Corporation may borrow up to 100% of the face value of its Class 1 Restructured notes. In the event that any of the Class 1 Restructured notes held by the Corporation are sold with the prior consent of the lender or if principal amounts of the notes are repaid, the principal amount of the facility will be reduced accordingly and may require repayment of the principal balance outstanding under the facility. Advances bear interest at the Canadian Prime Rate less 1% or at Bankers Acceptances plus 0.65%. This facility is renewable in February 2011 and the Corporation may request extensions of the term of the loan for an additional 18 month term and, thereafter, for up to four successive one-year periods all such renewals being subject to the bank's consent. This facility is subject to the same financial covenants as the Syndicated 364-day revolving term credit facility (see below). Subject to certain conditions being fulfilled by the Corporation, the amounts outstanding under Tranche A are limited-recourse to the eligible notes, and the Corporation may, subject to the same conditions, following the third anniversary of the loan, transfer the Class 1 Restructured notes to the lender as repayment of the principal amount outstanding under Tranche A at that time.

The MAV Ineligible Notes loan provides a principal amount of $1.3 million representing 75% of the face value of the ineligible notes less any principal repayments. All of the conditions and covenants of this facility are similar to the MAV Eligible Notes loan above except that the Corporation may transfer the Class 2 Restructured notes to the lender as repayment of the principal amount outstanding following the second anniversary of the loan and recourse to the Corporation is limited to the amount of the Class 2 Restructured notes.

At September 30, 2009 there were no amounts owing on the MAV note loans.

MAV liquidity line of credit

In August 2009, the Corporation further amended the $20.0 million 6-month liquidity line of credit to extend the expiry date to August 5, 2010 (renamed MAV liquidity line of credit). This facility is subject to the same financial covenants as the Syndicated 364-day revolving term credit facility (see below). At September 30, 2009 there were no amounts owing on this facility.

Syndicated 364-day revolving-term credit facility

In May 2009, the Corporation amended the terms of the $140.0 million Syndicated 364-day revolving-term credit facility. Under the terms of the amended agreement, the loan is subject to the following financial covenants: financial debt-to-equity less than 0.5:1; quarterly adjusted net financial debt-to-EBITDA not exceeding between 2.5:1 and 3.9:1 depending on the quarter; and EBITDA-to-interest greater than 3:1. The interest rate on the Syndicated 364-day revolving-term credit is prime plus 3% per annum or Bankers Acceptances plus 4% and the facility expires on May 10, 2010. At September 30, 2009 there were no amounts owing on this facility.

3-year non-revolving term facility

On March 31, 2009, CVRI, a subsidiary of the Coal Valley Partnership, in which the Corporation has a 50% interest, established a new 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 mine. The facility consists of two loans totaling $38.0 million (100% basis) 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. Sherritt and its partner have each provided a $12.5 million limited guarantee in relation to these loans. At September 30, 2009, $38.0 million (100% basis) principal is outstanding under this facility at an average interest rate of 6.08% per annum. At September 30, 2009, CVRI was not in compliance with a financial covenant related to this facility. CVRI has, however, obtained a waiver of this covenant.

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 September 30, 2009, CVRI was not in compliance with a financial covenant applicable to the 3-year non-revolving term facility that requires CVRI maintain a current ratio of not less than 1:1. The facility provides total liquidity of $19.0 million (50% basis). The financial institution granted a waiver of this covenant for the quarter ended September 30, 2009.

CVRI has reclassified the $19.0 million loan (50% basis) to current liabilities as there is uncertainty that CVRI will be in compliance with the working capital covenant for the next twelve months. This potential reduction in liquidity is not expected to preclude the Corporation from satisfying its current and long-term obligations as they come due.

Other than as described above, the Corporation and its affiliates were in compliance with their financial covenants as at September 30, 2009, and the Corporation expects to remain in compliance with all of its other financial covenants during the next twelve 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.

Contractual commitments and obligations

The Corporation's significant contractual commitments and obligations and the principal repayments thereon are presented in the following table:

$ millions, as at	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter
Capital commitments	$ 711.0	$ 710.7	$ 0.1	$ 0.2	$ -	$ -	$ -
Long-term debt	3,315.1	52.0	12.7	201.5	402.6	152.4	2,493.9
Capital leases and other equipment financing	116.9	39.4	28.7	24.1	17.7	7.0	-
Operating leases	64.1	15.7	12.1	9.6	7.8	5.2	13.7
Pension obligations	73.3	7.0	7.1	7.2	7.2	7.0	37.8
Asset-retirement obligations	321.8	24.3	22.7	20.6	22.7	16.3	215.2
Total	$ 4,602.2	$ 849.1	$ 83.4	$ 263.2	$ 458.0	$ 187.9	$ 2,760.6

Significant commitments include:

- $684.7 million related to capital for the Ambatovy Joint Venture.
- $207.3 million for purchasing and leasing equipment, office space, vehicles, and services

Financial condition

Cash and short-term investments

Cash, cash equivalents and short-term investments at September 30, 2009 were $1.3 billion. Our policy is to invest available excess cash in highly liquid investments of the highest credit quality in a given marketplace and to limit our exposure to individual counterparties in order to minimize risks associated with these investments. Our principal guideline is to maximize our investments in Government of Canada treasury bills. The Corporation's joint venture entities maintain their own investment policies, but where possible, these policies are aligned with those of the Corporation. The maximum duration of any investment is one year; however, decisions regarding the length of maturities are based on our cash flow requirements, rates of return and other factors.

As at September 30, 2009, cash and cash equivalents and short-term investments were held in:

Canada: $564 million (invested primarily in Government of Canada treasury bills)

Cuba: $38 million (invested primarily in cash deposit accounts)

Other: $686 million (majority in the United Kingdom to be used for the Ambatovy Project, invested primarily in cash deposit accounts)

At September 30, 2009, included in cash, cash equivalents and short-term investments was $646.9 million (100% basis) of cash held by the Ambatovy Joint Venture and $47.3 million (50% basis) held by the Moa Joint Venture. These funds are for the use of each joint venture, respectively.

For accounting purposes, the Cuban certificates of deposit are not considered cash, cash equivalents or short-term investments but are recorded as long-term investments with the principal amount receivable within twelve months of September 30, 2009 classified as current on our balance sheet.

Share Capital

As at October 23, 2009, the Corporation had 293,146,856 common shares outstanding. An additional 4,693,335 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

An additional 2,829,830 common shares are issuable in relation to the cross-guarantees provided by certain Ambatovy Joint Venture partners. These shares are to be issued in approximately equal amounts on each December 31 of 2009 to 2011.

The Board of Directors of the Corporation approved a quarterly dividend of $0.036 per share that was paid October 14, 2009 to shareholders of record at the close of business on September 30, 2009.

Managing risk

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without 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 in the Corporation's Annual Information Form for the year ended December 31, 2008 (2008 AIF) filed on SEDAR at www.sedar.com and on the Corporation's website at www.sherritt.com. We have added the following to the disclosure appearing in our 2008 AIF:

Political uncertainty in Madagascar

The Ambatovy Project was developed in accordance with Madagascar's Large Mining Investment Act, *Loi sur les Grands Investissements Miniers,* (LGIM), which provides, among other things, for favourable tax, customs and royalty regimes and recourse to international arbitration. Andry Rajoelina, the President of the Transitional Government, had previously spoken publicly of reviewing the country's agreements with foreign resource companies to ensure the country is receiving its "fair share" of royalties from the exploitation of Malagasy resources. Although the Transitional Government has not been publicly pursuing revising the LGIM regime it remains a possibility that they, or a successor government, may attempt to revise the economic laws governing the Ambatovy Project or otherwise hinder it for economic gain or nationalistic political reasons. In such case the Ambatovy Project's rights under the LGIM are protected by a stability clause and a right of recourse to international arbitration.

Changes in accounting policies and accounting pronouncements

Changes in accounting policies

Goodwill and other Intangible Assets

Effective January 1, 2009 the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. The adoption of this standard did not have a significant impact on our interim consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Corporation to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of the interim consolidated financial statements and as required have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of our financial assets or liabilities.

Mining Exploration Costs

In March 2009, the CICA issued EIC-174, "Mining Exploration Costs" which provides guidance to mining enterprises related to the accounting and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of the interim consolidated financial statements and did not have an impact on the valuation of our exploration assets.

Financial Instruments – Recognition and Measurement

In July 2009, the Accounting Standards Board approved amendments to Section 3855 – "Financial Instruments: Recognition and Measurement" in order to converge with international standards for impairment of debt instruments by changing the categories into which debt instruments are required and permitted to be classified. These amendments will permit (or require in certain circumstances) entities to reclassify certain investments in debt instruments, amend the guidance regarding impairment measurement for held-to-maturity debt instruments and require reversals of impairment losses for available-for-sale-debt instruments when conditions have changed. These amendments apply only to investments in debt instruments and do not apply to investments in equity instruments or to debt instruments that have been designated at origination as held-for-trading. The amendments are effective for annual financial statements for fiscal years beginning on or after November 1, 2008. An entity is permitted, but not required, to apply these amendments to interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20, 2009. The Corporation adopted this standard for these interim consolidated financial statements. The adoption of this standard did not have an impact on the classification of its debt instruments.

Accounting pronouncements

Convergence with International Financial Reporting Standards

The Corporation's plan for IFRS convergence is described in our 2008 annual report.

We have completed the key elements of the scoping and planning phase (Phase 1) of our IFRS project plan. We are now engaged in the design and build phase (Phase 2). During Phase 2, we are prioritizing the conversion plan according to the time expected to be required to assess and convert the financial statements to IFRS. We expect to have some key elements of the implementation process completed by the first quarter of 2010 with a view to completing, internally, comparative IFRS interim financial statements in the second quarter of 2010. We continue to monitor IFRS accounting developments as they relate to our specific businesses and to update our project plan accordingly.

The following highlights our progress under Phase 2:

- Completed the impact assessments that provide an analysis of the issues and accounting policy choices for the areas that we have determined there will likely be significant differences from Canadian GAAP. In the third quarter of 2009, significant policy choices were identified.
- Completed the initial scoping study identifying the necessary changes to the financial systems.
- Completed an assessment of the impact of IFRS on business policies.
- Continued training of the stakeholders in the implementation process.

- Initiated the design of the control framework necessary to support the IFRS reporting environment with a view to updating the CEO/CFO certification process by the fourth quarter of 2010.

Regular progress reports on the status of Sherritt's IFRS implementation project are provided to the IFRS Steering Committee and to the Audit Committee of the Board of Directors.

Upon completing key elements of the initial scoping and planning phase, we determined that additional resources would be required to meet the implementation deadline. As a result, the Corporation has engaged additional professional advisors and is adding resources to its Finance Group. These resources will support the increased demands of the conversion process as well as ongoing reporting under IFRS.

Business Combinations/Consolidated Financial Statements/Non-Controlling Interests

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current Sections 1581, "Business Combinations" and 1600 "Consolidated Financial Statements". These new sections replaced existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with IFRS. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. The Corporation is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply to annual financial statements relating to fiscal years ending after September 30, 2009. Earlier adoption is permitted. The Corporation is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

Supplementary information

Sensitivity analysis

The following table shows the approximate impact on the Corporation's third quarter 2009 net earnings and EPS of 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 change in Q3 net earnings ($ millions) Increase/(decrease)	Approximate quarterly change in basic EPS ($)
Prices			
Nickel - LME price per pound	U.S.$ 0.10	0.7	-
Cobalt - Metal Bulletin price per pound	U.S.$ 1.00	0.6	-
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	U.S.$ 0.50	0.3	-
Volume			
Nickel - tonnes	1,000	3.3	0.01
Cobalt - tonnes	100	1.0	-
Oil - barrels per day	1,000	3.2	0.01
Electricity production - MWh	25,000	0.5	-
Exchange Rate			
US dollar per Canadian dollar	U.S.$ 0.05	(0.4)	-
Operating costs			
Natural Gas - cost per gigajoule (Metals)	$ 1.00	(1.1)	-
Sulphur - cost per tonne (Metals)	U.S.$ 10.00	(0.1)	-
Sulphuric acid - cost per tonne (Metals)	U.S.$ 10.00	(0.4)	-
Fuel - WTI oil price (Coal Mountain Operations)	U.S.$ 10.00	(0.5)	-

Non-GAAP measures

The Corporation's definition of EBITDA is earnings or loss from operations as reported in the GAAP financial statements, excluding net earnings or net loss related to any non-controlling interest, amounts included in net earnings or net loss for income taxes, interest expense, depletion, amortization, accretion, depreciation, impairment charges for property, plant and equipment, goodwill and investments, and gain or loss on disposal of property, plant and equipment.

The Corporation's definition of Operating earnings is EBITDA less depletion, amortization and accretion expense and depreciation included in operating expenses.

The table below presents EBITDA and Operating earnings and reconciles these non-GAAP measures to earnings from operations before income taxes and non-controlling interests.

	For the three months ended		For the nine months ended	
	2009	2008	**2009**	2008
$ millions	**September 30**	September 30	**September 30**	September 30
Revenue	**$ 389.6**	$ 478.3	**$ 1,097.7**	$ 1,236.2
Operating, selling and general and administrative expenses	**273.6**	281.3	**814.5**	691.4
	116.0	197.0	**283.2**	544.8
Add: Depreciation included in operating expenses	**20.5**	17.1	**61.2**	34.7
EBITDA	**136.5**	214.1	**344.4**	579.5
Less:				
Depreciation included in operating expenses	**20.5**	17.1	**61.2**	34.7
Depletion, amortization and accretion	**45.8**	53.3	**133.6**	139.5
Operating earnings	**70.2**	143.7	**149.6**	405.3
Loss on disposal of property, plant and equipment and investments	**-**	-	**79.5**	-
Net financing expense	**0.7**	2.1	**15.0**	14.7
Share of earnings of equity-accounted investment	**-**	(0.1)	**-**	(9.5)
Other items	**-**	-	**1.5**	-
Earnings from operations before income taxes and non-controlling interests	**$ 69.5**	$ 141.7	**$ 53.6**	$ 400.1

The Corporation is the primary beneficiary of two Variable Interest Entities (VIEs) as defined under CICA Accounting Guideline 15. The Corporation holds an indirect 40% interest in the equity of a VIE, the Ambatovy Joint Venture, and in accordance with Canadian GAAP, the accounts of the Ambatovy Joint Venture are consolidated and the 60% equity interests of the other shareholders are accounted for as non-controlling interests. The Corporation also holds an indirect one-third interest in the equity of another VIE, Energas S.A., and in accordance with Canadian GAAP, the accounts of Energas S.A. are consolidated. The two-thirds equity interests of the other shareholders are accounted for as non-controlling interests.

Given the magnitude of these VIEs relative to the Corporation's total asset base, certain shareholders and other stakeholders have requested additional information that will help them better understand the Corporation's economic interest in and exposure to these VIEs.

To address these concerns, the Corporation has prepared an adjusted balance sheet that includes the Corporation's proportionate interest in these VIEs. The adjusted balance sheet has been prepared using an arithmetic formula and does not represent proportionate consolidation under Canadian GAAP. The adjusted balance sheet has also been condensed in order to better illustrate key financial statement line items of interest to investors and management. The adjusted balance sheet does not have a standardized meaning under Canadian GAAP and is not to be used to compare the Corporation to other companies. An investor may find this information useful in analyzing our financial information but it should not be considered in isolation or as a substitute for any information prepared in accordance with Canadian GAAP.

The adjusted balance sheet provides both investors and management with information to help them better understand the Corporation's economic interest in key financial statement line items. Management also reviews key financial statement line items on this adjusted basis.

We have reconciled our adjusted balance sheet to the condensed Canadian GAAP balance sheet at September 30, 2009. This reconciliation provides a concise view of the impact of these VIEs on the Corporation's balance sheet by clearly identifying the adjustments related to each VIE by financial statement line item.

		Less: Consolidated amount		Add: Proportionate Interest		
	GAAP	Ambatovy	Energas S.A	Ambatovy	Energas S.A	Adjusted
$ millions, as at September 30, 2009	Balance Sheet	100%	100%	40.0%	33.33%	Balance Sheet
ASSETS						
Cash, cash equivalents, short-term investments	$ 1,288.1	$ (646.9)	$ (3.9)	$ 258.8	$ 1.3	$ 897.4
Other current assets	666.9	(39.3)	(59.2)	15.7	19.7	$ 603.8
Property, plant and equipment	6,936.0	(4,839.6)	(449.2)	1,935.8	149.7	3,732.7
Other	1,280.5	(9.5)	(21.8)	3.8	7.3	1,260.3
	$ 10,171.5	**$ (5,535.3)**	**$ (534.1)**	**$ 2,214.1**	**$ 178.0**	**$ 6,494.2**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	553.7	(287.0)	(36.8)	114.8	12.2	356.9
Long-term debt and other long-term liabilities	3,293.6	(1,655.2)	-	662.1	-	2,300.5
Other	702.5	(336.8)	(192.2)	134.7	64.1	372.3
	4,549.8	(2,279.0)	(229.0)	911.6	76.3	3,029.7
Non-controlling interests	2,157.2	(1,953.8)	(203.4)	-	-	-
Shareholders' equity	3,464.5	(1,302.5)	(101.7)	1,302.5	101.7	3,464.5
	$ 10,171.5	**$ (5,535.3)**	**$ (534.1)**	**$ 2,214.1**	**$ 178.0**	**$ 6,494.2**

Summary of quarterly results

The following table presents a summary of the segments and consolidated operating results for each of the eight quarters ending December 2007 to September 2009.

$ millions, except per share amounts, for the three months ended	**2009 September 30**	2009 June 30	2009 March 31	2008 December 31	2008 September 30	2008 June 30	2008 March 31	2007 December 31
Revenue[1]								
Metals	**$ 114.3**	$ 111.1	$ 79.7	$ 96.0	$ 137.5	$ 177.7	$ 162.3	$ 176.9
Coal [2]	**181.2**	165.7	188.9	200.7	189.9	124.5	30.9	23.2
Oil and Gas	**59.9**	50.2	46.6	44.9	112.9	104.5	87.5	85.9
Power	**30.6**	28.6	30.4	31.8	30.9	30.3	29.8	29.9
Corporate and other	**3.6**	2.9	4.0	6.5	7.1	5.4	5.0	10.5
	$ 389.6	$ 358.5	$ 349.6	$ 379.9	$ 478.3	$ 442.4	$ 315.5	$ 326.4
Net earnings (loss)	**55.9**	24.4	(42.9)	(592.1)	133.1	80.3	89.0	83.5
Net earnings (loss) per share								
Basic	**$ 0.19**	$ 0.08	$ (0.15)	$ (2.03)	$ 0.45	$ 0.28	$ 0.38	$ 0.36
Diluted	**$ 0.19**	$ 0.08	$ (0.15)	$ (2.03)	$ 0.45	$ 0.28	$ 0.38	$ 0.36

(1) Prior period revenue has been amended to include the results of the Mineral Products division which had previously been accounted for as a discontinued operation.
(2) Coal's results include the Corporation's 100% interest in Royal Utilities from the date of acquisition, May 2, 2008, and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets. In the periods prior to May 2, 2008, Royal Utilities was equity-accounted.

Operating results for the Corporation before the inclusion of unusual items are affected, primarily by changes in commodity prices and exchange rates that impact revenue and costs. Also, during the last six quarters, our results included the consolidation of Royal Utilities from the date of acquisition, May 2, 2008. During the most recent three quarters, the Corporation's results were significantly impacted by a reduction in nickel, cobalt and oil and gas prices as compared to the prior five quarters; however, prices in these sectors have been increasing on a quarter over quarter basis. In the first quarter of 2009, the Corporation recognized a loss on the disposal of Block 7 assets of $79.5 million ($57.4 million after-tax). As a result of the weakened economic environment in the fourth quarter of 2008, the Corporation recognized $590.7 million in unusual costs, including the impairment of goodwill related to the Ambatovy Joint Venture and impairment of certain Cuban accounts receivable balances.

Transactions with related parties

During the third quarter of 2009, the Corporation engaged in the following related-party transactions resulting in the balances at September 30, 2009 below:

	For the nine months ended	
	2009	2008
$ millions	**September 30**	September 30
Total value of goods and services:		
Provided to joint ventures and affiliates	**$ 83.9**	$ 102.8
Purchased from joint ventures and affiliates	**34.3**	82.1

	2009	2008
$ millions, as at	**September 30**	December 31
Accounts receivable from joint ventures	**$ 8.4**	$ 9.3
Accounts payable to joint ventures	**1.1**	3.3
Advances and loans receivable from certain Moa Joint Venture entities	**248.2**	287.3
Advances and loans payable to the Moa Joint Venture entities	**132.1**	137.9

The Corporation and its subsidiaries provide goods, labour, advisory and other administrative services to the Corporation's joint ventures and affiliates at exchange amounts (cost, commercial rates and other various contractual terms). 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-owned entities in the Metals business.

Controls and Procedures

Our disclosure controls and procedures are designed to ensure that all important information about Sherritt, including our operating and financial activities, is communicated fully, accurately and in a timely manner and that they provide us with assurance that our financial reporting is accurate.

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

As at September 30, 2009, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended September 30, 2009 we did not make any material changes in our internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Forward-looking statements

This discussion 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. Similarly, statements with respect to expectations concerning assets, prices, costs, dividends, foreign-exchange rates, earnings, production, market conditions, capital expenditures, commodity demand, risks, availability of regulatory approvals, the impact of investments in Master Asset Vehicles, corporate objectives and plans or goals, are or may be forward-looking statements. 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, business, economic and political conditions in Canada, Cuba, Madagascar, 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; 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 asset retirement and reclamation cost 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; 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.