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# Interim consolidated financial statements (unaudited)

As at and for the three months ended March 31, 2010

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## Consolidated balance sheets (unaudited)

Unaudited, \$ millions, as at	Note	2010 March 31	2009 December 31
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	20	\$ 243.0	\$ 440.8
Restricted cash		1.1	1.8
Short-term investments	20	521.8	420.8
Current portion of long-term investments	7	39.0	40.5
Current portion of other assets	8	67.0	66.0
Accounts receivable, net	20	329.1	321.2
Inventories	5	178.6	171.0
Prepaid expenses		10.5	11.8
Future income taxes		29.1	29.1
		1,419.2	1,503.0
<b>Long-term receivables</b>	20	28.6	21.2
<b>Property, plant and equipment</b>	6	7,337.1	7,162.9
<b>Investments</b>	7	121.9	125.8
<b>Other assets</b>	8	232.7	286.9
<b>Goodwill</b>		307.9	307.9
<b>Intangible assets</b>		479.6	483.4
<b>Future income taxes</b>		7.7	8.3
		\$ 9,934.7	\$ 9,899.4
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term debt	9	\$ 2.5	\$ -
Accounts payable and accrued liabilities		470.4	371.4
Deferred revenue		27.5	2.0
Current portion of long-term debt and other long-term liabilities	9	76.0	77.4
Current portion of asset-retirement obligations	10	23.5	24.1
Future income taxes		-	0.8
		599.9	475.7
<b>Long-term debt and other long-term liabilities</b>	9	3,135.1	3,167.7
<b>Asset-retirement obligations</b>	10	140.0	138.3
<b>Future income taxes</b>		540.6	552.5
		4,415.6	4,334.2
<b>Non-controlling interests</b>	11	2,081.5	2,110.8
<b>Shareholders' equity</b>			
Capital stock	12	2,772.3	2,771.9
Contributed surplus	13	218.5	218.1
Retained earnings		598.4	549.3
Accumulated other comprehensive loss	15	(151.6)	(84.9)
		446.8	464.4
		3,437.6	3,454.4
		\$ 9,934.7	\$ 9,899.4

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

## Interim consolidated financial statements (unaudited)

## Consolidated statements of operations

Unaudited, \$ millions, except per share amounts, for the three months ended March 31	Note	2010	2009
<b>Revenue</b>		\$ 393.3	\$ 349.6
Operating, selling, general and administrative expenses <sup>(1)</sup>		269.8	272.7
<b>Earnings before undernoted items</b>		123.5	76.9
Depletion, amortization and accretion		40.9	49.1
Loss on disposal of property, plant and equipment	6	-	79.5
Net financing income	16	(5.0)	(2.1)
Other items		-	2.2
<b>Earnings (loss) from operations before income taxes and non-controlling interests</b>		87.6	(51.8)
Non-controlling interests		4.9	6.1
Income taxes	18	23.0	(15.0)
<b>Net earnings (loss)</b>		\$ 59.7	\$ (42.9)
<b>Net earnings (loss) per share</b>			
Basic	12	\$ 0.20	\$ (0.15)
Diluted	12	\$ 0.20	\$ (0.15)

(1) Includes depreciation on production related depreciable assets of \$19.6 million and \$19.6 million for the three months ended March 31, 2010 and March 31, 2009, respectively.

## Consolidated statements of retained earnings

Unaudited, \$ millions, for the three months ended March 31	2010	2009
Beginning of year	\$ 549.3	\$ 505.8
Net earnings (loss)	59.7	(42.9)
Dividends on common shares	(10.6)	(10.5)
<b>End of period</b>	\$ 598.4	\$ 452.4

## Consolidated statements of comprehensive income (loss)

Unaudited, \$ millions, for the three months ended March 31	Note	2010	2009
<b>Net earnings (loss)</b>		\$ 59.7	\$ (42.9)
<b>Other comprehensive income (loss)</b>			
Unrealized foreign currency gain (loss) on self-sustaining foreign operations	15	(66.7)	142.9
<b>Comprehensive income (loss)</b>		\$ (7.0)	\$ 100.0

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

## Consolidated statements of cash flows

Unaudited, \$ millions, for the three months ended March 31	Note	2010	2009
<b>Operating activities</b>			
Net earnings (loss)		\$ 59.7	\$ (42.9)
Add (deduct)			
Non-controlling interests		4.9	6.1
Depletion, amortization and accretion		60.5	68.5
Stock-based compensation expense	14	2.1	0.2
Loss on disposal of property, plant and equipment	6	-	79.5
Impairment of inventory		0.3	0.4
Fair value adjustment		(5.1)	(0.6)
Future income taxes		0.6	(17.5)
Unrealized foreign-exchange gain		(13.1)	(8.7)
Liabilities settled for asset-retirement obligations	10	(3.0)	(3.4)
Other Items		0.2	4.4
		107.1	86.0
Net change in non-cash working capital	4	38.4	9.3
<b>Cash provided by operating activities</b>		<b>145.5</b>	<b>95.3</b>
<b>Investing activities</b>			
Capital expenditures		(362.1)	(416.9)
Purchase of short-term investments		(101.0)	(242.7)
Advances, loans receivable and other assets		16.8	1.3
Restricted cash		0.7	6.8
Net proceeds from sale of property, plant and equipment		0.2	7.4
Net change in non-cash capital expenditures		63.2	7.6
<b>Cash used for investing activities</b>		<b>(382.2)</b>	<b>(636.5)</b>
<b>Financing activities</b>			
Short-term debt repayments		-	(0.1)
Short-term debt borrowings		2.5	53.3
Long-term debt repayments		(13.2)	(11.1)
Long-term debt borrowings		43.7	91.8
Funding from Ambatovy Joint Venture partners		23.5	354.6
Treasury stock	12	(0.8)	-
Dividends paid on common shares		(10.6)	(10.5)
<b>Cash provided by financing activities</b>		<b>45.1</b>	<b>478.0</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(6.2)</b>	<b>2.7</b>
<b>Decrease in cash and cash equivalents</b>		<b>(197.8)</b>	<b>(60.5)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>440.8</b>	<b>500.9</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 243.0</b>	<b>\$ 440.4</b>
<b>Cash and cash equivalents consist of:</b>			
Cash on hand and balances with banks		\$ 161.1	\$ 202.6
Cash equivalents		81.9	237.8
<b>Supplementary cash flow information</b>			
Cash received for interest		\$ 7.9	\$ 5.7
Cash paid for interest on debt		5.3	3.8
Cash paid for income taxes		14.0	3.1

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

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## Notes to interim consolidated financial statements

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### 1 Summary of significant accounting policies

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These interim consolidated financial statements have been prepared on a basis consistent with that followed in the consolidated financial statements of Sherritt International Corporation (the Corporation or Sherritt) for the year ended December 31, 2009. The disclosure contained in these interim consolidated financial statements does not include all requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2009.

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### 2 Accounting pronouncements

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#### CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) requires all Canadian publicly accountable entities to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. The Corporation's first mandatory filing under IFRS, which will be the first quarter of 2011, will contain IFRS-compliant consolidated financial statements on a comparative basis, as well as reconciliations to Canadian GAAP for the comparative quarter and as at the January 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

#### 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 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 these new sections concurrently. The Corporation does not plan to early adopt these standards at this time; however, this plan could change in future periods depending on the facts and circumstances.

#### MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

In December 2009, the CICA issued EIC-175, "Multiple Deliverable Revenue Arrangements", which provides guidance for determining whether an arrangement involving multiple deliverables contains one or more units of accounting. The accounting treatments provided in EIC-175 are effective for the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. The Corporation will not early adopt this standard.

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### 3 Discontinued operation

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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. These interim consolidated financial statements include the net assets and results of operations of the division with the prior periods being restated accordingly. The division incurred losses of \$0.8 million and \$0.8 million for the three months ended March 31, 2010 and March 31, 2009, respectively.

## 4 Net change in non-cash working capital

\$ millions, for the three months ended March 31	2010	2009
Accounts receivable	\$ (25.3)	\$ 3.2
Inventories	(11.1)	2.6
Prepaid expenses	1.4	(0.6)
Accounts payable and accrued liabilities	73.4	4.1
	<b>\$ 38.4</b>	<b>\$ 9.3</b>

## 5 Inventories

\$ millions, as at	2010 March 31	2009 December 31
Uncovered coal	\$ 5.7	\$ 5.4
Raw materials	24.6	23.1
Materials in process	32.5	31.4
Finished products	35.7	31.7
	<b>98.5</b>	<b>91.6</b>
Spare parts and operating materials	80.1	79.4
	<b>\$ 178.6</b>	<b>\$ 171.0</b>

For the three months ended March 31, 2010, the cost of inventories recognized as an expense and included in Operating, selling, general and administrative expenses was \$176.3 million (\$173.1 million for the three months ended March 31, 2009).

## 6 Property, plant and equipment

\$ millions, as at	2010 March 31			2009 December 31		
	Cost	Accumulated amortization and depletion	Net book value	Cost	Accumulated amortization and depletion	Net book value
Metals	\$ 5,998.3	\$ 208.7	\$ 5,789.6	\$ 5,849.2	\$ 206.2	\$ 5,643.0
Coal	1,392.4	615.7	776.7	1,378.1	600.4	777.7
Oil and Gas	1,225.1	984.1	241.0	1,254.8	1,001.7	253.1
Power	658.1	194.3	463.8	624.0	188.4	435.6
Other	126.7	60.7	66.0	113.3	59.8	53.5
	<b>\$ 9,400.6</b>	<b>\$ 2,063.5</b>	<b>\$ 7,337.1</b>	<b>\$ 9,219.4</b>	<b>\$ 2,056.5</b>	<b>\$ 7,162.9</b>

The Property, plant and equipment balance included development and pre-production expenditures attributable to the Ambatovy Project of \$3,867.6 million (December 31, 2009 - \$3,657.7 million). In addition to the capitalized Ambatovy Project expenditures, Property, plant and equipment included assets under construction of \$367.8 million (December 31, 2009 - \$342.0 million).

The Corporation recognized a loss on disposal of \$79.5 million in the first quarter of 2009 as a result of the termination of the Block 7 production-sharing contract in Cuba.

The interest expense capitalized for the three months ended March 31, 2010 was \$22.0 million (March 31, 2009 - \$25.4 million).

## Notes to interim consolidated financial statements (unaudited)

**7 Investments**

\$ millions, as at	Note	2010	
		March 31	December 31
Cuban certificates of deposit		\$ 121.4	\$ 131.8
Master Asset Vehicle notes (MAV notes)	20	33.9	28.8
Other		5.6	5.7
		<b>160.9</b>	<b>166.3</b>
Current portion of Cuban certificates of deposit		<b>(39.0)</b>	<b>(40.5)</b>
		<b>\$ 121.9</b>	<b>\$ 125.8</b>

**8 Other assets**

\$ millions, as at	2010	
	March 31	December 31
Advances and loans receivable	\$ 206.3	\$ 221.7
Progress payments on equipment	21.6	54.3
Cross-guarantee fee asset	31.5	34.5
Note receivable	16.2	18.3
Pension asset	4.9	5.0
Put/call option - Ambatovy Joint Venture	7.5	7.5
Deferred reclamation recoveries	6.4	6.4
Deferred items	1.7	2.0
Other	3.6	3.2
	<b>299.7</b>	<b>352.9</b>
Current portion of other assets	<b>(67.0)</b>	<b>(66.0)</b>
	<b>\$ 232.7</b>	<b>\$ 286.9</b>

**ADVANCES AND LOANS RECEIVABLE**

In March 2010, an amended \$15.1 million (100%) revolving-lending facility was provided to Coal Valley Resources Inc.'s (CVRI), a subsidiary of Coal Valley Partnership, in which the Corporation has a 50% interest. The amended facility includes principal amounts of \$10.1 million from Sherritt and \$5.0 million from its partner in CVRI. The amended facility is subject to an interest rate of prime plus 3% per annum and may be repaid at any time without additional interest or penalty. This facility matures on November 30, 2010. The amount of loan payable by CVRI is presented net of the elimination of the 50% proportionately consolidated intercompany balances.

## 9 Short-term debt, long-term debt and other long-term liabilities

### SHORT-TERM DEBT

\$ millions, as at	Note	2010 March 31	2009 December 31
Other	8	\$ 2.5	\$ -
		\$ 2.5	\$ -

### LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

\$ millions, as at	2010 March 31	2009 December 31
7.875% senior unsecured debentures due 2012	\$ 268.3	\$ 267.8
8.25% senior unsecured debentures due 2014	222.0	221.8
7.75% senior unsecured debentures due 2015	272.1	272.0
Ambatovy Joint Venture financing	1,592.3	1,616.7
Ambatovy Joint Venture additional partner loans	424.9	422.0
Ambatovy Joint Venture partner loans	89.1	91.7
Senior credit facility agreement	65.6	65.6
Loan from financial institution	15.6	18.3
3-year non-revolving term loan	16.5	18.0
	2,966.4	2,993.9
Advances and loans payable	128.9	131.0
Capital lease obligations	86.4	88.6
Pension liability	10.8	11.4
Other long-term liabilities	18.6	20.2
	3,211.1	3,245.1
Current portion of long-term debt and other long-term liabilities	(76.0)	(77.4)
	\$ 3,135.1	\$ 3,167.7

#### 3-year non-revolving term loan

At March 31, 2010, CVRI was not in compliance with two financial covenants related to this loan. CVRI was, however, granted a waiver of these covenants for the quarter ended March 31, 2010 (note 21).

## 10 Asset-retirement obligations

\$ millions	For the three	For the
	months ended	year ended
	2010	2009
	March 31	December 31
Balance, beginning of year	\$ 162.4	\$ 148.2
Additions to liabilities	5.8	28.5
Liabilities settled	(3.0)	(14.0)
Accretion expense	2.1	8.9
Change in foreign-exchange rates	(3.8)	(9.2)
Balance, end of period	163.5	162.4
Current portion of asset-retirement obligations	(23.5)	(24.1)
	\$ 140.0	\$ 138.3

## 11 Non-controlling interests

\$ millions	For the three	For the
	months ended	year ended
	2010	2009
	March 31	December 31
<b>Ambatovy Joint Venture</b>		
Balance, beginning of year	\$ 1,906.9	\$ 1,464.0
Share of net earnings (loss)	(1.2)	2.0
(Decrease) increase in net assets	(34.2)	440.9
	1,871.5	1,906.9
<b>Energas S.A.</b>		
Balance, beginning of year	\$ 203.9	\$ 204.4
Share of net earnings	6.1	18.4
Dividends to non-controlling interests	-	(18.9)
	210.0	203.9
<b>Total balance, end of period</b>	<b>\$ 2,081.5</b>	<b>\$ 2,110.8</b>

## 12 Capital stock

The Corporation's authorized share capital consists of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

	Number		Stated Capital	
	For the three months ended	For the year ended	For the three months ended	For the year ended
	2010	2009	2010	2009
\$ millions, except share amounts	March 31	December 31	March 31	December 31
Balance, beginning of year	293,981,277	293,051,276	\$ 2,771.9	\$ 2,758.3
Share purchase plan	-	95,580	-	0.5
Cross-guarantee	-	943,277	-	13.9
Treasury stock	(94,874)	(108,856)	(0.8)	(0.8)
Stock options exercised	-	-	-	-
Other	-	-	1.2	-
Balance, end of period	293,886,403	293,981,277	\$ 2,772.3	\$ 2,771.9

The following table presents the calculation of basic and diluted earnings per common share:

\$ millions, except per share amounts, for the three months ended March 31	2010	2009
Net earnings (loss) - basic and diluted	\$ 59.7	\$ (42.9)
Weighted-average number of common shares - basic	294.0	293.1
Weighted-average effect of dilutive securities: <sup>(1)</sup> <sup>(2)</sup>		
Stock options	0.5	-
Restricted stock	0.1	-
Cross-guarantee	1.9	-
Weighted-average number of common shares - diluted	296.5	293.1
<b>Net earnings (loss) per common share</b>		
Basic	\$ 0.20	\$ (0.15)
Diluted	\$ 0.20	\$ (0.15)

(1) The determination of Weighted-average number of common shares-diluted excludes 4.4 million (March 31, 2009 - 3.8 million) shares related to stock options and 0.1 million (March 31, 2009 - 0.2 million) shares related to the employee share purchase plan that were anti-dilutive.

(2) As there was a loss for the three months ended March 31, 2009, the Corporation has excluded from the calculation of diluted loss per share all common shares potentially issuable upon the exercise of stock options and the cross guarantee, because they would be anti-dilutive.

### 13 Contributed surplus

\$ millions	For the three months ended 2010	For the year ended 2009
	March 31	December 31
Balance, beginning of year	\$ 218.1	\$ 232.0
Restricted Stock Plan amortization	0.4	-
Issuance of common shares to cross-guarantors	-	(13.9)
<b>Balance, end of period</b>	<b>\$ 218.5</b>	<b>\$ 218.1</b>

### 14 Stock-based compensation plans

The following is a summary of stock option activity:

For the three months ended March 31	2010		2009	
	Options	Weighted- average exercise price	Options	Weighted- average exercise price
Outstanding at beginning of year	4,774,906	\$ 10.69	3,978,335	\$ 12.30
Granted	724,240	8.33	-	-
Exercised for cash	-	-	-	-
Exercised for shares	-	-	-	-
Forfeited	(30,000)	15.13	(160,000)	14.84
<b>Outstanding at end of period</b>	<b>5,469,146</b>	<b>10.35</b>	<b>3,818,335</b>	<b>12.19</b>
<b>Options exercisable, end of period</b>	<b>2,527,983</b>	<b>\$ 11.76</b>	<b>1,507,334</b>	<b>\$ 11.22</b>

At March 31, 2010, 5,449,146 options (March 31, 2009 - 3,798,335) with a share appreciation right (SAR) attachment and 20,000 options (March 31, 2009 - 20,000) remained outstanding. For the three months ended March 31, 2010, there was a compensation expense of \$0.9 million (March 31, 2009 - \$nil) related to these options.

A summary of SARs, RSUs, DSUs and RSP's outstanding as at March 31, 2010 and 2009 and changes during the period are as follows:

For the three months ended March 31		2010			
	SAR	RSU	DSU	RSP	
Balance, beginning of year	212,500	1,304,689	216,946	108,856	
Issued	-	693,536	62,120	94,874	
Exercised	(72,500)	(214,299)	-	-	
Forfeited	-	(21,298)	-	-	
Outstanding at end of period	140,000	1,762,628	279,066	203,730	
Units exercisable, end of period	140,000	n/a	279,066	n/a	
Weighted-average exercise price	\$ 5.56	n/a	n/a	n/a	

For the three months ended March 31		2009			
	SAR	RSU	DSU	RSP	
Balance, beginning of year	274,125	826,001	165,566	-	
Issued	-	19,486	54,048	-	
Exercised	-	(133,141)	-	-	
Forfeited	-	(24,749)	-	-	
Outstanding at end of period	274,125	687,597	219,614	-	
Units exercisable, end of period	274,125	n/a	219,614	n/a	
Weighted-average exercise price	\$ 3.85	n/a	n/a	n/a	

The Corporation recorded a compensation expense for the three months ended March 31, 2010 of \$1.2 million (March 31, 2009 - \$0.2 million) related to the SARs, RSUs, DSUs, and RSPs.

## 15 Accumulated other comprehensive income (loss)

\$ millions	For the three months ended		For the
	2010	2009	year ended
	March 31	December 31	2009
Balance, beginning of year	\$ (84.9)	\$	231.0
Unrealized foreign currency loss on self-sustaining foreign operations	(66.7)		(315.9)
Balance, end of period	\$ (151.6)	\$	(84.9)

## 16 Net financing (income) expense

\$ millions, for the three months ended March 31	2010	2009
Interest income on cash, cash equivalents, investments and loans receivable	\$ (9.4)	\$ (13.2)
Interest and accretion expense on debt	20.2	21.9
Foreign-exchange gain, net	(10.4)	(10.4)
Fair-value adjustment	(5.1)	(0.6)
Other	(0.3)	0.2
	\$ (5.0)	\$ (2.1)

**Notes to interim consolidated financial statements (unaudited)**

During the three months ended March 31, 2010, foreign-exchange gains of \$10.4 million (March 31, 2009 - \$10.4 million) were recorded which mainly arose as a result of a weaker U.S. dollar relative to the Canadian dollar. The foreign exchange gain recorded from revaluing U.S. dollar-denominated loans payable was partially offset by the foreign exchange loss recorded from revaluing U.S. dollar-denominated advances and loans receivable.

Also during the three months ended March 31, 2010, the Corporation recognized an upward fair-value adjustment of \$5.1 million (March 31, 2009 - \$0.6 million) on its MAV notes primarily due to a decrease in credit spreads.

**17 Post-employment benefits**

The Corporation's pension expense for the three months ended March 31, 2010 was \$3.4 million (March 31, 2009 - \$3.3 million).

**18 Income taxes**

\$ millions, for the three months ended March 31	2010	2009
Current	\$ 22.4	\$ 2.5
Future	0.6	(17.5)
	\$ 23.0	\$ (15.0)

**19 Related party transactions**

\$ millions, for the three months ended March 31	2010	2009
<b>Total value of goods and services</b>		
Provided to joint ventures and affiliates	\$ 15.0	\$ 27.3
Purchased from joint ventures and affiliates	6.0	19.0

\$ millions, as at	2010 March 31	2009 December 31
Accounts receivable from joint ventures	\$ 5.7	\$ 4.4
Accounts payable to joint ventures	2.1	1.7
Advances and loans receivable from certain Moa Joint Venture entities	194.9	210.0
Loan receivable from Coal Valley Resources Inc.	5.1	5.0

## 20 Financial instruments and financial risk management

### FINANCIAL INSTRUMENT HIERARCHY

\$ millions, as at	Hierarchy Level	2010	2009
		March 31	December 31
<b>Financial assets</b>			
Held for trading, measured at fair value:			
Cash and cash equivalents	1	\$ 243.0	\$ 440.8
Restricted cash	1	1.1	1.8
Short-term investments	1	521.8	420.8
Master Asset Vehicle notes	3	33.9	28.8
Put/call option - Ambatovy Joint Venture	3	7.5	7.5

The following is a reconciliation of the beginning to ending balance for financial instruments included in Level 3:

\$ millions, as at March 31, 2010	Master Asset Vehicle Notes		Put/Call Option		Total
Balance, beginning of year	\$ 28.8	\$ 7.5	\$ 36.3		
Total gains in Net earnings <sup>(1)</sup>	5.1	-	5.1		
Balance, end of period	\$ 33.9	\$ 7.5	\$ 41.4		

(1) Gains (losses) included in Net earnings (loss) are recognized in Net financing (income) expense.

### MAV notes

In determining the fair value, the Corporation used credit spreads based on the current market bids available for A1, A2, B, C and Class 15 notes totaling \$32.1 million. The remaining \$1.8 million of notes held by the Corporation are not widely traded and the fair value was determined using discounted cash flows; the interest rate used was based on management's estimate of credit and other risk factors.

A 1% increase or decrease in the yields or discount rate could increase or decrease the Corporation's determination of fair value by approximately \$1.8 million, respectively.

### FAIR VALUES

Financial instruments with carrying values different from their fair values include the following:

\$ millions, as at	2010 March 31		2009 December 31	
	Carrying Value	Fair Value	Carrying Value	Fair Value
7.875% senior unsecured debentures due 2012	\$ 268.3	\$ 277.8	\$ 267.8	\$ 279.2
8.25% senior unsecured debentures due 2014	222.0	229.0	221.8	231.3
7.75% senior unsecured debentures due 2015	272.1	280.5	272.0	278.2

At March 31, 2010, the carrying values of Cash and cash equivalents, Restricted cash, Short-term investments, Accounts receivable, Short-term debt, Accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The fair values of other long-term debts approximate their carrying value. At March 31, 2010, the carrying value for the Cuban certificates of deposit (CDs) was approximately equal to the fair value (note 7).

At March 31, 2010, the carrying value of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements was approximately equal to the fair value.

**Notes to interim consolidated financial statements (unaudited)****CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was \$37.2 million at March 31, 2010 (December 31, 2009 - \$28.6 million).

At March 31, 2010, \$76.0 million of cash on the Corporation's balance sheet was held by the Ambatovy Joint Venture and \$32.0 million was held by the Moa Joint Venture (December 31, 2009 - \$272.1 million and \$14.2 million, respectively). These funds are for the use of each joint venture, respectively.

At March 31, 2010, the Corporation had \$603.7 million in Government of Canada treasury bills (December 31, 2009 - \$523.7 million) included in cash and cash equivalents and short-term investments.

**ACCOUNTS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES**

The Corporation's Accounts receivable are composed of the following:

\$ millions, as at	2010	2009
	March 31	December 31
Trade receivables	\$ 290.5	\$ 283.3
Allowances for doubtful accounts	(6.5)	(6.6)
Other	45.1	44.5
	<b>\$ 329.1</b>	<b>\$ 321.2</b>
Long-term receivables	<b>\$ 28.6</b>	<b>\$ 21.2</b>

Of which:

\$ million, as at	2010	2009
	March 31	December 31
Not past due	\$ 301.8	\$ 306.3
Past due no more than 30 days	43.4	26.4
Past due for more than 30 days but no more than 60 days	3.5	2.4
Past due for more than 60 days	9.0	7.3
	<b>\$ 357.7</b>	<b>\$ 342.4</b>

Accounts receivable that are past due primarily relate to the Corporation's Oil and Gas and Power operations in Cuba. At March 31, 2010, \$20.2 million of Oil and Gas and \$3.1 million of Power trade receivables were overdue. These overdue amounts were collected in April 2010.

**CREDIT RISK**

The Corporation has credit risk exposure related to its share of Cash, Accounts receivable and Advances and loans associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

\$ millions, as at	2010	2009
	March 31	December 31
Cash	\$ 26.1	\$ 22.7
Accounts receivable, net	150.4	157.2
Advances and loans receivable	623.7	664.6
Cuban certificates of deposit	103.7	112.6
	<b>\$ 903.9</b>	<b>\$ 957.1</b>

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties; however, certain loan balances are eliminated in the consolidated results in accordance with accounting principles for subsidiaries and joint ventures.

## 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
Long-term debt							
repayment obligations	\$ 3,174.8	\$ 40.5	\$ 24.3	\$ 391.9	\$ 124.0	\$ 372.6	\$ 2,221.5
Capital commitments	580.5	456.7	75.2	44.9	3.7	-	-
Capital leases and other	109.7	37.4	30.3	23.9	14.8	3.3	-
Operating leases	76.1	15.3	12.7	10.8	6.6	7.3	23.4
Pension obligations	82.5	7.6	7.8	7.8	7.9	8.1	43.3
Asset-retirement obligations	456.3	21.0	25.7	25.5	22.1	14.7	347.3
Total	\$ 4,479.9	\$ 578.5	\$ 176.0	\$ 504.8	\$ 179.1	\$ 406.0	\$ 2,635.5

Significant capital commitments include:

- \$387.1 million related to capital for the Ambatovy Joint Venture (December 31, 2009 - \$518.8 million); and
- \$379.2 million for purchases of capital equipment and services, capital leases, primarily for production equipment and operating leases for equipment, office space and vehicles (December 31, 2009 - \$384.1 million).

## FOREIGN-EXCHANGE SENSITIVITY

Based on financial instrument balances as at March 31, 2010, a strengthening or weakening of \$0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately \$13.4 million, respectively, on net earnings. This amount excludes the foreign-exchange risk arising from the translation of the self-sustaining foreign subsidiaries to Canadian dollars impacting other comprehensive income, as this is limited to the net investment in these operations, which is not considered a financial instrument.

## INTEREST RATE SENSITIVITY

Based on the short-term and long-term debt at March 31, 2010, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately \$0.8 million, respectively.

## 21 Capital disclosures

At March 31, 2010, CVRI was not in compliance with two of its financial covenants applicable to a 3-year non-revolving term loan that requires CVRI to maintain a current ratio of not less than 1:1 and a debt-to-tangible-net-worth ratio of not greater than 2.5. The loan provides total liquidity of \$19.0 million (50% basis). CVRI was, however, granted a waiver of these covenants for the quarter ended March 31, 2010.

CVRI has classified the \$16.5 million balance on this loan (50% basis) in current liabilities as there is uncertainty that CVRI will be in compliance with the working capital covenant and debt-to-tangible-net-worth 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.

The Corporation and its divisions were in compliance with all of their other financial covenants as at March 31, 2010. Other than the two covenants applicable to the 3-year non-revolving term loan discussed above, the Corporation expects to remain in compliance with all of its other financial covenants during the next 12 months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

## Notes to interim consolidated financial statements (unaudited)

## 22 Segmented information

## BUSINESS SEGMENTS

The results of the Corporation's reportable segments are as follows:

\$ millions, for the three months ended March 31 2010

	Metals	Coal	Oil and Gas	Power	Corporate and Other	Consolidated
<b>Revenue</b>	\$ 115.8	\$ 188.3	\$ 59.3	\$ 28.0	\$ 1.9	\$ 393.3
Operating, selling, general and administrative expenses	74.0	159.6	16.2	6.7	13.3	269.8
<b>Earnings (loss) before undernoted items</b>	41.8	28.7	43.1	21.3	(11.4)	123.5
Depletion, amortization and accretion <sup>(1)</sup>	1.9	11.4	19.3	8.0	0.3	40.9
Net financing expense						(5.0)
Non-controlling interests						4.9
Income taxes						23.0
<b>Net earnings</b>						59.7
Capital expenditures	321.4	10.8	13.2	6.3	10.4	362.1
Goodwill and intangible assets	3.3	760.8	-	16.8	6.6	787.5
<b>Total Assets</b>	\$ 6,078.5	\$ 1,743.5	\$ 730.2	\$ 630.1	\$ 752.4	\$ 9,934.7

\$ millions, for the three months ended March 31 2009

	Metals	Coal	Oil and Gas	Power	Corporate and Other <sup>(2)</sup>	Consolidated
<b>Revenue</b>	\$ 79.7	\$ 188.9	\$ 46.6	\$ 30.4	\$ 4.0	\$ 349.6
Operating, selling, general and administrative expenses	85.6	144.0	19.4	10.7	13.0	272.7
<b>Earnings (loss) before undernoted items</b>	(5.9)	44.9	27.2	19.7	(9.0)	76.9
Depletion, amortization and accretion <sup>(1)</sup>	2.9	10.1	27.2	7.6	1.3	49.1
Loss on disposal of property, plant and equipment	-	-	79.5	-	-	79.5
Net financing (income) expense						(2.1)
Other items	-	-	-	-	2.2	2.2
Non-controlling interests						6.1
Income taxes						(15.0)
<b>Net loss</b>						(42.9)
Capital expenditures	382.4	12.8	12.1	9.0	0.6	416.9
Goodwill and intangible assets	4.1	771.1	-	19.0	7.5	801.7
<b>Total Assets</b>	\$ 6,042.5	\$ 1,846.9	\$ 771.9	\$ 619.1	\$ 811.0	\$ 10,091.4

(1) Includes depreciation on production related depreciable assets of \$6.3 million in Metals and \$13.3 million in Coal for the three months ended March 31, 2010 (March 31, 2009 - \$4.5 million in Metals and \$15.1 million in Coal).

(2) Amounts have been amended to include results of the Mineral Products division which had previously been accounted for as a discontinued operation.

## GEOGRAPHIC SEGMENTS

The Corporation carries on business in the following geographic areas:

	2010			2009		
	Goodwill and Intangible Assets	Revenue	Property, Plant, and Equipment	Goodwill and Intangible Assets	Revenue	Property, Plant, and Equipment
Canada	\$ 767.4	\$ 166.1	\$ 1,091.1	\$ 778.6	\$ 161.4	\$ 986.7
Cuba	16.8	82.5	1,001.0	19.0	75.6	1,197.0
Madagascar	3.3	1.4	5,229.5	4.1	-	4,939.3
Europe	-	49.5	6.2	-	37.1	4.7
Asia	-	71.3	9.2	-	65.5	6.8
Other foreign countries	-	22.5	0.1	-	10.0	0.1
	\$ 787.5	\$ 393.3	\$ 7,337.1	\$ 801.7	\$ 349.6	\$ 7,134.6

## 23 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation in the current period.