Management's discussion and analysis

For the year ended December 31, 2010

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of February 22, 2011 should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2010.

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

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

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.

IN THIS SECTION

Key financial and operational data

$ millions, for the years ended December 31		2010		2009 (1)
Financial highlights				
Revenue	$	1,771.1	$	1,474.9
EBITDA (2)		632.0		495.4
Operating earnings (2)		374.1		233.9
Net earnings		214.0		85.7
Net earnings per share, basic ($ per share)		0.73		0.29
Net earnings per share, diluted ($ per share)		0.72		0.29
Cash flow				
Cash provided by operating activities	$	509.0	$	433.7
Capital expenditures	$	1,305.8	$	1,567.5
Production volumes				
Nickel (tonnes)(50% basis)		16,986		16,800
Cobalt (tonnes)(50% basis)		1,853		1,861
Coal - Prairie Operations (millions of tonnes)		34.4		35.4
Coal - Mountain Operations (millions of tonnes) (3)		3.3		2.0
Oil - Cuba - net production (barrels per day)		11,128		12,489
Electricity (gigawatt hours)		2,067		2,167
Unit operating costs				
Nickel (US$ per pound) (4)	$	3.33	$	3.21
Coal - Prairie Operations ($ per tonne)		12.62		11.29
Coal - Mountain Operations ($ per tonne)		71.40		63.88
Oil - Cuba ($ per barrel)		7.28		7.92
Electricity ($ per megawatt hour)		11.62		14.35
Averaged-realized sales prices				
Nickel ($ per pound)	$	10.11	$	7.46
Cobalt ($ per pound)		18.68		17.54
Coal - Prairie Operations ($ per tonne)		15.80		14.56
Coal - Mountain Operations ($ per tonne)		84.21		79.04
Oil - Cuba ($ per barrel)		52.24		45.38
Electricity ($ per megawatt hour)		42.42		46.79

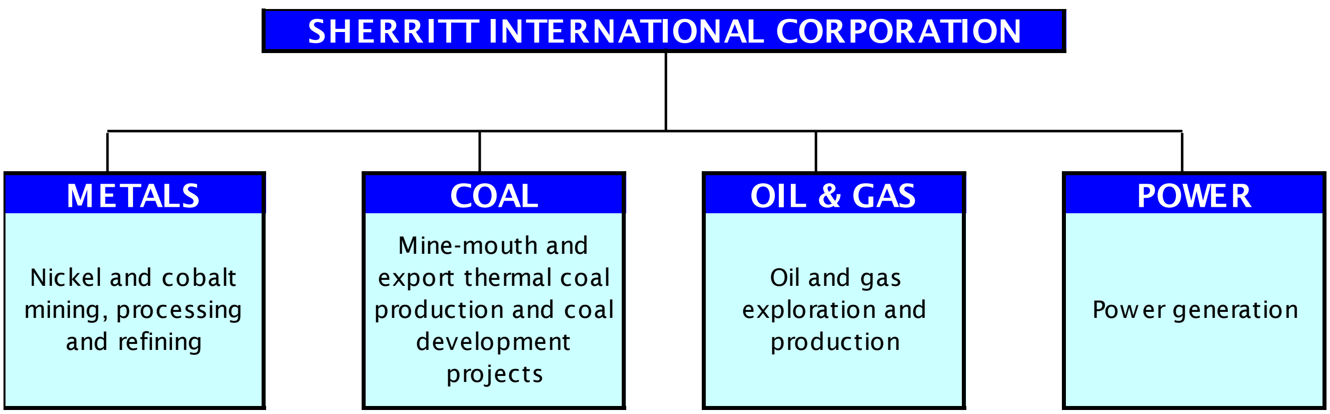
$ millions, except as noted, as at December 31		2010		2009
Financial condition				
Current ratio (5)		2.52:1		3.12:1
Net working capital balance (5)	$	914.3	$	1,027.3
Cash, cash equivalents and short-term investments		827.5		870.6
Total assets		10,721.5		9,908.4
Total long-term debt		3,330.7		2,993.9
Non-controlling interests		2,367.7		2,110.8
Shareholders' equity		3,510.2		3,454.4
Long-term debt-to-capitalization (6)		36%		35%

(1) Amounts have been amended as a result of Mineral Products being accounted for as a discontinued operation.
(2) For additional information see the Non-GAAP measures section.
(3) Results include the Corporation's 100% in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
(4) Net direct cash cost is inclusive of by-product credits and third-party feed costs.
(5) Working capital at December 31, 2010 included $53.7 million (100% basis) (December 31, 2009 - $272.1 million) of cash and cash equivalents held by the Ambatovy Joint Venture and $34.3 million (50% basis) (December 31, 2009 - $14.2 million) held by the Moa Joint Venture. All cash held by the Ambatovy Joint Venture and Moa Joint Venture is for the use of those joint ventures. Not including the cash held by these joint ventures, the Corporation's current ratio is 2.37:1.
(6) 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.

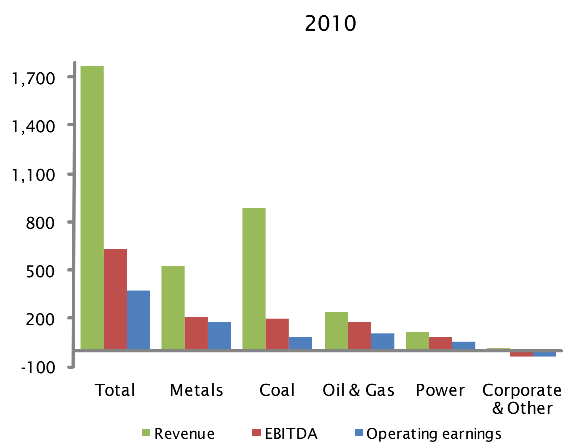
Overview of the business

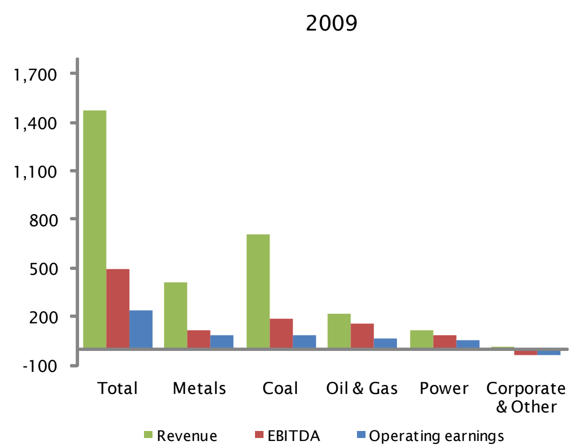
Sherritt is a diversified natural resource company that produces nickel, cobalt, thermal coal, oil, gas, and electricity. It also licenses its proprietary technologies to other metals companies. The Corporation has operations in the nickel mining and refining, coal mining, oil and gas production and power generating industries. Sherritt has operations in Canada, Cuba, Spain and Pakistan and a significant mining property under development in Madagascar. The common shares of the Corporation are listed on the Toronto Stock Exchange, trading under the symbol “S”. Sherritt’s operations are decentralized, having significant management autonomy at the business level with certain strategic, financing, consolidation and reporting activities managed from the head office in Toronto, Canada.

The Corporation remains focused on the long-term objective of effectively capitalizing on opportunities to grow its asset base through the expansion of existing businesses and strategic acquisitions.



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





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

Metals

Metals is an industry leader in mining, processing and refining nickel and cobalt from lateritic ore bodies. Sherritt has a 50/50 partnership with General Nickel Company S.A. of Cuba (the Moa Joint Venture or Moa JV), and a 40% interest in the Ambatovy Project, a significant nickel development project in Madagascar, expected to be operational in 2011. Also, Sherritt recently entered into an earn-in and shareholders agreement with a subsidiary of Rio Tinto Limited (Rio Tinto) pursuant to which, subject to the satisfaction of certain conditions, Sherritt could acquire a 57.5% interest in the holding company that owns the Sulawesi Nickel Project (Sulawesi Project) in Indonesia.

Metals also owns and operates fertilizer, sulphuric acid, utilities and storage facilities in Fort Saskatchewan, which provide additional sources of income and enhances the security of supply of certain inputs and services required by its metals refining operations.

The Moa JV mine, process and refine nickel and cobalt for sale worldwide (except in the United States of America). The Moa JV has mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and an international marketing and sales operation.

Continuous optimization of production facilities combined with the implementation of innovative technologies assists Metals in continuing to be one of the world’s lower-cost producers of nickel and cobalt from lateritic ore bodies. Metals’ experienced and knowledgeable workforce and management team, combined with good on-stream time and equipment reliability have been the keys to maximizing the utilization of production assets.

In Madagascar, the Ambatovy Project is expected to be one of the world’s largest lateritic nickel mining, processing and refining operations. Sherritt is the operator of this project and has as its partners, Sumitomo Corporation, Korea Resources Corporation (Kores) and SNC-Lavalin Inc. (collectively referred to as the Ambatovy Joint Venture or Ambatovy JV). The Ambatovy Project is a large tonnage nickel and cobalt project with two nickel deposits located near Moramanga which are planned to be mined over a 29-year period. The ore from these deposits will be delivered via pipeline to a processing plant and refinery located near the Port of Toamasina. The Ambatovy Project has proven and probable reserves of 120.5 million tonnes grading 1.07% nickel and 0.094% cobalt, as well as 53.0 million tonnes of low-grade material grading 0.68% nickel and 0.058% cobalt, that are expected to be processed towards the end of mine life. Annual production capacity is estimated at 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt.

The Sulawesi Project is located on the island of Sulawesi in the Republic of Indonesia. Based on exploration completed to date, the project includes a large, high grade resource. Identification of further mineralization will be achieved through additional exploration and completion of a feasibility study. Sherritt has been appointed as the operator and will license its commercially-proven, proprietary technology to the project. Work is expected to begin in early 2011. Further details can be found on page 14.

Coal

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

Coal consists of three distinct groups:

- Prairie Operations
- Mountain Operations
- Coal Development Assets

Prairie Operations consists of a 100% interest in Royal Utilities Income Fund (Royal Utilities). Royal Utilities indirectly owns and operates the Paintearth, Sheerness, Genesee (50% interest), Poplar River, Boundary Dam and Bienfait mines and operates the Highvale mine under contract. Prairie Operations also indirectly owns a 50% joint venture interest in the Bienfait Activated Carbon Joint Venture, which produces activated carbon for the removal of mercury from flue gas. The plant commenced start-up activities in June 2010 as part of an expected ramp-up process that was essentially completed in the fourth quarter of 2010. Prairie Operations also produces and sells char to the barbeque briquette industry from the Bienfait Char facility. In addition, Prairie Operations holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal, potash and other minerals.

Mountain Operations’ principal asset, Coal Valley Resources Inc. (CVRI), is 100% indirectly owned by Sherritt as of June 30, 2010 through the Coal Valley Partnership (CVP). Prior to June 30, 2010, Sherritt indirectly owned a 50% interest. CVRI owns the Coal

Valley mine, Obed Mountain mine, Gregg River mine and Coleman properties. The Coal Valley and Obed Mountain mines are the only active mines in the group. The majority of coal from Mountain Operations is sold in the export market to overseas customers.

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

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

Oil and Gas

Sherritt explores for and produces oil and gas, primarily from fields situated in Cuba, from which the Corporation produced approximately 93% of its worldwide net oil production during 2010. Sherritt holds a 100% indirect working-interest in four production-sharing contracts in Cuba. All of Sherritt's production in Cuba during 2010 was sold to an agency of the Government of Cuba. Sherritt also holds working-interests in several oil fields located in the Mediterranean Sea off the coast of Spain, and a working-interest in a natural gas field in Pakistan. During 2010 Sherritt received notice that it had been awarded permits in the United Kingdom North Sea and that final award of permits had been granted following regulatory review in the Alboran Sea off the coast of Spain.

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

Power

Sherritt's main operational focus for Power is in Cuba. Sherritt holds a one-third indirect interest in Energas S.A. (Energas), a joint venture, established to generate electricity for sale to the Cuban national electrical grid. The remaining two-thirds interest in Energas is held equally by two Cuban agencies, Union Electrica (UNE) and Union Cubapetroleo (CUPET). Energas supplies electricity to UNE under long-term fixed-price contracts. CUPET supplies the raw natural gas to Energas at no cost.

Energas' integrated gas treatment and power generation facilities are located near the Varadero, Boca de Jaruco and Puerto Escondido oil fields in Cuba. These facilities generate electrical power from processed natural gas that would otherwise be flared.

The completion of the 150 MW Boca de Jaruco Combined Cycle Project has been accelerated and is expected to be completed in the first quarter of 2013.

In 2009, Sherritt completed the construction and commissioning of a 25 MW thermal power project in Madagascar furthering Power's expertise in constructing and operating power projects in emerging markets and coping with the challenges of these environments. The operation of the facility is contracted to the local electricity utility which is entitled to all of the electricity generated for which Sherritt receives a fixed monthly fee. As a result, Sherritt recognizes leasing revenue, but not production or sales volumes from this facility.

Other - Technologies

Technologies has two main focuses: hydrometallurgical technologies for the recovery of non-ferrous metals and technology for the cleaning of coal prior to combustion in power stations and coal gasification plants. In addition to supporting the Corporation's divisions, more than thirty commercial plants worldwide currently employ Technologies' hydrometallurgical processes. Technologies' operations consist of approximately 65 scientists, engineers, technologists, and support staff.

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

Technologies' clean coal technologies development work is focused primarily on removing unwanted mineral matter and moisture from western Canadian lignite and sub-bituminous coals. Historically, the coal based energy industry has concentrated on the removal of unwanted environmental contaminants from exhaust gases instead of cleaning coal prior to combustion which increases energy content and reduces contaminants requiring capture post combustion. Technologies is currently working to develop beneficiation processes for low-rank coals in order to meet the emission reduction requirements of the power generation industry.

Executive summary

Highlights

Sherritt remains focused on the long-term objective of effectively capitalizing on opportunities to grow its asset base through the expansion of existing businesses and strategic acquisitions. Each of Sherritt's four major business units generated positive free cash flow in 2010. Highlights from 2010 were as follows:

RESULTS

- Net earnings for the year ended December 31, 2010 were $214.0 million compared to net earnings of $85.7 million in the prior year. 2009 net earnings include a loss on disposal of property, plant and equipment of $79.5 million ($57.4 million after-tax) related to the termination by Sherritt's joint-operating partner of the Block 7 production-sharing contract in Cuba.
- Revenue of $1.8 billion and EBITDA(1) of $632.0 million in 2010 compared to revenue of $1.5 billion and EBITDA of $495.4 million in the prior year. Higher revenue and EBITDA were primarily a result of higher nickel, cobalt, export thermal coal and oil prices partially offset by higher operating costs at Metals and Mountain Operations in Coal, and the overall impact of an average stronger Canadian dollar relative to the U.S. dollar during 2010 compared to the same period in the prior year.

PRODUCTION

- Finished nickel and mixed sulphide production levels in Metals exceeded those of the prior year primarily as a result of improved plant operation.
- Production levels in Prairie Operations in Coal decreased primarily due to planned and unplanned maintenance activities by power plant customers. Production levels in Mountain Operations in Coal exceeded those of the prior year primarily due to the full-year production from the Obed Mountain mine which re-opened in July 2009 and the acquisition of the remaining 50% of CVP on June 30, 2010.
- Gross working-interest oil production at Oil and Gas was lower, primarily due to a retroactive production adjustment from the Varadero West production-sharing contract and the loss of production from the Varadero production-sharing contract that expired in March 2010.
- Production at Power was lower as a result of lower gas supply.

FINANCIAL POSITION

- The Corporation continues to maintain a strong liquidity position with a current ratio of 2.52:1, a net working capital balance of $914.3 million and cash, cash equivalents, and short-term investments of $827.5 million. These amounts include $53.7 million in cash and cash equivalents that are held by the Ambatovy Joint Venture and $34.3 million held by the Moa Joint Venture and are for the use of each joint venture, respectively. The Corporation's long-term debt-to-capitalization ratio(2) is 36%.

ACQUISITION OF REMAINING INTEREST IN CVP

- On June 30, 2010, Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) that it did not previously own from the Ontario Teachers' Pension Plan Board (OTPPB) for $45.0 million. The purchase added approximately 2.6 million tonnes of export thermal coal annual capacity, the associated reserves and resources, and completed the process of consolidating ownership of the production assets in the Coal business.

DEVELOPMENT PROJECTS

- An additional $1.3 billion was spent on property, plant and equipment, of which $1.1 billion was spent on the development of the Ambatovy Project. The Project is on-track to produce first metal by summer 2011.
- The estimated capital cost for the Ambatovy Project is US$4.76 billion, excluding financing charges, foreign exchange and working capital requirements, consistent with guidance released in December 2010.

(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.

- Sherritt executed an earn-in and shareholders agreement with a subsidiary of Rio Tinto Limited (Rio Tinto) whereby it could acquire an interest in the Sulawesi Project in Indonesia, subject to the satisfaction of certain conditions. The Sulawesi Project is one of the largest known undeveloped nickel resources in the world. Sherritt has been appointed as the operator and will license its commercially-proven, proprietary technology to the Sulawesi Project. As consideration for its interest, Sherritt has committed to fund up to US$110.0 million towards producing a feasibility study from which a development decision will be made. Further details can be found on page 14.

Consolidated financial results

$ millions, except per share amounts, for the years ended December 31		2010		2009
Revenue by segment				
Metals	$	528.3	$	415.7
Coal		885.2		710.7
Oil and Gas		238.1		219.7
Power		112.8		118.1
Corporate and other		6.7		10.7
		1,771.1		1,474.9
EBITDA (1) by segment				
Metals	$	209.0	$	111.2
Coal		202.6		187.3
Oil and Gas		175.9		153.5
Power		82.1		80.9
Corporate and other		(37.6)		(37.5)
		632.0		495.4
Operating earnings (loss) (1) by segment				
Metals	$	177.3	$	82.3
Coal		84.5		80.9
Oil and Gas		102.5		63.6
Power		49.6		49.7
Corporate and other		(39.8)		(42.6)
		374.1		233.9
Loss on disposal of property, plant and equipment		-		79.5
Impairment of property, plant and equipment		7.9		-
Net financing expense		15.8		20.7
Other items		-		1.5
Non-controlling interests		11.4		20.4
Income taxes		110.6		23.3
Earnings from continuing operations		228.4		88.5
Loss from discontinued operation		14.4		2.8
Net earnings	$	214.0	$	85.7
Earnings from continuing operations per common share				
Basic	$	0.78	$	0.30
Diluted	$	0.77	$	0.30
Net earnings per common share				
Basic	$	0.73	$	0.29
Diluted	$	0.72	$	0.29
Effective Tax Rate		32%		18%

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

Net earnings in 2010 were positively impacted by higher average-realized prices for nickel, cobalt, oil and coal. Sherritt's diverse asset base combined with the continued strength in commodity prices and limited increases in operating costs contributed to a 60% increase in operating earnings compared to the prior year. Detailed information on the performance of each division can be found in the review of operations sections. In summary:

- Metals' operating earnings of $177.3 million for the year ended December 31, 2010 were $95.0 million higher than in 2009, primarily due to higher average-realized nickel and cobalt prices, partially offset by the impact of higher input energy prices and a stronger Canadian dollar relative to the U.S. dollar;
- Coal's operating earnings of $84.5 million for the year ended December 31, 2010 were $3.6 million higher than in 2009, primarily due to higher export coal prices and sales volumes, largely offset by the impact of higher operating costs and a stronger Canadian dollar relative to the U.S. dollar at Mountain Operations;
- Oil and Gas' operating earnings of $102.5 million for the year ended December 31, 2010 were $38.9 million higher than in 2009, primarily due to a higher price for oil produced in Cuba and lower depletion, amortization and accretion, partially offset by lower sale volumes and the impact of a stronger Canadian dollar relative to the U.S. dollar. Consolidated net earnings in 2009 included a $79.5 million ($57.4 million after-tax) loss on disposal of assets associated with Block 7 in Cuba;
- Power's operating earnings of $49.6 million for the year ended December 31, 2010 were $0.1 million lower than in 2009, primarily due to the impact of a stronger Canadian dollar relative to the U.S. dollar and lower sales volumes mostly offset by higher by-product revenue and lower operating costs;
- The Corporation closed the Mineral Products division on August 27, 2010. The Mineral Products division is now reported as a discontinued operation. See the Review of Operations – Other section for more information.
- The Corporation recognized an impairment of property of $7.9 million in the third quarter of 2010 as a result of relinquishing licences related to exploration in Turkey;
- Net financing expense of $15.8 million was $4.9 million lower in the year ended December 31, 2010 compared to 2009 primarily due to a higher net foreign-exchange gain partially offset by lower interest revenue. The foreign exchange gain of $23.5 million was mainly a result of a stronger Canadian dollar relative to the U.S. dollar at December 31, 2010 compared to December 31, 2009. The foreign-exchange gains arising from the revaluation of U.S. dollar-denominated loans payable was partially offset by foreign-exchange losses arising from the revaluation of U.S. dollar-denominated advances and loans receivable. Interest revenue was lower as a result of a reduction in advances and loans receivables;
- The effective consolidated tax rate for the year ended December 31, 2010 was 32%, compared to 18% in the prior year. The 2010 effective tax rate has been impacted primarily by two significant items. Firstly, a $15.9 million future tax expense was recognized on the Cuban tax contingency reserve as noted below. Secondly, no tax benefit was recognized on the impairment of property in Turkey, as it is uncertain that the impairment would ever be realized for tax purposes in a future period. After adjusting for these items, the normalized effective tax rate for the year ended December 31, 2010 was 25%. The normalized effective tax rate for the prior year was 22%. The normalized 2009 tax rate reflects the removal of the tax that was associated with the $79.5 million loss on disposal of assets realized by Oil and Gas in 2009. The difference between the 22% normalized 2009 effective tax rate and the 25% normalized 2010 effective tax rate was primarily due to changes in the relative mix of earnings and losses incurred by each division which were carried out in different tax rate jurisdictions; and
- In prior years, Oil and Gas and Power deducted a 5% contingency reserve in computing current taxes under Cuban tax legislation. The Corporation had previously determined that this reserve would not be taxable. However, based on new information and developments during the year ended December 31, 2010, it was concluded that the contingency reserve would more likely than not be taxable in a future period. Based on this determination, Oil and Gas and Power have recorded a future tax expense of $15.9 million, $13.8 million of which relates to years prior to 2010 and $2.1 million relates to 2010.

Significant factors influencing operating results

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

COMMODITY PRICES

Results for the year ended December 31, 2010 were significantly impacted by market-driven commodity prices for nickel, cobalt, export thermal coal and oil and gas. The majority of export thermal coal and electricity production is sold at prices that are typically established at the beginning of a negotiated supply contract period and are therefore less susceptible to commodity price fluctuations during the term of the contract.

Average 2010 nickel, cobalt, export thermal coal and oil commodity prices were higher compared to 2009. Average nickel prices increased in 2010 primarily reflecting stronger stainless steel demand. Cobalt prices also increased slightly due to higher demand for superalloys. Average oil prices were higher due to higher demand. A sensitivity analysis of 2010 earnings to changes in significant commodity prices is provided in the Supplementary information – Sensitivity analysis section.

OPERATING COSTS

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

The main operating cost drivers for all divisions are prices for commodity inputs such as electricity, fuel oil, diesel, natural gas, sulphur and sulphuric acid and for maintenance and labour. These costs are all driven by market forces. A sensitivity of the 2010 earnings to changes in significant commodity input costs is provided in the Supplementary information – Sensitivity analysis section.

FOREIGN EXCHANGE RATE

As Sherritt reports its results in Canadian dollars, the fluctuation in foreign exchange rates has the potential to cause significant volatility in those results. Most commodity prices are quoted in U.S. dollars. In addition, many of Sherritt's trade accounts receivable, accounts payable and loans payable are denominated in U.S. dollars. A significant appreciation or depreciation in the exchange rate can have a significant impact on earnings and the balance sheet. During 2010, the Canadian dollar strengthened to an average Canadian dollar to U.S. dollar exchange rate of $1.03, compared to $1.14 in 2009.

For the year ended December 31, 2010, the strengthening of the Canadian dollar relative to the U.S. dollar by $0.05 would decrease 2010 annual net earnings by approximately $5.1 million. The negative impact of a stronger Canadian dollar on operating earnings was mostly offset by the positive impact of a stronger Canadian dollar on the conversion of U.S. dollar-denominated debt.

Review of operations

Metals

2010 HIGHLIGHTS

- Record annual finished nickel and mixed sulphides production.
- Ambatovy Project on-track to produce metal by summer 2011; 22 of 56 process systems already turned over to the commissioning team.
- Agreement reached to acquire a 57.5% interest in the holding company that owns the Sulawesi Project subject to the satisfaction of certain conditions, including funding towards a feasibility study.

FINANCIAL REVIEW

$ millions, for the years ended December 31	2010	2009
Revenue		
Nickel	$ 376.8	$ 278.9
Cobalt	76.3	71.8
Fertilizers	65.8	57.0
Other	9.4	8.0
	528.3	415.7
Operating costs (1)		
Mining, processing and refining	204.0	204.9
Third-party feed costs	10.0	8.8
Fertilizers	54.1	53.4
Other	30.7	18.8
	298.8	285.9
Selling costs	15.0	12.1
General and administrative costs	5.5	6.5
EBITDA (2)	209.0	111.2
Depletion, amortization and accretion	31.7	28.9
Operating earnings (2)	$ 177.3	$ 82.3

(1) Excluding depreciation and amortization of $23.6 million for the year ended December 31, 2010 (2009 - $19.4 million).
(2) For additional information see the Non-GAAP Measures section.

The change in operating earnings between 2010 and 2009 is detailed below:

$ millions, for the year ended December 31	2010
Higher realized nickel prices	$ 122.6
Higher realized cobalt prices	11.1
Lower finished metals sales volumes	(0.6)
Higher mining, processing and refining	(20.6)
Stronger Canadian dollar relative to the U.S. dollar	(8.7)
Other	(8.8)
Change in operating earnings, compared to 2009	$ 95.0

METAL PRICES

For the years ended December 31	2010	2009
Nickel - average-realized ($/lb)	$ 10.11	$ 7.46
Cobalt - average-realized ($/lb)	18.68	17.54
Nickel - average-reference (US$/lb)	9.89	6.67
Cobalt - average-reference (US$/lb) (1)	18.74	15.89

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

The average nickel and cobalt reference prices in 2010 increased by US$3.22 per pound and US$2.85 per pound, respectively, compared to the prior year due to the higher demand and the weaker U.S. dollar. Relative to reference prices, average-realized prices in 2010 were negatively impacted from a stronger Canadian dollar relative to the U.S. dollar.

PRODUCTION AND SALES

Production (tonnes) (50% basis)

For the years ended December 31	2010	2009
Mixed sulphides	18,873	18,664
Finished nickel	16,986	16,800
Finished cobalt	1,853	1,861

Sales (50% basis)

For the years ended December 31	2010	2009
Finished nickel (thousands of pounds)	37,253	37,365
Finished cobalt (thousands of pounds)	4,086	4,095
Fertilizer (tonnes)	196,090	157,662

During 2010, production of 37,745 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides established an annual production record and was 417 tonnes higher compared to the prior year. The increase primarily reflected improved plant operation in Moa. Finished nickel production of 33,972 tonnes (100% basis) was 373 tonnes (100% basis) higher than in the prior year, which established a production record for the refinery and reflected the increased availability of mixed sulphides. Cobalt production of 3,706 tonnes (100% basis) was comparable with the prior year as increased mixed sulphides displaced less profitable cobalt rich third-party feed.

In 2010, finished nickel sales volumes were marginally lower than production and 2009 sales volumes, primarily due to timing of shipments. Fertilizer sales volumes in 2010 were 38,428 tonnes higher than in 2009 as a result of increased production and demand. Fertilizer production was higher in 2010 due to higher metals production and the impact of the extended acid plant maintenance outage, which restricted fertilizer production in 2009.

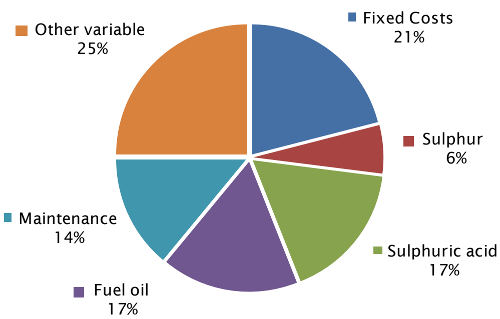
OPERATING COSTS

Unit operating costs

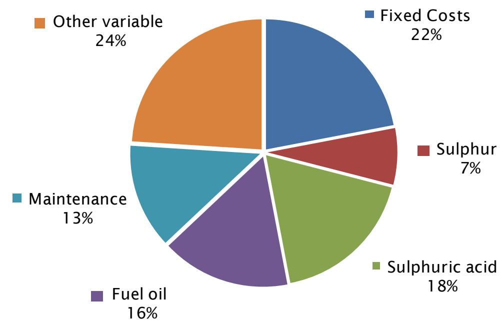
For the years ended December 31		2010		2009
Mining, processing and refining costs	$	5.04	$	4.64
Third-party feed costs		0.26		0.20
Cobalt by-product credits		(1.99)		(1.70)
Other [1]		0.02		0.07
Net direct cash cost (US$/lb of nickel)	$	3.33	$	3.21
Natural gas costs ($/gigajoule)		3.96		3.88
Sulphur (US$/tonne)		141.80		138.03
Sulphuric acid (US$/tonne)		135.97		146.21

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

2010 Components of mining, processing and refining costs [1]



2009 Components of mining, processing and refining costs [1]



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

Net direct cash cost of nickel increased US$0.12 per pound in 2010 compared to the same period in the prior year primarily due to higher mining, processing, refining and third-party feed costs partially offset by higher cobalt by-product credits resulting from higher cobalt prices. Increased mining, processing and refining costs are primarily due to increased energy related input prices and the impact of a weaker U.S. dollar on Canadian dollar denominated refining costs. Higher third-party feed costs were the result of higher nickel and cobalt reference prices partially offset by lower third-party feed volumes.

CAPITAL SPENDING

Capital expenditures [1]

$ millions, for the years ended December 31		2010		2009
Moa Joint Venture				
Sustaining	$	33.1	$	27.8
Expansion		7.0		6.1
		40.1		33.9
Ambatovy Joint Venture		1,103.6		1,333.3
Total	$	1,143.7	$	1,367.2

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

Capital spending for the Moa Joint Venture primarily focused on sustaining initiatives and was above spending in the prior year when nickel prices were lower. Expansion spending continues to include capitalized interest related to financing of the Phase 2 expansion and the Moa acid plant.

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

AMBATOVY PROJECT UPDATE

- The estimated capital cost remains at US$4.76 billion, excluding financing charges, foreign exchange and working capital requirements, consistent with guidance released in December 2010;
- Capital spending for the project was $1.1 billion for the year including financing charges, foreign exchange and working capital requirements. Cumulative capital expenditures to December 31, 2010, were US$4.4 billion, excluding financing charges, foreign exchange, and working capital requirements, representing 92% of the estimated capital cost;
- The Ambatovy Joint Venture companies have been earning investment tax credits in Madagascar based on their level of capital and labour expenditures. These investment tax credits will be available to reduce income taxes payable by the Ambatovy Joint Venture companies once they become taxable;
- A total of $617.8 million in funding was provided by the Ambatovy Joint Venture partners during the year. Sherritt's share of shareholder funding was $247.6 million, comprising $82.9 million directly from Sherritt and $164.7 million through additional partner loans;
- A total of $232.8 million was drawn from senior debt financing in 2010;
- The project is on track to produce metal by summer 2011;
- Over 13,000 people are engaged in construction activities mainly at the plant site in Toamasina. Demobilization of contractors and construction workers at the plant site commenced in the fourth quarter of 2010;
- The first of the three coal-fired power plants at the plant site was fired on diesel fuel in late 2010. Firing of the first unit on coal is expected to occur in early 2011;
- A total of 22 of the 56 major process plant modules have already been handed over to the commissioning team. This process will continue throughout the first and second quarters of 2011;
- Commissioning activities have begun with a current focus on offsite facilities, the ore preparation plant at the mine, port handling facilities, the power plant, ammonia handling facilities and front end equipment on the pressure acid leach circuits;
- Mining activities commenced in July 2010 with the build-up of ore stockpiles. Once completed, the focus shifted to the commissioning of the ore preparation plant at the mine and the slurry pipeline which transports slurry from the mine to the process plant;
- Operational readiness activities have been completed in most departments and the remaining items are on schedule for completion prior to start-up of the plant;
- The Ambatovy Project experienced one labour disturbance in the fourth quarter between a contractor and its foreign labour force. This disturbance resulted in a 3-day disruption at the refinery during December 2010 but did not negatively affect other contractors; and
- While the project has not experienced material disruptions due to the political situation in Madagascar, the future of democratic elections in Madagascar remains uncertain. On November 17, 2010 the Transition Government held a referendum to approve a new constitution which reduced the minimum age requirement for presidential candidates, clearing the way for the current leader to potentially stand for election. The referendum passed, but did not receive the sanction of the international community. The Corporation actively monitors the political climate in Madagascar and continues to hold ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. Ambatovy has active working relations with all ministries to manage any impediments to construction.

SULAWESI PROJECT UPDATE

On November 30, 2010, the Corporation entered into an earn-in and shareholder's agreement with a subsidiary of Rio Tinto, whereby the Corporation could acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project in Indonesia upon funding US$30.0 million and meeting certain other conditions by March 15, 2013. Rio Tinto will continue to own the remaining 42.5% in the holding company. In compliance with Indonesian Mining law, local Indonesian interests are expected to acquire a 20% interest in the Sulawesi Project after which Sherritt and Rio Tinto's economic interest will be 46% and 34%, respectively.

The Corporation can elect to spend an additional US$80.0 million by December 31, 2016 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited.

The Sulawesi Project is a large, high grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Sherritt has been appointed operator and will license its commercially-proven, proprietary technology to the project. Work on the Sulawesi Project will begin in the first quarter 2011.

OUTLOOK FOR 2010

Production volumes and capital spending For the years ended December 31	**Actual 2010**	Projected 2011
Production		
Mixed sulphides (tonnes, 100% basis)	**37,745**	37,000
Finished Nickel (tonnes, 100% basis)	**33,972**	33,800
Finished Cobalt (tonnes, 100% basis)	**3,706**	3,600
Capital expenditures ($ millions)		
Moa Joint Venture (50% basis)	**$ 40**	$ 50
Ambatovy (100% basis, US$)(1)	**$ 1,104**	$ 325

(1) Projected spending for 2011 excludes financing charges, foreign exchange, working capital requirements and net operating gains or losses prior to commercial production.

Moa Joint Venture guidance for full-year 2011 production of mixed sulphides, finished nickel and finished cobalt remains consistent with actual production levels achieved in 2010, but reflects some marginal changes in ore grade. Capital expenditure guidance for the Moa Joint Venture is 25% ($10 million, 50% basis) higher than in 2010 and includes only sustaining activities and capitalized interest. The Moa Joint Venture partners are reviewing options for the completion of the Phase 2 Expansion and the construction of the sulphuric acid plant at Moa. Until final agreement is reached, capital spending guidance excludes any expansion-related expenditure, other than capitalized interest.

Ambatovy first metal is expected to be produced by summer 2011. Capital spending in 2011 is expected to be approximately one-third of the 2010 expenditures, as the Project nears the end of the Construction phase. Spending estimates exclude financing charges, foreign exchange, working capital requirements and net operating gains or losses prior to commercial production.

At Sulawesi, $13 million is expected to be spent in 2011 to advance prefeasibility and feasibility work.

Coal

2010 HIGHLIGHTS

- On June 30, 2010, Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) that it did not previously own from the Ontario Teachers' Pension Plan Board for $45.0 million. The cash consideration of $45.0 million included two components; $34.9 million for the 50% partnership interest in CVP and $10.1 million for a loan that was owed to OTPPB by Coal Valley Resources Inc., a wholly-owned subsidiary of CVP.
- Mountain Operations achieved record annual production of 4.2 million tonnes (100% basis), primarily due to the re-opening of Obed Mountain mine in 2009.
- Prairie Operations completed construction of the activated carbon plant at Bienfait, Saskatchewan, with $14.4 million (50% basis) of capital spending in 2010 to complete the project. In 2010, sales of 2,079 tonnes (50% basis) of activated carbon were realized.
- Prairie Operations signed a term sheet to extend the Highvale mining contract which represents a major source of Coal revenue.

FINANCIAL REVIEW

$ millions, for the years ended December 31	2010	2009
Prairie Operations		
Mining revenue	$ 544.6	$ 502.1
Coal royalties	44.1	50.8
Potash royalties	12.8	10.2
	601.5	563.1
Operating costs (1)	434.9	389.5
General and administrative costs	4.5	10.6
EBITDA (2)	162.1	163.0
Depletion, amortization and accretion	89.1	91.6
Operating earnings (2)	$ 73.0	$ 71.4
Mountain Operations and coal development assets (3)		
Revenue	$ 283.7	$ 147.6
Operating costs (4)	236.4	119.1
General and administrative costs	6.8	4.2
EBITDA (2)	40.5	24.3
Depletion, amortization and accretion	29.0	14.8
Operating earnings (2)	$ 11.5	$ 9.5

(1) Excluding depreciation and amortization for the year ended December 31, 2010 of $46.7 million (2009 - $50.0 million).
(2) For additional information see the Non-GAAP Measures section.
(3) Results include the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest. For coal development assets, the Corporation continues to proportionately consolidate its 50% interest.
(4) Excluding depreciation and amortization for the year ended December 31, 2010 of $25.0 million (2009 - $12.9 million).

The change in operating earnings between 2010 and 2009 is detailed below:

$ millions, for the year ended December 31		2010
Prairie Operations		
Lower royalties	$	(4.1)
Higher operating costs, net of mining revenue		(2.9)
Lower depletion, amortization and accretion		2.5
Higher defined benefit pension recovery		5.2
Other		0.9
Change in operating earnings, compared to 2009	$	1.6
Mountain Operations and coal development assets		
50% acquisition of CVP on June 30, 2010	$	(1.7)
Higher export coal prices, denominated in U.S. dollars		18.8
Stronger Canadian dollar relative to the U.S. dollar		(14.7)
Higher export sales volumes		27.1
Higher domestic coal prices		4.8
Higher domestic sales volumes		1.6
Higher operating costs		(33.2)
Other		(0.7)
Change in operating earnings, compared to 2009	$	2.0

COAL PRICES

Prices ($/tonne) For the years ended December 31		2010		2009
Prairie Operations - average-realized [1]	$	15.80	$	14.56
Mountain Operations - average-realized		84.21		79.04

(1) Excludes royalty revenue.

In Prairie Operations, the average-realized price in 2010 increased $1.24 per tonne compared to the prior year due to higher revenue from the Boundary Dam, Highvale and Genesee mines. The Boundary Dam mine's fixed and variable prices increased as a result of renewing a coal supply agreement which became effective at the beginning of 2010. The changes in average-realized prices at the Highvale and Genesee mines reflected index-adjusted prices and higher cost and capital recoveries.

In Mountain Operations, the average-realized price in 2010 increased $5.17 per tonne compared to the prior year due to higher thermal export coal pricing settlements, largely offset by a stronger Canadian dollar relative to the U.S. dollar. Additionally, as part of the arbitration settlement with a domestic customer, Mountain Operations received $9.0 million (100% basis) in June 2010 which represented a retroactive pricing adjustment to the beginning of the customer's contract extension.

ROYALTY REVENUE

$ millions, for the years ended December 31		2010		2009
Prairie Operations				
Coal royalties	$	44.1	$	50.8
Potash royalties		12.8		10.2

In 2010, coal royalties in Prairie Operations decreased compared to the prior year due to the timing of mining in royalty-assessable areas. Potash royalties increased compared to the prior year due to higher production volumes, partially offset by lower market prices.

PRODUCTION AND SALES

Production (millions of tonnes) For the years ended December 31	2010	2009
Prairie Operations	**34.4**	35.4
Mountain Operations (1)	**3.3**	2.0

Sales (millions of tonnes) For the years ended December 31	2010	2009
Prairie Operations	**34.5**	34.5
Mountain Operations (1)	**3.3**	1.9

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

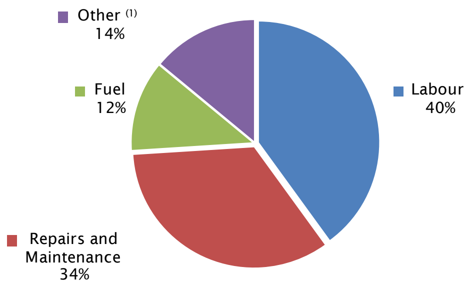
In Prairie Operations, production volumes in 2010 were lower compared to the prior year primarily due to lower production volumes at the Highvale, Boundary Dam, and Paintearth mines. Lower production volumes at the Highvale mine were primarily a result of planned and unplanned plant maintenance activities by power plant customers. Lower production volumes at the Boundary Dam were largely due to wet weather and timing of repairs to major pieces of mining equipment which hindered coal hauling efforts. Lower production volumes at Paintearth mine were primarily due to lower dragline productivities.

In Mountain Operations, production and sales volumes were higher compared to the prior year primarily due to the impact of Sherritt acquiring the remaining 50% of CVP on June 30, 2010 and the full-year operation of the Obed Mountain mine which re-opened in July 2009.

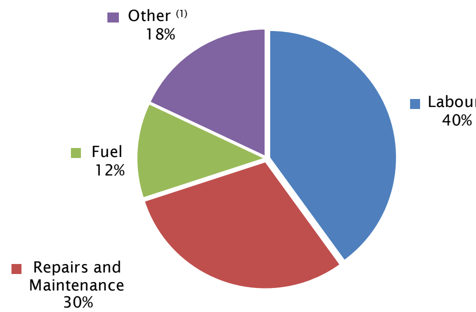
OPERATING COSTS

Unit operating costs ($ per tonne) For the years ended December 31	2010	2009
Prairie Operations	$ 12.62	$ 11.29
Mountain Operations	71.40	63.88

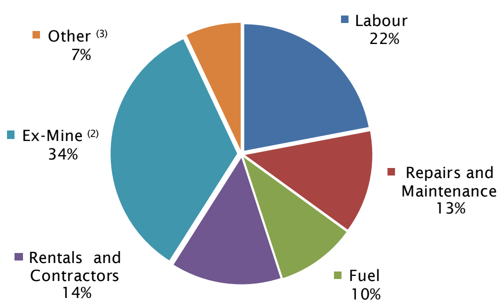
2010 Prairie Operations
Components of operating costs



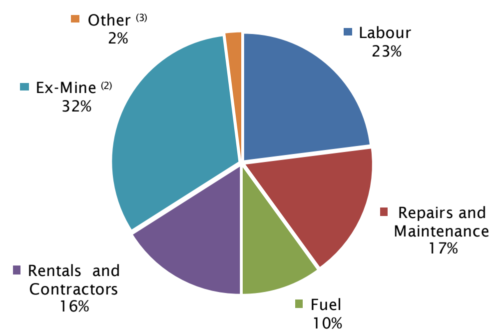
2009 Prairie Operations
Components of operating costs



2010 Mountain Operations
Components of operating costs



2009 Mountain Operations
Components of operating costs



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

In Prairie Operations, operating costs increased $1.33 per tonne in 2010 compared to the prior year, primarily due to lower production volumes on comparable total mining costs and the timing of repairs, both planned and unplanned, to major pieces of mining equipment at the Boundary Dam and Sheerness mines.

In Mountain Operations, operating costs increased $7.52 per tonne in 2010 compared to the prior year, primarily due to higher mining costs at both the Coal Valley and Obed Mountain mines due to longer haul distances, reduced Coal Valley production volumes and reduced plant yields earlier in the year. For the first half of 2010, both mines operated in areas with lower quality coal as delays in receiving regulatory permits delayed access to areas with higher quality coal.

CAPITAL SPENDING

Capital expenditures

$ millions, for the years ended December 31		2010		2009
Prairie Operations				
Sustaining (1)	$	43.9	$	67.5
Growth (50% basis)		14.4		21.8
Mountain Operations (2)				
Sustaining (3)		23.6		14.9
Growth (4)		-		13.9
Total	$	81.9	$	118.1

(1) Includes leased expenditures for the year ended December 31, 2010 of $27.7 million (2009 - $20.0 million).
(2) Results include the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
(3) Includes leased expenditures for the year ended December 31, 2010 of $9.9 million (2009 - $4.3 million).
(4) Includes leased expenditures for the year ended December 31, 2010 of $nil (2009 - $2.1 million).

Coal leases the majority of its mobile equipment under long-term mine-support equipment agreements entered into in 2004. In 2010, in addition to the acquisition of $27.7 million of leased equipment, Prairie Operations incurred capital costs of $16.2 million for infrastructure development and capital repairs on mobile equipment.

During 2010, $14.4 million (50% basis) was spent on the construction of the activated carbon plant at Bienfait mine. Total spending for the project was $36.2 million (50% basis). The plant commenced start-up activities in June 2010 and continued ramping up production throughout the year. Sales volumes for the year totaled 2,079 tonnes (50% basis) of activated carbon.

In Mountain Operations, capital spending for infrastructure increased in 2010 primarily due to the impact of Sherritt acquiring the remaining 50% of CVP on June 30, 2010. Growth capital spending in 2009 related to the completion of the re-opening of the Obed Mountain mine in July 2009.

OUTLOOK FOR 2010

Production volumes, royalties and capital expenditures

For years ended December 31		Actual 2010		Projected 2011
Production				
Prairie Operations (millions of tonnes)		34		36
Mountain Operations (millions of tonnes) (1)		3		5
Royalties ($ millions)				
Coal	$	44	$	40
Potash	$	13	$	13
Capital expenditures ($ millions)				
Prairie Operations	$	58	$	111
Mountain Operations (1)	$	24	$	50

(1) Includes the Corporation's 100% interest in Coal Valley Partnership (CVP) referred to as Mountain Operations, which indirectly owns both the Coal Valley and Obed Mountain mines, from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in CVP.

In Prairie Operations, 2011 thermal coal production is expected to be slightly higher than in 2010, as the reduced customer demand levels experienced in 2010 are not expected to continue. Production from the Activated Carbon plant, commissioned in the last half of 2010, is expected to be 13,000 tonnes in 2011. Both potash and coal royalties in 2011 are expected to remain consistent with 2010 levels as the markets for both commodities remain robust. Full-year 2011 capital expenditures at Prairie Operations are expected to be 91% ($53 million) higher than 2010, due to the timing of certain equipment replacements.

In Mountain Operations, 2011 production is expected to be approximately 60% (2 million tonnes) higher than in 2010, largely due to the inclusion of 100% of the production for the entire year, which began in third-quarter 2010. Capital expenditures in Mountain Operations are expected to be 108% ($26 million) higher in 2011 compared to the prior year, largely due to the full consolidation of Mountain Operations for 12 months, and the timing of long lead-times in purchasing mobile equipment initiated in 2010.

Oil and Gas

2010 HIGHLIGHTS

- In Cuba, eight development wells and two exploration wells completed drilling in 2010. The development wells produced at a rate of 2,868 bpd in December 2010. The exploration wells did not produce commercial quantities of oil and were abandoned.
- Sherritt received approval for licenses for five blocks in the North Sea totaling 89,604 hectares. Sherritt also received final regulatory approval in respect of four blocks totaling 330,816 hectares in the Alboran Sea area of Spain, which were originally awarded in 2007. Sherritt holds a 100% working-interest in all of these blocks.

FINANCIAL REVIEW

$ millions, for the years ended December 31	2010	2009
Revenue		
Cuba	$ 212.2	$ 206.9
Spain	13.9	9.3
Pakistan	1.0	1.1
Processing and other	11.0	2.4
	238.1	219.7
Operating costs	35.1	44.5
General and administrative costs	27.1	21.7
EBITDA (1)	175.9	153.5
Depletion, amortization and accretion	73.4	89.9
Operating earnings (1)	$ 102.5	$ 63.6

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

The change in operating earnings between 2010 and 2009 is detailed below:

$ millions, for the year ended December 31	2010
Higher realized oil and gas prices	$ 49.1
Decrease in sales volumes	(7.6)
Lower operating costs	6.8
Higher general and administrative expenses (1)	(6.9)
Increase in processing revenue	3.4
Stronger Canadian dollar relative to the U.S. dollar	(6.3)
Decrease in depletion, amortization and accretion	7.0
Production adjustment for one well in Cuba	(6.6)
Change in operating earnings, compared to 2009	$ 38.9

(1) General and administrative expenses were higher due to a decrease in the amount of costs being capitalized.

OIL PRICES

Prices For the years ended December 31	2010	2009
Average-realized prices		
Cuba ($/barrel)	$ 52.24	$ 45.38
Spain ($/barrel)	81.73	71.32
Pakistan ($/boe) (1)	7.36	8.07
Reference price (US$/barrel)		
Gulf Coast Fuel Oil No. 6	69.76	55.80
Brent	79.89	61.82

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

The average-realized price for oil production in Cuba in 2010 increased by $6.86 per barrel compared to the prior year primarily due to higher oil reference prices, partially offset by a stronger Canadian dollar relative to the U.S. dollar. The average-realized price for oil produced in Spain was higher in 2010 for the same reasons.

PRODUCTION AND SALES

Daily Production Volumes [(1)]

For the years ended December 31	2010	2009
Gross working-interest oil production in Cuba [(2)(3)]	**21,204**	21,707
Net working-interest production [(4)]		
Cuba (heavy oil)		
Cost recovery	**3,910**	6,172
Profit oil	**7,218**	6,317
Total	**11,128**	12,489
Spain (light/ medium oil) [(4)]	**466**	358
Pakistan (natural gas) [(4)]	**362**	367
Total	**11,956**	13,214

(1) 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 barrel.

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

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

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

During the third quarter of 2010, Sherritt agreed in principle with CUPET for the retroactive adjustment of production from a well that was part of the Varadero West production-sharing contract. Fifty percent of the production was reallocated to the Varadero production-sharing contract for the period beginning from the commencement of production in August 2007 to the expiration of the Varadero production-sharing contract in March 2010. Subsequent to the expiration of the Varadero production-sharing contract, 50% of the production was reallocated to CUPET.

Gross working-interest (GWI) oil production in Cuba in 2010 decreased 503 bpd compared to the prior year primarily due to a 96,700 barrel (265 bpd for the year) retroactive adjustment for production from the Varadero West production-sharing contract in the third quarter of 2010 and the loss of production from the Varadero production-sharing contract that expired on March 18, 2010, partially offset by increased production from recent drilling and workovers. The Varadero production-sharing contract accounted for 2,615 bpd of GWI production in 2009.

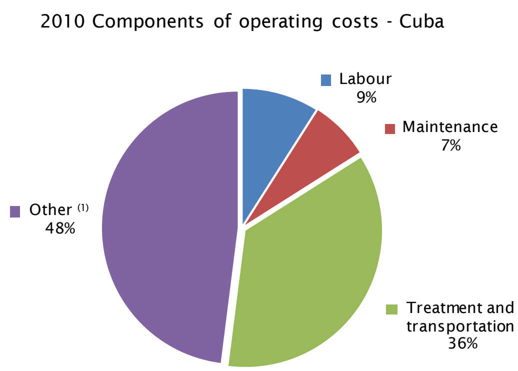
Cost recovery oil production in 2010 decreased by 2,262 bpd compared to prior year primarily due to higher oil prices in 2010 and lower cost recovery expenditures in 2010. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from gross working-interest volumes increased by 901 bpd in 2010.

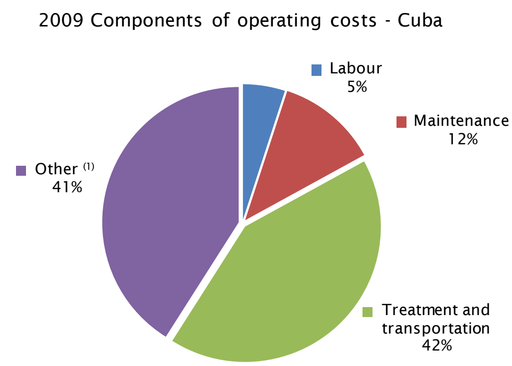
Production in Spain increased over 2009, reflecting the impact of a series of workovers completed during 2009 and 2010, more than offsetting the natural reservoir declines.

OPERATING COSTS

Unit operating costs ($/boe) For the years ended December 31		2010		2009
Cuba (1)	$	**7.28**	$	7.92
Spain		**27.37**		53.68
Pakistan		**6.41**		1.00
Weighted-average	$	**8.04**	$	8.97

(1) 2009 excludes the impact of loss on disposal of Block 7 assets.





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

Unit operating costs in Cuba in 2010 decreased $0.64 per barrel compared to the prior year primarily due to a stronger Canadian dollar relative to the U.S. dollar. Unit operating costs in Spain decreased significantly in 2010 compared to the prior year as a result of the cost of workovers performed in 2009 as well as a stronger Canadian dollar relative to the U.S. dollar. Unit operating costs in Pakistan increased significantly in 2010 compared to the prior year as a result of a $0.7 million write down in the second quarter of 2010.

CAPITAL SPENDING

Capital spending $ millions, for the years ended December 31		2010		2009
Development and facilities	$	**51.0**	$	50.3
Exploration		**4.4**		12.2
Total	$	**55.4**	$	62.5

In 2010, development and facilities capital spending included $24.5 million for development drilling activities, $15.6 million for equipment and inventory purchases, $4.5 million for workovers, and $3.3 million related to facilities.

During 2010, two exploration wells completed drilling: one of which commenced drilling in 2009. Neither well produced commercial quantities of oil and therefore both were abandoned. Eight development wells commenced and completed drilling in 2010 and were producing at a cumulative rate of 2,868 bpd in December.

During the third quarter of 2010, a decision was made not to proceed with further exploration in the North Thrace prospect area of Turkey. As a result, the related licenses have been relinquished and previously capitalized costs of $7.9 million were written down as impairment of property, plant and equipment.

OUTLOOK FOR 2010

Production volumes and capital expenditures For the years ended December 31	Actual 2010	Projected 2011
Production		
Gross working-interest oil (Cuba) (bpd)	21,204	19,700
Net working-interest production, all operations (boepd)[1]	11,956	12,700
Capital expenditures ($ millions)		
Cuba	$ 53	$ 100
Other	$ 2	$ 11

(1) Net working-interest oil production is predicated on the Fuel Oil No.6 price remaining consistent with recent historical levels.

Guidance relating to 2011 GWI oil production in Cuba is approximately 7% (1,500 bpd) lower than in 2010, reflecting natural reservoir decline rates and the expiry of the Varadero production-sharing contract in 2010, partially offset by production expected from wells to be drilled during the year. Total net production in 2011 is expected to be approximately 6% (744 bpd) higher than in 2010 as cost-recoverable expenditures in Cuba are expected to increase year over year, more than offsetting the decline in gross working-interest production. Capital expenditures for 2011 in Cuba are expected to be 89% ($47 million) higher than 2010 and are primarily related to a drilling plan for eight wells as well as facilities and equipment expenditures. In total, seven development wells and one exploration well are planned for 2011.

Power

2010 HIGHLIGHT

- The 150 MW Boca de Jaruco Combined Cycle Project in Cuba has been accelerated and is now expected to be operational in the first quarter of 2013.

FINANCIAL REVIEW

$ millions, for the years ended December 31		2010		2009
Revenue				
Electricity sales	$	87.7	$	101.4
By-products and other		25.1		16.7
		112.8		118.1
Operating costs		24.1		31.1
General and administrative costs		6.6		6.1
EBITDA (1)		82.1		80.9
Depletion, amortization and accretion		32.5		31.2
Operating earnings (1)	$	49.6	$	49.7

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

The change in operating earnings between 2010 and 2009 is detailed below:

$ millions, for the year ended December 31		2010
Lower realized electricity prices, denominated in Canadian dollars	$	(9.3)
Lower electricity sales volumes		(4.4)
Higher by-products prices (by-product prices are linked to market prices for petroleum products)		4.1
Full year inclusion of Madagascar, November 1, 2009 in service date		4.3
Lower operating costs		5.6
Other		(0.4)
Change in operating earnings, compared to 2009	$	(0.1)

ELECTRICITY PRICES

Prices ($/MWh) (1)

For the years ended December 31		2010		2009
Average-realized price	$	42.42	$	46.79

(1) Megawatt hours (MWh).

The average-realized price of electricity in 2010 decreased $4.37 per MWh compared to the prior year, primarily due to the impact of a stronger Canadian dollar relative to the U.S. dollar.

PRODUCTION AND SALES

For the years ended December 31	2010	2009
Electricity sold (1) GWh (2)	2,067	2,167

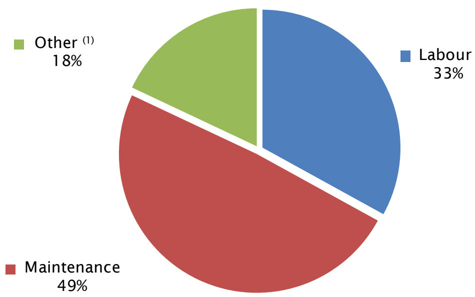
(1) Including non-controlling interest's share.
(2) Gigawatt hours (GWh).

Production decreased 100 GWh in 2010 compared to the prior year primarily due to gas supply shortages at Boca de Jaruco and the expiration of a lease on a 20 MW facility near Varadero, Cuba in March 2010 as per the scheduled agreement.

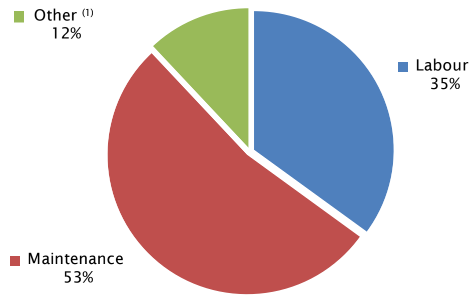
OPERATING COSTS

Unit operating costs ($ per MWh) For the years ended December31	2010	2009
Operating cost	$ 11.62	$ 14.35

2010 Components of operating costs



2009 Components of operating costs



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

Unit operating cost decreased $2.73 per MWh in 2010 compared to the prior year primarily due to the impact of a stronger Canadian dollar relative to the U.S. dollar and the receipt of an insurance recovery related to a turbine failure.

CAPITAL SPENDING

Capital Expenditures $ millions, for the years ended December 31	2010	2009
Sustaining	$ 8.6	$ 12.6
Growth	11.6	15.2
Total	$ 20.2	$ 27.8

Sustaining capital expenditures in 2010 were primarily for a major inspection of the turbine in Varadero, major spare part purchases and infrastructure projects. Growth capital spending relates primarily to components and capitalized interest for the 150 MW Boca de Jaruco Combined Cycle Project, for which activity has accelerated following an internal review. The facility is expected to be operational in the first quarter of 2013. In 2009, growth capital spending was primarily related to construction activity and equipment purchases for the 25MW project in Madagascar.

OUTLOOK FOR 2010

Production volumes and capital expenditures For the years ended December 31	Actual 2010	Projected 2011
Production		
Electricity (GWh)	2,067	1,680
Capital expenditures ($ millions)		
Cuba	$ 20	$ 158

In Power, 2011 production levels are expected to be 19% (387 GWh, 100% basis) lower than 2010, reflecting anticipated decreases in gas supply at Varadero. Capital expenditures 2011 guidance includes $143 million (100% basis) related to the 150 MW Boca de Jaruco Combined Cycle Project.

Other - Technologies

HIGHLIGHTS AND FINANCIAL RESULTS

- Technologies continued to support Ambatovy construction and pre-commissioning activities and have commenced rotational assignments at the site. Technologies has been purchasing, testing and repackaging the analytical and metallurgical laboratory equipment for Ambatovy.
- Significant detailed design work was performed on a Brazilian gold pressure oxidation project. Commercialization services will be provided in 2011.
- Work progressed on evaluating the techno-economic viability of a coal to liquids technology under development with a third-party partner. A stage-gate evaluation of the economic viability of the technology is underway.
- Work is progressing with the Canadian Clean Power Coalition to evaluate coal beneficiation technologies involving the removal of one or more of the non-energy components of coal prior to combustion. Application of coal beneficiation technologies is expected to support the continued utilization of western Canadian coals in coal power plants with improved boiler efficiencies, lower maintenance requirements and reduced green house gas intensities.
- For the year ended December 31, 2010, Technologies generated revenue of $12.1 million, compared to $10.7 million in the same period in the prior year.

Other – Mineral Products

In 2007, the Corporation acquired Mineral Products, which included the Canada Talc mine and plant, through the acquisition of the Dynatec Corporation. During the second quarter of 2010, the Corporation made a decision to close the Canada Talc mine and plant on August 27, 2010. During the third quarter of 2010, the Corporation classified Mineral Products as a discontinued operation once the Canada Talc mine and plant closed. The 2009 financial statements were restated accordingly.

For the year ended December 31, 2010, the Corporation wrote down inventory and other asset balances in the amount of $2.4 million. Termination benefits are $1.6 million; $1.3 million has been expensed as at December 31, 2010 and the remaining termination benefits will be accrued and paid over the reclamation period. The asset-retirement obligation for the Canada Talc mine and plant increased $8.1 million to $10.4 million at December 31, 2010, of which $0.9 million was settled during the year-ended December 31, 2010. Reclamation is expected to be completed in two years.

The division incurred losses for the year ended December 31, 2010 of $14.4 million (2009 - $2.8 million).

Consolidated financial position

Total assets increased by $813.1 million in 2010 to $10.7 billion. During the same period, total liabilities increased by $500.4 million to $4.8 billion and total shareholders' equity increased by $55.8 million to $3.5 billion.

$ millions, except ratio and percentage amount to December 31	2010	2009	% change
Current assets	$ 1,516.9	$ 1,512.0	0.3%
Current liabilities	602.6	484.7	24.3%
Working capital	914.3	1,027.3	-11.0%
Current ratio	2.52:1	3.12:1	-19.2%

The significant changes in working capital were primarily related to a decrease in cash, cash equivalents, and short-term investments, an increase in accounts receivable and inventories and an increase in accounts payable and accrued liabilities.

The Ambatovy Project has significantly impacted the balance sheet as follows:

- Cash and cash equivalents balance was lower largely reflecting the timing of cash funding and project disbursements for the Ambatovy Project;
- Of the $1.3 billion addition to property, plant and equipment, $1.1 billion related to capitalized development costs for the Ambatovy Joint Venture. Property, plant and equipment increased by only $936.3 million, as additions during the year were partially offset by the revaluation of U.S. dollar-denominated property, plant and equipment as a result of a stronger Canadian dollar relative to the U.S. dollar at the end of 2010;
- Of the $341.9 million net increase in long-term debt and other long-term liabilities, $322.8 million related to the Ambatovy Joint Venture senior debt financing and financing provided by the Ambatovy Joint Venture partners; and
- The $256.9 million increase in non-controlling interest mostly related to an increase in net assets at the Ambatovy Joint Venture.

Other factors affecting the consolidated financial position are as follows:

- The acquisition of the remaining 50% interest in CVP that Sherritt did not previously own, resulted in a $83.7 million increase in property, plant and equipment, a $15.8 million increase in long-term debt and other long-term liabilities, and a $29.3 million increase in asset-retirement obligations.
- The $98.2 million decrease in other assets was primarily due to payments received on loans and advances from certain Moa JV entities and a lower amount of progress payments for the Power expansion project;

The change in Shareholders' equity is primarily related to the following:

- The $171.0 million increase in retained earnings reflects the net earnings for the year of $214.0 million net of dividends paid of $43.0 million; and
- The $117.5 million decrease in accumulated other comprehensive income is due to the unrealized foreign currency loss on self-sustaining foreign operations reflecting a stronger Canadian dollar relative to the U.S. dollar at the end of 2010.

Liquidity and capital resources

The following section explains how the Corporation manages cash and capital resources in meeting its business objectives.

Liquidity risk arises from general funding needs and in the management of assets, liabilities and optimal capital structure. Sherritt manages liquidity risk to maintain sufficient liquid financial resources to meet its commitments and obligations in the most cost-effective manner possible.

Based on the Corporation's financial position and liquidity at December 31, 2010, and projected future earnings, management expects to be able to fund its working capital and capital project needs, and meet its other obligations including debt repayments.

Cash requirements

The following table provides a summary of consolidated liquidity and capital commitments based on existing commitments and debt obligations:

$ millions, as at	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter
Long-term debt principal repayment obligations	$ 3,504.0	$ 49.5	$ 365.8	$ 164.5	$ 464.5	$ 518.0	$ 1,941.7
Capital commitments	497.9	433.6	59.2	5.1	-	-	-
Capital leases and other	130.4	43.5	38.2	27.8	12.9	8.0	-
Operating leases	77.2	21.3	17.6	13.5	6.9	3.2	14.7
Pension obligations	78.9	8.0	8.0	7.9	8.1	8.3	38.6
Asset-retirement obligations	603.2	30.8	29.4	24.5	16.6	20.7	481.2
Total	$ 4,891.6	$ 586.7	$ 518.2	$ 243.3	$ 509.0	$ 558.2	$ 2,476.2

Long-term debt consists primarily of $1.8 billion (100% basis) of Ambatovy Joint Venture senior debt financing which matures in 2024 and bears interest at LIBOR plus a margin of between 0.9% and 1.9%, depending on the individual lender, with principal repayments beginning the later of six months after financial completion of the Ambatovy Project and 30 months following the final draw or February 2013; $773.5 million in three public issues of senior unsecured debentures having interest rates of between 7.75% and 8.25% and maturities in 2012, 2014 and 2015; and $597 million and $89 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of LIBOR plus a margin of 7% and 1.125%, respectively. These partner loans are to be repaid from Sherritt's share of cash distributions from the Ambatovy Joint Venture.

Capital purchase commitments for the Ambatovy Joint Venture total $275.4 million at December 31, 2010. In addition to the capital commitments at the Ambatovy Joint Venture, the Corporation was committed to purchases of capital equipment and services; capital leases, operating leases for equipment, office space and vehicles, in the amount of $430.1 million, including its proportionate share of other joint venture commitments. Capital leases consist primarily of leases used to procure mining equipment, primarily in Coal. These leases are secured by the specific equipment and have varying maturity dates up to 2015.

SULAWESI PROJECT

The Corporation has committed to fund US$30.0 million towards the Sulawesi Project by March 15, 2013, and can elect to spend an additional US$80.0 million by December 31, 2016.

FUTURE CAPITAL EXPENDITURES

Inclusive of the capital purchase commitments above and based on the current market environment, sustaining and expansion related capital expenditures in 2011 are expected to be approximately $805 million. Of this amount, US$325 million is allocated for the Ambatovy Joint Venture. See the outlook sections in the review of operation for each division for more information.

Investment Liquidity

At December 31, 2010, cash, cash equivalents and short-term and long-term investments were located in the following countries:

$ millions, as at December 31, 2010	Cash and cash equivalents	Short-term investments	Long-term investments	Total
Canada	$ 245.3	$ 496.7	$ 44.9	$ 786.9
Cuba	35.1	-	96.4	131.5
England	40.4	-	-	40.4
Other	10.0	-	-	10.0
Total	$ 330.8	$ 496.7	$ 141.3	$ 968.8

CASH AND SHORT-TERM INVESTMENTS

The Corporation's policy is to invest available excess cash in highly liquid investments of the highest credit quality in a given marketplace and to limit the exposure to individual counterparties in order to minimize risks associated with these investments. Management generally seeks to maximize investments in Government of Canada treasury bills. 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 short-term investment is one year; however, decisions regarding the length of maturities are based on cash flow requirements, rates of return and other factors.

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

At December 31, 2010, included in cash, cash equivalents and short-term investments was $53.7 million (100% basis) of cash held by the Ambatovy Joint Venture and $34.3 million (50% basis) held by the Moa JV. All cash held by the Ambatovy Joint Venture and Moa JV is for the use of those joint ventures.

The Corporation's short-term investments are primarily in Government of Canada treasury bills with original maturity dates of greater than three months and less than one year.

LONG-TERM INVESTMENTS

As a result of the agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit upon which principal and interest are required to be paid weekly over five years. These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. The Corporation continues to receive a weekly payment of approximately US$0.6 million plus interest on the outstanding amount. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa JV to its Cuban beneficiaries. At December 31, 2010, the balance of the CD's was $96.4 million.

At December 31, 2010, the Corporation held Master Asset Vehicle (MAV) notes with a fair value of $39.3 million. The fair value of these notes increased $10.5 million in 2010 as a result of increased trading volumes and a lower credit spread based on current market bids available for A1, A2, B, C and Class 15 notes. The Corporation has used these notes as collateral for its MAV note loans. Under the terms of the loans, proceeds from the sale of the MAV notes would be used to repay any outstanding principal amount of the loan, if any and/or reduce the amount available under the loan in accordance with the terms of the agreement.

SOURCES AND USES OF CASH

The Corporation's cash flows from operating, investing and financing activities are summarized in the following table as derived from Sherritt's Consolidated Statements of Cash Flow.

$ millions, for the years ended December 31		2010		2009 [1]
Cash from operating activities				
Cash from operating activities before change in non-cash working capital	**$**	**495**	$	422
Change in non-cash working capital		**18**		14
Cash used for discontinued operation		**(4)**		(3)
Cash provided by operating activities	**$**	**509**	$	433
Cash from investing and financing				
Capital spending	**$**	**(1,251)**	$	(1,768)
Advances, loans receivable and other assets		**55**		24
Acquisition of CVP		**(32)**		-
Short-term debt borrowings, net of repayments		**5**		(44)
Acquisition of loan from OTPPB		**(10)**		-
Long-term debt borrowings, net of repayments		**362**		964
Funding from Ambatovy Joint Venture partners		**370**		734
Dividends paid on common shares		**(42)**		(42)
Other		**(9)**		(38)
	$	**(552)**	$	(170)
(Decrease) increase in cash and short-term investments	**$**	**(43)**	$	263
Cash, cash equivalents, and short-term investments:				
Beginning of the year [1]	**$**	**870**	$	607
End of the year	**$**	**827**	$	870

(1) Amounts have been amended as a result of Mineral Products being accounted for as a discontinued operation.

In 2010:

- Operating cash flow was higher due to an increase in earnings. Changes in non-cash working capital in 2010 compared to 2009 were primarily due to higher accounts payable mainly due to higher accrued interest on Ambatovy related loans, partially offset by higher receivable balances related to the Ambatovy Project and Oil and Gas.
- Cash used toward capital expenditures was $1,251 million. The majority of this spending related to the development of the Ambatovy Project. A discussion of capital expenditures is included in the Review of operations section for each division.
- Proceeds of $55 million were received for repayment of advances, loans receivables and other assets, primarily related to the CD's and the funding agreement between the Corporation and certain Moa Joint Venture entities within the Metals segment.
- Cash of $32.2 million (net of the cash acquired) was used to acquire the remaining 50% interest in CVP that the Corporation did not previously own. An additional $10.1 million was used to purchase a loan (including accrued interest) that was owed to OTPPB by Coal Valley Resources Inc., a wholly-owned subsidiary of CVP.
- Long-term debt proceeds (net of repayments) were $362 million. The majority of the proceeds were received under the Ambatovy Joint Venture senior debt financing and the Ambatovy Joint Venture additional partner loans.
- In addition, $370 million was received by the Ambatovy Joint Venture from the other Ambatovy Joint Venture partners as their share of the joint venture funding requirements.

During 2009, the Corporation received $74.1 million as its share of proceeds related to the termination of the Block 7 production-sharing contract in Oil and Gas. Also in 2009, US$161.1 million collected on overdue 2008 receivables from Oil and Gas and Power had a minimal impact on the overall cash position as the Corporation agreed to purchase a similar amount of certificates of deposit.

Capital structure

$ millions, except share amounts and percentages for the years ended December 31	2010	2009
Current portion of long-term debt	$ 86.3	$ 77.4
Long-term debt obligations	3,297.6	2,959.6
Other long-term liabilities	203.1	208.1
Total debt	$ 3,587.0	$ 3,245.1
Shareholders' equity	$ 3,510.2	$ 3,454.4
Total debt-to-capital	51%	48%
Common shares outstanding	295,016,500	293,981,277
Stock options outstanding	4,819,146	4,774,906
Dividend payout ratio	20%	50%

The Corporation finances its operations and expansion through a combination of operating cash flows, short-term debt, long-term debt, and through the issuance of shares. In the past, the Corporation has issued public debt and shares to facilitate acquisitions and to provide working capital. Wherever possible, expansion activities are financed through long-term debt with repayment obligations corresponding with the expected cash flows.

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

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

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

AVAILABLE CREDIT FACILITIES

At December 31, 2010, the Corporation and its divisions had borrowed $3.3 billion under available long-term credit facilities. Total credit available under these facilities was $687 million, inclusive of approximately $278 million (US$280 million) (100% basis) available under the Ambatovy Joint Venture senior debt financing.

The following table outlines the maximum amount and amounts available to the Corporation under its credit facilities as at December 31, 2010 and December 31, 2009. A detailed description of these facilities is provided in note 14 of the December 31, 2010 consolidated financial statements.

$ millions, as at December 31	2010		2009	
	Maximum	**Available**	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility	$ 115	$ 109	$ 140	$ 117
MAV liquidity line of credit	20	20	20	20
Letter of credit facility (1)	49	-	49	1
Long-term				
Ambatovy Project financing (US$) (100%)	$ 2,100	$ 280	$ 2,100	$ 507
Ambatovy J.V. partner loans (US$) (2)(3)	213	127	213	128
Ambatovy J.V. additional partner loans (US$) (3)	23	-	23	-
Senior credit facility agreement	235	121	235	135
MAV note loans	33	33	33	33
Total Canadian equivalent	$ 2,775	$ 687	$ 2,923	$ 972
Capital leases (4)	$ 190	$ 51	$ 140	$ 46
Proportionate share of credit facility (5)	**Maximum**	**Available**	Maximum	Available
Ambatovy Project financing (US$) (40%)	$ 840	$ 112	$ 840	$ 203
Total Canadian equivalent	$ 835	$ 111	$ 879	$ 212

(1) Uncommitted letter of credit facility entered into for CVP.
(2) The availability under this loan has been reduced by US$22.9 million, the amount repaid to Korea Resources Corporation.
(3) 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 2, above)
(4) Capital leases include only those that have been committed to be provided by lenders.
(5) To illustrate Sherritt's 40% proportion of the available credit under the Ambatovy Project financing. On a proportionate basis, at December 31, 2010, Sherritt had drawn a total of $728 million.

COVENANTS

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

At December 31, 2010, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next 12 months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

COMMON SHARES

As at February 22, 2011, the Corporation had 295,220,230 common shares outstanding. An additional 4,819,146 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 943,278 common shares are issuable in relation to the cross-guarantees provided by certain Ambatovy Joint Venture partners. These shares are to be issued on December 31, 2011.

The Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share that was paid January 14, 2011 to shareholders of record at the close of business on December 31, 2010. On June 17, 2010, the Board of Directors of the

Corporation approved an increase to the quarterly dividend from $0.036 per share to $0.038 per share. In 2010, Sherritt's dividend rate was $0.146 per common share.

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 below. An extensive list of business risks can be found in the Annual Information Form filed on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

Market conditions

GENERALLY

Since the middle of 2008, there has been global economic uncertainty, reduced confidence in financial markets, bank failures and credit availability concerns. These economic events have had a negative affect on the mining and minerals and oil and gas sectors in general. While economic and market conditions improved over the course of 2009 and 2010, conditions have remained unsettled and the outlook uncertain. As a result, the Corporation will continue to consider its future plans and options carefully in light of prevailing economic conditions.

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

COMMODITY RISK

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

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

PRICE FLUCTUATIONS AND SHARE PRICE VOLATILITY

Since 2008, the securities markets in Canada and the rest of the developed world have experienced price and volume volatility. In particular, during this period the market price of securities of many companies, including Sherritt, had decreased. Such decrease was not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continued fluctuations in price will not occur.

Project development

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

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

CAPITAL AND OPERATING COST ESTIMATES

Capital and operating cost estimates made in respect of the Corporation's mines and projects may not prove accurate. Capital and operating costs are estimated based on the interpretation of geological data, feasibility studies, anticipated climatic conditions and other factors. Any of the following, among the other events and uncertainties described herein, could affect the ultimate accuracy of such estimates: unanticipated changes in grade and tonnage to be mined and processed; incorrect data on which engineering assumptions are made; delay in construction schedules; unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; labour negotiations; and changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes permitting and restrictions on production quotas or exportation of the Corporation's products).

AMBATOVY PROJECT

The Ambatovy Joint Venture companies, the Ambatovy Partners and Sherritt have executed financing agreements to support the construction of the Ambatovy Project. Although project financing has been arranged, there can be no assurance that additional funding, if required, will be made available on acceptable terms. The Ambatovy Partners are guaranteeing their pro rata share of the project debt financing until the project passes certain completion tests. Once the project passes the completion tests all the project debt becomes non-recourse to the Ambatovy Partners and Sherritt. There is no assurance that the project will pass all completion tests.

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

In 2009, the Corporation entered into arrangements with its partners in the Ambatovy Joint Venture for a mechanism pursuant to which its partners may fund the Corporation's share of the equity component of the capital cost of the Ambatovy Project. This mechanism does not, however, provide a committed facility to Sherritt to fund its equity contributions and there can be no assurance that sufficient funds will be made available to Sherritt under this mechanism in order to complete the Ambatovy Project.

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

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

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

MOA JOINT VENTURE EXPANSION

The Moa Joint Venture expansion is funded equally by the Corporation and GNC, its Cuban joint venture partner. In December 2005, the Corporation and GNC entered into funding agreements with companies within the Moa Joint Venture to finance the Moa Joint Venture expansion. Under these agreements, the projected capital cost is to be funded equally by the Corporation and GNC. Additionally, a 2,000 tonne per day sulphuric acid plant was under construction at Moa to coincide with the completion of the expansion. Construction was largely being financed by the Corporation, which has agreed to provide a loan of US$75.0 million to fund the construction with any additional costs being funded equally by the Corporation and GNC. The expansion also requires certain utility upgrades to be completed at the Fort Saskatchewan site. It is expected that the cost of these upgrades will be funded by the Corporation and recovered from the Moa Joint Venture over future periods. The Moa Joint Venture expansion, sulphuric acid plant construction at Moa and utility upgrades at the Fort Saskatchewan site were temporarily suspended in the fourth quarter of 2008 in response to weakening commodity markets. Sherritt and GNC are reviewing alternative strategies for the completion of future expansion activities and final costs and timelines.

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

Political, economic and other risks of foreign operations

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

Restrictions in debt instruments

Sherritt is a party to certain agreements in connection with its credit facilities (the Credit Agreements) and trust indentures governing the 7.875% senior unsecured debentures series A due November 26, 2012 (the 7.875% Debentures), the 8.25% senior unsecured debentures series B due October 24, 2014 (the "8.25% Debentures) and the 7.75% senior unsecured debentures series C due October 15, 2015 (the 7.75% Debentures) (collectively, the Indentures), and Sherritt and the Ambatovy Joint Venture companies are party to various agreements relating to the $2.1 billion Ambatovy Financing (the Ambatovy Financing Agreements). These debt instruments contain covenants which could have the effect of restricting Sherritt's ability to react to changes in Sherritt's business or to local and global economic conditions. In addition, Sherritt's ability to comply with these covenants and other terms of its indebtedness may be affected by changes in the Corporation's business, local or global economic conditions or other events beyond the Corporation's control. Failure by Sherritt or the Ambatovy Joint Venture companies, as the case may be, to comply with the covenants contained in the Indentures, the Credit Agreements, the Ambatovy Financing Agreements, or any future debt instruments or credit agreements, could materially adversely affect the Corporation's business, results of operations, and financial performance.

Exploration and development risks

OIL AND GAS

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

METALS

The business of exploring for minerals involves a high degree of risk. There can be no assurance that Sherritt's exploration efforts in Sulawesi, Indonesia or elsewhere will result in the discovery of significant nickel mineralization or that any mineralization discovered will result in an increase to Sherritt's proven or probable reserves. Few properties that are explored are ultimately developed into producing mines. In exploring and developing mineral deposits, Sherritt will be subjected to an array of complex economic factors and technical considerations. Delays in obtaining governmental approvals, conflicting mineral rights claims and other factors could cause delays in exploring and developing properties. Unusual or unexpected geological formations, labour disruptions, flooding, landslides, environmental hazards, and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration and development programs.

Uncertainty of gas supply to Energas

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

Uncertainty of reserve estimates

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

- mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- declines in the market price of thermal coal, nickel, cobalt, oil and gas may render the production of some or all of Sherritt's reserves uneconomic;
- increases in operating costs and processing costs could adversely affect reserves;
- the grade of mineral reserves may vary significantly from time to time and there is no assurance that any particular level of thermal coal, nickel, cobalt, oil or gas may be recovered from the reserves; and
- legislative changes and other political changes in jurisdictions in which Sherritt operates may result in changes to Sherritt's ability to exploit reserves.

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

Access to coal reserves and resources

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

Asset retirement obligations

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

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

Reliance on partners

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

Risk related to Sherritt's investments in Cuba

The processing facilities and mining properties of 50%-owned Moa Nickel, a substantial portion of oil exploration, development and production activities and power generation assets of 33.3%-owned Energas are located in Cuba. As such, the operations of the Cuban businesses may be affected by economic pressures on Cuba. Risks include, but are not limited to, fluctuations in official or convertible currency exchange rates and high rates of inflation. Any changes in regulations or shifts in political attitudes are beyond the control of Sherritt and may adversely affect its business. Operations may be affected in varying degrees by such factors as Cuban government regulations with respect to currency conversion, production, price controls, export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use and mine and plant safety.

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

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

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

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

Risks related to U.S. Government policy towards Cuba

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

THE U.S. EMBARGO

In its current form, apart from the Helms-Burton Act, the embargo applies to almost all transactions involving Cuba or Cuban enterprises, and it bars all "U.S. Persons" from participating in such transactions unless such persons obtain specific licences from the U.S. Department of the Treasury (Treasury) authorizing their participation in the transactions. U.S. Persons include

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

THE HELMS-BURTON ACT

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

The Helms-Burton Act authorizes damage lawsuits to be brought in U.S. courts by U.S. claimants against those "trafficking" in the claimants' confiscated property. No such lawsuits have been filed because all Presidents of the United States in office since the enactment of the Helms- Burton Act have exercised their authority to suspend the right of claimants to bring such lawsuits indefinitely, for periods of up to six months. Pursuant to this authority, the President has suspended the right of claimants for successive six-month periods since 1996; the latest suspension extends through to July 31, 2011. The Corporation has nevertheless received letters from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest. Even if the suspension were permitted to expire, Sherritt does not believe that its operations would be materially affected by any Helms-Burton Act lawsuits, because Sherritt's minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. Management believes it unlikely that a court in any country in which Sherritt has material assets would enforce a Helms-Burton Act judgment.

The Foreign Extraterritorial Measures Act (Canada) was amended as of January 1, 1997 to provide that any judgment given under the Helms-Burton Act will not be recognized or enforceable in any manner in Canada. The amendments permit the Attorney General of Canada to declare, by order, that a Canadian corporation may sue for and recover in Canada any loss or damage it may have suffered by reason of the enforcement of a Helms-Burton Act judgment abroad. In such a proceeding, the Canadian court could order the seizure and sale of any property in which the defendant has a direct or indirect beneficial interest, or the property of any person who controls or is a member of a group of persons that controls, in law or in fact, the defendant. The property seized and sold could include shares of any corporation incorporated under the laws of Canada or a province.

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

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

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

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

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

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

Significant customers

The Moa Joint Venture derives a material amount of revenue from one end-use customer in Asia. Payment is made by way of an irrevocable letter of credit in a form acceptable to the lenders of the senior credit facility. Any cancellation of shipments would result in nickel being placed with other customers through the spot markets; however, prices realized could vary from those set with the customer.

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

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

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

Foreign exchange and pricing risks

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

Climate change/greenhouse gas emissions

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

Credit risk

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

Accounting policies

Sherritt's financial condition and results of operations are reported using accounting policies and methods prescribed by Canadian GAAP. In the preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Corporation.

The Corporation prepares its financial statements in accordance with Canadian GAAP. All companies that are Canadian reporting issuers will have to use the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board for their financial reporting for the years beginning on or after January 1, 2011. Although IFRS uses a conceptual framework similar to the Canadian GAAP, there are significant differences in recognition, measurement and disclosure. On adoption, the Corporation's financial position and results of operations reported in accordance with IFRS may differ compared to Canadian GAAP, and these differences may be material. In addition, these differences may impact the calculation of certain defined terms and covenants under the Credit Agreements, Indentures and Ambatovy Financing Agreements.

Significant accounting policies are described in more detail in the notes to Sherritt's annual consolidated financial statements for the year ended December 31, 2010.

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

Environment, health and safety

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

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

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

Sherritt believes that safe operations are essential for a productive and engaged workforce. Sherritt is committed to workplace incident prevention and makes expenditures towards the necessary human and financial resources and site-specific systems to ensure compliance with its health and safety policies. Any injuries that may occur are investigated to determine root cause and to establish and put in place necessary controls, with the goal of preventing recurrence.

In 2010, the Corporation's Total Recordable Injuries index for employees was 0.29 and its Lost Time Injuries index for employees was 0.07. These indices are calculated by multiplying the number of total recordable injuries by 200,000 and then by dividing that number by total exposure hours. These indices provide a measure that is comparable across industries and business size.

METALS

Metals continually works to improve environment, health and safety management systems at its operations in Fort Saskatchewan, Cuba and Madagascar. Programs support a strong corporate commitment to meet both community expectations and regulatory requirements.

Moa Joint Venture

The environmental program at Metals' Fort Saskatchewan operations includes active monitoring of soil, groundwater, effluent, and air. Staff from the Fort Saskatchewan site continue to work with provincial regulators on the development of a multi-phased site-specific environmental management plan for soil and groundwater. The first phase involving a site human-health risk assessment for nickel was submitted to the regulators in May 2008 and is being used to ensure the most appropriate protective levels are adopted for workers at the site. The second phase to model soil and groundwater on-site was completed in 2010. Enhancements to the model continue in an effort to develop a more accurate estimate of asset-retirement obligations for the site and improve environmental project planning.

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

Provincial legislation setting greenhouse gas targets applicable to the Fort Saskatchewan site was introduced in 2007, followed by the completion of a third-party audit in 2008. The Fort Saskatchewan site remains in compliance with provincial greenhouse gas legislation requiring the completion of annual third party audits. Fort Saskatchewan site management continues to evaluate internal and external options for meeting its greenhouse gas targets.

In 2010, discussions with Alberta Environment continued on a variety of environmental issues primarily related to Cumulative Effects Management in the Industrial Heartland. The Fort Saskatchewan site continues to actively participate in the development of a Provincial Water Management Framework and Regional Groundwater Study for the Industrial Heartland.

Throughout 2010, the program of auditing workplace practices or Safety System Inspections (SSIs) was actively pursued to reinforce the required safe behaviors and adherence to site safety policies necessary to improve overall safety performance. The Fort Saskatchewan site is focused on ensuring that all elements of the safety system including those related to hazard identification and control, safe work permits, incident reporting and analysis, electrical safety procedures and personal protective equipment are complied with consistently through continuous communication, coaching and on and off-the-job instruction.

During 2010, the Fort Saskatchewan site embarked on a program to better define standards of performance, improve teaching and training structures, and enhance accountability for learning and evaluation. The program is expected to improve the effectiveness of training provided to site personnel in safe work practices and safety management systems. Employees engaged in operations and maintenance activities continue to receive safety training related to the work they perform, such as Safe Work Permit Understanding, Control of Hazardous Energy, Confined Space Entry, Mobile Equipment Operation, Workplace Hazardous Materials Information System and Transportation of Dangerous Goods. Employees in leadership roles continue to participate in skills training to increase their understanding of safety management concepts and best practices to improve stewardship of safe work practices. Training programs were also enhanced to provide new hires with a better understanding of site requirements and improvements were made to monitoring and compliance systems to ensure personnel receive appropriate instruction in the areas of general site orientation, key business policies, Information Technology systems/protocols and unit specific orientations, which include safety requirements and emergency response.

The environmental program implemented by Metals at the Moa site includes active monitoring of soil, surface water, groundwater, process effluents and air continued throughout 2010. This program is consistent with corporate targets and ensures that the Moa site meets both community expectations and regulatory requirements. In 2010, 12 new groundwater wells were drilled to enhance groundwater management. Various initiatives to reduce emissions and effluent discharge have been successfully implemented on the plant site. In 2010, a project to recover and recycle raw slurry from the Leach plant was completed. At the Moa site, an erosion and sediment control plan has been designed and put into effect. Since 2007, the amount of reforested hectares in the mine has exceeded the number of areas that have been impacted by mining operations.

The Moa site continues to focus on training and development of its employees as it relates to safety practices, including several courses to key supervisory staff in 2010. Continuous safety training has resulted in more extensive documentation of safety meetings and topics in all key areas of the plant-site as well as the reduction of potentially unsafe conditions by resolving outstanding safety issues and concerns. In October, Moa Nickel employees achieved over 2 million man-hours without a lost time injury.

Ambatovy Joint Venture

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

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

All project facilities have been designed and are being built, operated and reclaimed in accordance with applicable Malagasy laws and regulations, World Bank guidelines, the Equator Principles and the IFC Performance Standards. For example, the mine site is located within a forest zone, which is recognized for its environmental sensitivities to forest disturbance. Extensive work was undertaken to evaluate potential impacts and develop suitable mitigation measures. In the case of mitigation, this includes a commitment to maintaining a forest buffer zone around the mining area, forest de-fragmentation work through targeted reforestation as well as a plan to set aside an off-set area of similar ecological value elsewhere in the eastern forest of Madagascar. The off-set area is being implemented as part of the United Nations Business and Biodiversity Offset Program.

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

Safety Management continues to be a very high priority for the project. Management is working closely with contractors and construction personnel as well as all employees to ensure compliance with safety standards. During 2010, management focused on five areas of safety involving personal protective equipment, working at heights, scaffolding, housekeeping, and care and maintenance of tools to ensure that a safe work environment was created and maintained for all employees and contractors working on the Project. Success with the program was demonstrated when the Project achieved 32 million man-hours without a Lost Time Injury.

COAL

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

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

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

In order to support the development of new mining areas and new projects, Coal provides monitoring, advice and leadership in the areas of regulatory changes and trends. Mining inherently involves the disturbance of large tracts of land. This activity has significant, but short-term impacts to existing and adjacent landowners; therefore, impact assessments and mitigation proposals are completed in all cases. In 2010, Coal continued the regulatory and consultative process involved in authorizing the continued access to available mining areas. During 2010, this mostly involved the Coal Valley mine where required documentation was completed to expand the current mining area. The Genesee and Paintearth mines are also engaged in the regulatory process of obtaining mine permit extensions.

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

Mining and processing operations have inherent risks, but due largely to the EH&S policies and procedures that have been developed within Coal, coupled with the strong safety culture at each site, Coal has successfully mitigated or controlled those risks. In 2010, several mines celebrated safety milestones, with no lost-time incidents for 6 years at the Boundary Dam mine, 15 years at the Sheerness mine, and 22 years at the Genesee mine. As of December 31, 2010, over 2,000 salaried and hourly employees were employed at Coal, and throughout the year, only three lost-time incidents occurred.

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

OIL AND GAS

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

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

Oil and Gas strives to conduct its Cuban operations according to safety standards and practices complimentary to those established by Canadian authorities. The Corporation provides proper safety equipment and training for employees, particularly when working in hazardous areas, such as where hydrogen sulphide gas is present.

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

POWER

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

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

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

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

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

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

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

CLIMATE CHANGE AND GREENHOUSE GAS EMISSIONS

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

The Canadian federal government ratified Kyoto in 2002, formally committing to reduce GHG emissions to a limit of 6% below 1990 levels by the end of the 2008 to 2012 compliance period. While there is no current regulatory legislation in force at the federal level that specifically limits GHG emissions, the federal Conservative minority government has repeatedly announced its intention to implement a regulatory framework that would require significant reductions of GHG emissions by Canada's largest industrial sectors, including some of the Corporation's facilities, most of the facilities in Canada from which the Corporation ultimately obtains power, and the industrial sectors to which the Corporation provides its products. More recently, the federal government has indicated its regulatory framework will be coordinated with the U.S. regulatory approach, which remains uncertain.

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

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

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

In order to monitor the potential impact of, and opportunities arising out of, climate change, the Corporation has conducted a number of meetings with regulators at both the federal and provincial levels and closely monitors the regulatory activities of these governments. The Corporation's facilities have implemented programs for the collection of emissions data as part of an overall environmental monitoring system. Any eventual costs related to emissions targets may be partially offset by credits earned through internal measures and research and development projects. The Corporation has already engaged in one such project utilizing waste exhaust heat to generate power for Energas facilities in Cuba, resulting in a reduction of GHG emissions. The environmental benefits achieved through the reduction of GHG emissions at the Energas operations were recognized by the granting of Kyoto Clean Development Mechanism status for the Phase 3 facilities of Energas pursuant to the provisions of the Kyoto Protocol.

Critical accounting estimates and accounting pronouncements

Critical accounting estimates

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

VARIABLE INTEREST ENTITIES

Canadian Institute of Chartered Accountants Accounting Guideline 15 (AcG-15) *Consolidation of Variable Interest Entities*, provides guidance on applying the principles of consolidation to certain entities defined as variable interest entities (VIEs). Where an entity is considered a VIE, the primary beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The primary beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE's expected losses (as defined in AcG-15) or is entitled to a majority of the VIE's expected residual returns (as defined in AcG-15), or both.

The Corporation uses a variety of estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and, if required, to analyze and calculate the expected losses and the expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to determine who is the primary beneficiary. Such analysis involves assumptions regarding many factors, including: current and future economic conditions, net realizable sale prices, production rates, production costs for the entity as well as foreign exchange rates and participation levels and beneficial returns and risks of the Corporation relative to the other identified parties. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG-15 and applying them to specific transactions of the Corporation. In particular, Management reviews the accounting for its joint ventures and investments in light of events and circumstances that create a reconsideration event under the VIE rules and determines the impact of the event on the analysis. For further details on current VIEs of the Corporation, refer to note 2 to the 2010 consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) composes the largest component of the Corporation's assets and as such the capitalization of costs, the determination of estimated recoverable amounts and the depletion and amortization of these assets have a significant effect on the Corporation's financial results.

Management uses its best available information to determine when a development project becomes commercially viable; the stage when costs incurred to develop the project further are capitalized. Management also uses judgement to determine when a project reaches commercial production and costs related to pre-production cease to be capitalized. Commercial production is generally considered to be the stage beyond which a project is operating above a pre-defined minimum capacity on a sustainable basis. This minimum capacity is dependent on a number of factors, including the project plan, economic conditions, and industry practice.

Management's estimates of recoverable minerals and resources and its basis for depletion and amortization are based on assumptions about future commodity prices, exchange rates, production costs and information on reserves that may change. Management, where considered necessary, engages qualified third-party professionals to assist in formulating estimates and assumptions.

For minerals and resources, proven and probable reserve estimates are determined based on professional evaluations provided by internal or external qualified persons. Reserve estimates should not be interpreted as assurances of the life or of the profitability of current or future operations. Estimates of the reserves may change based on additional knowledge gained subsequent to the assessment date. This may include additional data available from continuing exploration and development, results from the reconciliation of actual production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of production. The estimation of reserves is subject to numerous uncertainties and various interpretations.

IMPAIRMENTS

Property, plant and equipment

The Corporation's estimates of recoverability of its operating and development properties are critical, because they could have a significant impact on the balance sheet and statement of earnings. The Corporation periodically reviews and evaluates the recoverability of property, plant and equipment based on an estimate of undiscounted future cash flows and at Oil and Gas cost centres by performing ceiling-test calculations. In performing impairment tests, Management must make certain estimates: future cash flows, expected commodity prices, inflation rate, future exchange rates, future operating, capital and reclamation costs, and the amount of proven and probable reserves. Future cash flows are calculated using quoted benchmark prices in the futures market or price forecasts consistent with reputable industry forecasts or contracted prices where applicable. If any of these estimates change, future net cash flows from the property, plant and equipment could be lower which would result in impairment.

Goodwill

At December 31, 2010, the Corporation had goodwill with a carrying value of $307.9 million related to the acquisition of Royal Utilities.

The Corporation tests for impairment of goodwill on an annual basis and at any other time if events occur or circumstances change that would indicate that it is more likely than not that the fair value of the reporting unit has been reduced below its carrying amount. Circumstances that could trigger an impairment test include: a significant adverse change in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; the loss of key personnel; change in reportable segments; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; adverse results of testing for recoverability of a significant asset group within a reporting unit; and the recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit.

Goodwill could potentially be determined to be impaired in future periods, for a number of reasons, including if there is an increase in the annual weighted-average cost of capital.

Intangible assets

The Corporation tests for impairment of intangible assets if events occur or circumstances change that would indicate that it is more likely than not that the fair value of the asset has been reduced below its carrying amount.

An impairment loss is recognized when the estimate of undiscounted future cash flows generated by such assets is less than the carrying amount. Measurement of the impairment loss is based on the present value of the expected future cash flows which requires estimates of cash flows, commodity prices, inflation rate, future exchange rates, future operating, capital and reclamation costs, and the amount of proven and probable reserves. An impairment analysis contains estimates of an inherently speculative nature regarding forecasting long-term cash flows and determining the ultimate useful lives of assets. Actual results will differ, which could materially impact future impairment assessments.

ASSET-RETIREMENT OBLIGATIONS

The Corporation's operations and joint ventures are subject to environmental regulations in Canada, Cuba, Madagascar, and other countries in which the Corporation operates.

Upon establishment of commercial viability of a site, the Corporation estimates the cost to restore the site following the completion of commercial activities and depletion of reserves. These future obligations are estimated by taking into consideration closure plans, known environmental impacts, and internal and external studies which estimate the cost and timing of activities that are expected to be carried out to remediate the site to meet all applicable regulations and standards. Amounts recorded for asset-retirement obligations are based on estimates of remediation costs which may not be incurred for several years or decades. The asset-retirement cost estimates could change due to amendments in laws and regulations in the countries in which the businesses operate. As well, actual decommissioning and reclamation costs may differ from estimates as a result of increases in remediation costs, and changes in the timing of remediation activities.

The asset-retirement liability is measured by discounting the expected cash flows at credit-adjusted risk-free interest rates ranging from 3.9% to 16.3%. The actual rate depends on a number of factors, including the timing of rehabilitation activities (which can range from 20 to 30 years) and the location of the property. Changes in estimates are amortized over the life of the operating properties.

INCOME TAXES

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

The Corporation calculates future income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax basis as determined under applicable tax legislation. The Corporation records a valuation allowance against its future income tax assets when it determines that it is not "more likely than not" that such assets will be realized. The future realization of future tax assets and any associated valuation allowance can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs and can either be increased or decreased where, in the view of Management, such change is warranted.

In determining whether a future tax asset is more likely than not to be realized, Management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Based upon this review in 2010, the Corporation has recorded $125.7 million of future tax assets on non-capital and capital losses and other deductible temporary differences, 104.3 of which have been offset against future tax liabilities in the Consolidated Balance Sheet.

Accounting pronouncements

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

BACKGROUND

The Canadian Accounting Standards Board (AcSB) requires all Canadian publicly accountable entities to adopt IFRS for years beginning on or after January 1, 2011. Sherritt's first filing under IFRS will be for the period ending March 31, 2011 and will include 2010 IFRS comparative figures. Accordingly, Sherritt's adoption date for IFRS is January 1, 2011, but Sherritt's effective transition date is January 1, 2010 (Transition Date) in order to accommodate IFRS comparative figures in Sherritt's 2011 financial statements.

IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in recognition, measurement and disclosure. Adoption of IFRS will require the Corporation to make certain policy choices that could materially impact the reported financial position and results of operations; however, it is not expected that IFRS will change the actual cash flows the Corporation generates or change its business activities. To the extent possible, Sherritt will make these choices with a view to providing meaningful information to stakeholders that is also comparable to industry peers.

PROJECT PLAN

As previously disclosed, the Corporation is managing its IFRS Conversion Project in three phases: Phase 1 - the scoping and planning phase, Phase 2 - the design and build phase, and Phase 3 - the implementation and review phase.

Management provides regular progress reports on the status of Sherritt's IFRS Conversion Project to the IFRS Conversion Project Steering Committee and to the Audit Committee of the Board of Directors.

Phase 1, the scoping and planning phase, is complete. This phase mainly consisted of establishing a project management structure including the formation of a Steering Committee and business unit project teams; approving the project charter and a detailed project plan; performing a high-level diagnostic assessment of potential differences between Canadian GAAP and IFRS in addition to identifying certain exemptions available for first time adopters; and the completion of preliminary training for key members of the IFRS Conversion Project.

Phase 2, the design and build phase, involves performing the conversion to IFRS and is now complete and discussed in the 'Project Update' section below.

Phase 3 is the implementation and review phase. This phase, which will continue to January 1, 2011 and beyond, is the execution phase which will focus on enabling continued IFRS reporting and facilitating knowledge transfer. Phase 3 involves the following key elements: preparation of full IFRS interim and annual financial statements for the transition period ending December 31, 2010 for comparative disclosure; preparation of interim and annual IFRS financial statements for the year ending December 31, 2011; continued IFRS compliance by developing new accounting policies, accounting manuals, guidelines, and processes for reporting to management and shareholders; continued development of detailed training and knowledge transfer to appropriate staff; and development of revised processes for disclosure controls and procedures and internal controls over financial reporting including updating key controls as required and performing testing and addressing any internal or disclosure control deficiencies.

PROJECT UPDATE

Phase 2 of the conversion project was completed in the fourth quarter of 2010. The Corporation resolved the remaining accounting issues in the fourth quarter of 2010; some of which were complex and unique to the Corporation. Also in the fourth quarter of 2010, additional training sessions were held with various groups within the organization, and the accounting policy manual and evaluation of the control framework necessary to support an IFRS reporting environment were completed.

Progress to date is highlighted below:

Policy choices and exemptions – Management has determined its significant accounting policies under IFRS and selected the optional exemptions available under IFRS 1, *First-time Adoption of IFRS*. Management is setting policies consistent with industry peers as appropriate. Sherritt has quantified the impact of the majority of its preliminary accounting policy choices and exemptions for the purpose of preparing the transitional Consolidated Statement of Financial Position as at January 1, 2010 under IFRS;

Financial systems – A scoping study was completed that identified changes to the financial systems necessary to support IFRS and a solution was implemented in the first quarter of 2010. In addition, a strategy was developed and implemented for dual internal Canadian GAAP and IFRS reporting during 2010 and changeover to IFRS in 2011;

Financial statement disclosures – Draft IFRS financial statements and disclosures have been prepared, based on the most recent determination of accounting policies and optional exemptions available under IFRS 1;

Accounting policy manual – A review of accounting policies throughout the Corporation to ensure consistency and appropriateness has been completed. The accounting policy manual will be regularly updated to include new or amended guidance and over time will include examples on how to apply various accounting policies;

Internal controls – The design of the control framework necessary to support the IFRS reporting environment and the CEO/CFO certification process was completed in the fourth quarter of 2010;

Training – Training of key participants of the implementation process has been ongoing through the conversion process. Formal training materials have been prepared and training was provided to stakeholders inside and outside of the finance department during the fourth quarter of 2010 and will continue going forward; and

Other – The Corporation through discussions with key stakeholders and review of policies and contractual arrangements has determined that IFRS will have a limited impact to its business policies, compensation, debt, and other contractual agreements. The Treasury group has held discussions with creditors with respect to debt covenant ratios under IFRS.

PRELIMINARY ASSESSMENTS

To date, the Corporation has identified some significant differences between Canadian GAAP and IFRS in its current form, which would materially impact its consolidated statement of financial position and result in additional volatility in net earnings. Management's analysis and assessments are based on current facts and circumstances. A number of projects underway by standard-setting bodies could materially change IFRS.

The most significant impact, identified to date, on the consolidated financial statements arising from a difference between Canadian GAAP and IFRS would be a change in the method of accounting for the Corporation's investments in the Ambatovy Joint Venture and Energas, which are described below.

Joint Ventures and Associated entities

Under Canadian GAAP, the Ambatovy Joint Venture and Energas are considered investments in variable interest entities as defined by Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15) and are fully consolidated with non-controlling interests in the net assets reported separately. In accordance with IAS 28, *Investment in Associates*, and IAS 31, *Interests in Joint Ventures*, the Corporation currently expects that Ambatovy would be accounted for as an associated entity that is consolidated using the equity method of accounting and Energas would be accounted for as a jointly-controlled entity that is consolidated using proportionate consolidation. Under this accounting treatment, Sherritt would be required to deconsolidate these entities, thereby eliminating Non-controlling interest at the Transition Date and significantly reducing assets and liabilities on a line-by-line basis.

Accounting for Ambatovy under IFRS – The Corporation determined it had joint control of the Ambatovy Joint Venture as of the date of inception of the original shareholders agreement. Upon entering the additional loan agreements in June 2009, it was determined the Ambatovy Joint Venture would be accounted for as an "investment in an associated entity," and reported as a single line item on the Consolidated Statement of Financial Position and the Corporation's proportionate share of results would be reported in a single line on its Consolidated Statement of Comprehensive Income (Loss). As a result of the cessation of joint control, in June 2009, the Corporation is required to fair value its investment in Ambatovy.

The Corporation expects the accounting of the investment as an associated entity to result in a decrease in current assets by approximately $288 million, long-term assets to decrease by approximately $3.7 billion (net of a new financial statement line for Investment in associated entity totaling approximately $0.9 billion), current liabilities to decrease by approximately $196 million, long-term liabilities to decrease by approximately $1.9 billion, and non-controlling interests to decrease by approximately $1.9 billion. Furthermore, foreign exchange gains and losses on the translation of the foreign operation will be reflected in the Statement of Other Comprehensive Income.

IAS 23, Borrowing costs

If the Corporation's investment in the Ambatovy Joint Venture is accounted for as an equity investment under IFRS, it would not be considered to be a qualified asset as defined under IAS 23, Borrowing Costs, for the capitalization of certain borrowing costs. As a result, certain previously capitalized borrowing costs would be written off to retained earnings, and future interest costs relating to the non-qualifying loans would be expensed as incurred. As a result, if this accounting treatment is adopted on transition to IFRS, the Corporation currently expects to decrease property, plant, and equipment by approximately $38 million, decrease future tax liability by approximately $6 million, and decrease retained earnings by approximately $32 million. In addition, the Corporation expects to record approximately $26 million of financing expense during the first nine months of 2010.

Accounting for Energas under IFRS - The Corporation would recognize its proportionate share of assets, liabilities and earnings (loss) for Energas on a line-by-line basis in its consolidated financial statements. Under this accounting treatment, the Corporation expects current and long-term assets to decrease by approximately $216 million, decrease current and long-term liabilities by approximately $12 million, and to decrease non-controlling interests by $204 million.

Exposure Draft 9, Joint arrangements

The potential accounting treatment for Energas is based on current IFRS standards, and does not assume the adoption of Exposure Draft (ED9), *Joint Arrangements*, which is currently under discussion by the International Accounting Standards Board. If adopted in its current form, ED9 would, among other things, eliminate the use of proportionate consolidation for entities determined to be joint ventures and require them to be accounted for as equity investments in most circumstances. If this exposure draft is adopted, it could have a further material impact on Sherritt's financial statements. In addition to Energas, Sherritt's other significant joint venture, the Moa Joint Venture, would also be impacted by the adoption of ED 9.

Foreign currency translation

Under IFRS, the concept of an integrated or self-sustaining foreign operation does not exist as it does under Canadian GAAP. Although similar to Canadian GAAP, the indicators used to determine the functional currency of a foreign operation under IFRS, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, are based on a hierarchy for analyzing the transactions in the entities' primary economic environment. Based on Management's preliminary analysis, the Corporation has concluded that the functional currency of Energas is the U.S. dollar under IFRS. In this case, Energas' operations would be translated using the from U.S. dollar functional currency to Canadian dollar reporting currency from inception which translates foreign denominated assets, liabilities and transactions at the exchange rate at the reporting date with all exchange gains and losses included in comprehensive income (loss) and deferred in Accumulated other comprehensive income (loss). If this accounting treatment is adopted on transition to IFRS the Corporation currently expects to decrease property, plant, and equipment and other assets by approximately $25 million and decrease accumulated other comprehensive income for approximately $25 million. In addition, the Corporation currently expects that a certain U.S. dollar loan receivable relating to the Ambatovy Joint Venture no longer meets the criteria to be classified as part of the Corporation's net investment in Ambatovy. As a result, the loan receivable would no longer be eliminated on consolidation and be classified on a separate line on the Consolidated Statement of Financial Position. All foreign exchange gains (losses) would be recorded through the Consolidated Statement of Comprehensive Income (Loss). Also, the Corporation would recognize interest revenue on the loan receivable. If this accounting treatment is adopted on transition to IFRS, the Corporation expects to record interest income of approximately $14 million and a foreign exchange gain of approximately $4 for the first nine months of 2010, respectively.

IFRIC 4 – Lease arrangements

IFRS 1 provides an exemption from retrospectively applying the guidance provided in IFRIC 4, *Determining whether an Arrangement contains a Lease*, if, in certain circumstances, a lease was previously accounted for in accordance with Emerging Issues Abstract 150 (EIC-150) under Canadian GAAP. EIC-150 permitted an entity to not revisit arrangements that existed prior to the issuance date of the standard, January 1, 2005. The Corporation may apply the exemption that would allow it to apply IFRIC 4 only to arrangements existing at the Transition Date that were entered into prior to January 1, 2005, based on the facts and circumstances at that date and were analyzed in accordance with EIC-150. The Corporation has analyzed its agreements and determined the criteria to classify certain revenues relating to various Coal arrangements as leases has been met. The Corporation is in the process of determining whether the criteria for a finance lease has been met. If this conclusion is reached, certain Property, plant and equipment would be derecognized and replaced with a Finance Lease receivable equal to the net investment in the lease. The difference between the original carrying amount of the assets and the net investment would be recognized in the Consolidated Statement of Comprehensive Income (Loss). Lease principal payments would be recorded as lease revenue and interest payments would be recorded as finance income. If the criteria for an operating lease are met, the Corporation would continue to account for the Property, plant and equipment as such on its Consolidated Statement of Financial Position and would record the income as lease revenue.

IFRIC 12 - Service Concession Arrangements

Under IFRS, IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concessions whereby the private sector entity provides a service to the public sector entity, which controls or regulates the services provided with the infrastructure and their prices, and controls any significant residual interest in the infrastructure. Canadian GAAP has no specific guidance applicable to service concession arrangements.

Sherritt has entered into certain agreements in its Power business that could require the Corporation to account for such arrangements in accordance with IFRIC 12. As the operator, Sherritt would derecognize the property, plant, and equipment it has recorded and recognize these assets as an intangible asset on its Consolidated Statement of Financial Position. The depreciation of the asset would be recognized in the corresponding account on the Consolidated Statement of Comprehensive Income (Loss). There would be no further impact to the Consolidated Statement of Comprehensive Income (Loss). As a result, if this accounting treatment is adopted on transition to IFRS, the Corporation currently expects to decrease property, plant, and equipment by approximately $66.8 million, increase intangible assets by approximately $73.2 million, decrease other assets by approximately $5.8 million, and decrease retained earnings by approximately $0.6 million. The impact on net earnings (loss) is not material for the first nine months of 2010.

ACCOUNTING PRONOUNCEMENTS - CANADIAN GENERALLY ACCEPTED ACCOUNTING POLICIES

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. Early adoption is permitted. The Corporation did not adopt these standards.

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 did not adopt this standard.

Summary of quarterly results and 2010 fourth quarter results

Summary of quarterly results

The following table presents a summary of the segments and consolidated operating results for each of the eight quarters ended March 2009 to December 2010.

$ millions, except per share amounts, for the three months ended	2010 December 31	2010 September 30	2010 June 30(1)	2010 March 31(1)	2009 December 31(1)	2009 September 30(1)	2009 June 30(1)	2009 March 31(1)
Revenue								
Metals	$ 146.7	$ 127.7	$ 138.1	$ 115.8	$ 110.6	$ 114.3	$ 111.1	$ 79.7
Coal (2)	269.1	229.1	198.7	188.3	174.9	181.2	165.7	188.9
Oil and Gas	61.9	53.2	63.7	59.3	63.0	59.9	50.2	46.6
Power	28.1	28.5	28.2	28.0	28.5	30.6	28.6	30.4
Corporate and other	2.2	2.0	1.4	1.2	2.2	3.0	2.1	3.4
	$ 508.0	$ 440.5	$ 430.1	$ 392.6	$ 379.2	$ 389.0	$ 357.7	$ 349.0
Earnings (loss) from continuing operations	$ 88.9	$ 59.1	$ 19.9	$ 60.5	$ 48.4	$ 56.5	$ 25.7	$ (42.1)
Loss from discontinued operation	7.9	1.5	4.2	0.8	0.1	0.6	1.3	0.8
Net earnings (loss)	$ 81.0	$ 57.6	$ 15.7	$ 59.7	$ 48.3	$ 55.9	$ 24.4	$ (42.9)
Earnings (loss) from continuing operations per share								
Basic	$ 0.30	$ 0.20	$ 0.07	$ 0.20	$ 0.16	$ 0.19	$ 0.09	$ (0.15)
Diluted	$ 0.30	$ 0.20	$ 0.07	$ 0.20	$ 0.16	$ 0.19	$ 0.09	$ (0.15)
Net earnings (loss) per share								
Basic	$ 0.28	$ 0.20	$ 0.05	$ 0.20	$ 0.16	$ 0.19	$ 0.08	$ (0.15)
Diluted	$ 0.27	$ 0.19	$ 0.05	$ 0.20	$ 0.16	$ 0.19	$ 0.08	$ (0.15)

(1) Amounts have been amended as a result of Mineral Products accounted for as a discontinued operation.

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

Net earnings (loss) for the Corporation before the inclusion of unusual items were affected primarily by changes in commodity prices and exchange rates that impact revenue and costs. The Corporation's results have been positively impacted by an increase in nickel and oil prices, which have been trending higher compared to the quarters that were impacted to a greater degree by the global financial crisis that began in late 2008. Net earnings were lower in the second quarter of 2010 due to an unrealized foreign exchange loss of $18.1 million and a $15.3 million provision for income taxes. 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).

2010 Fourth quarter results

The following table and discussion compares the fourth quarter 2010 to the fourth quarter 2009:

$ millions, for the three months ended December 31		2010		2009
Financial highlights (1)				
Revenue by segment				
Metals	$	146.7	$	110.6
Coal		269.1		174.9
Oil and Gas		61.9		63.0
Power		28.1		28.5
Corporate and other		2.2		2.2
	$	508.0	$	379.2
EBITDA (2) by segment				
Metals	$	54.3	$	41.1
Coal		66.5		49.0
Oil and Gas		46.3		49.9
Power		20.0		19.5
Corporate and other		(10.6)		(10.5)
	$	176.5	$	149.0
Operating earnings (loss) (2) by segment				
Metals	$	45.7	$	33.5
Coal		32.9		19.1
Oil and Gas		29.6		30.0
Power		12.0		11.4
Corporate and other		(11.2)		(11.9)
	$	109.0	$	82.1
Net earnings		81.0		48.3
Net earnings per share, diluted ($ per share)	$	0.27	$	0.16
Cash flow				
Cash provided by operating activities	$	177.6	$	92.9
Capital expenditures	$	343.5	$	365.9
Production volumes				
Nickel (tonnes)(50% basis)		4,459		4,125
Cobalt (tonnes)(50% basis)		492		433
Coal - Prairie Operations (millions of tonnes) (3)		10.0		9.6
Coal - Mountain Operations (millions of tonnes)(50% basis)		1.2		0.5
Oil - Cuba - net production (barrels per day)		11,306		12,062
Electricity (gigawatt hours)		512		524
Unit operating costs				
Nickel (4) (US$ per pound)	$	3.36	$	3.12
Coal - Prairie Operations ($ per tonne)		12.04		11.09
Coal - Mountain Operations ($ per tonne)		67.68		62.38
Oil - Cuba ($ per barrel)		6.16		8.04
Electricity ($ per megawatt hour)		12.29		12.85
Averaged-realized sales prices				
Nickel ($ per pound)	$	10.78	$	8.36
Cobalt ($ per pound)		17.21		19.18
Coal - Prairie operations ($ per tonne)		15.14		14.83
Coal - Mountain operations ($ per tonne)		85.43		65.09
Oil - Cuba ($ per barrel)		53.58		52.75
Electricity ($ per megawatt hour)		41.88		43.83

(1) Amounts for year ended December 31, 2009 have been amended to account for Mineral Products as a discontinued operation.
(2) For additional information see the Non-GAAP Measures section.
(3) Results include the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in Mountain Operations.
(4) Net direct cash cost inclusive of by-product credits and third-party feed costs.

The Corporation's net earnings for the three months ended December 31, 2010 were $81.0 million compared to net earnings of $48.3 million in the prior year;

- Revenue of $508.0 million and EBITDA of $176.5 million during the three months ended December 31, 2010 was $128.8 million and $27.5 million higher than the same period in the prior year, respectively, primarily due to a higher average-realized nickel price and the impact of the acquisition of the remaining 50% of CVP on June 30, 2010;
- Metals' operating earnings of $45.7 million during the three months ended December 31, 2010 were $12.2 million higher than the same period in the prior year due to a higher average-realized price for nickel and higher nickel and cobalt sales volumes, partially offset by the impact of higher input energy prices and a stronger Canadian dollar relative to the U.S. dollar;
- Coal's operating earnings of $32.9 million during the three months ended December 31, 2010 were $13.8 million higher than the same period in the prior year, primarily due to the acquisition of the remaining 50% of CVP on June 30, 2010;
- Oil and Gas' operating earnings of $29.6 million for three months ended December 31, 2010 were $0.4 million lower than the same period in the prior year, primarily due to lower sales volumes mostly offset by a higher average-realized price for oil produced in Cuba; and
- Power's operating earnings of $12.0 million for the three months ended December 31, 2010 were $0.6 million higher than the same period in the prior year, primarily due to lower operating expenses as a result of an insurance recovery.

Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts. The Corporation has made a completion guarantee to the Ambatovy Project lenders and has also guaranteed letters of credit issued by Coal and payments under a lease contract entered into by Coal. Details of these arrangements can be found in note 18 of the December 31, 2010, consolidated financial statements.

Transactions with related parties

The Corporation engaged in the following related-party transactions resulting in the balances at December 31, 2010 below:

$ millions	2010	2009
Total value of goods and services		
Provided to jointly-controlled enterprises	$ 65.4	$ 102.2
Purchased from jointly-controlled enterprises	37.3	51.6

$ millions, as at	2010	2009
Accounts receivable from jointly-controlled enterprises	$ 4.0	$ 4.4
Accounts payable to jointly-controlled enterprises	2.1	1.7
Advances and loans receivable from certain Moa Joint Venture entities	168.1	210.0
Loans receivable from Coal Valley Resources Inc.	-	5.0

The Corporation and its subsidiaries provide goods, labour, advisory and other administrative services to 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 Metals. The above transactions arise in the normal course of the Corporation's relationships with the joint venture entities.

Advances and loans receivable include two loans provided pursuant to a funding agreement and advances on a working capital facility provided by the Corporation to certain Moa JV entities. The funding arrangement was created in order to finance the expansion activities at the Moa JV. All amounts are recorded at the proportionately consolidated amounts.

Controls and procedures

Disclosure controls and procedures

Management is responsible for establishing and maintaining adequate internal control over disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Commission (NI 52-109). Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to Management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of December 31, 2010, of the Corporation's disclosure controls and procedures. Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information known by others relating to the Corporation and its subsidiaries is provided to them.

Internal controls over financial reporting

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

The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Management advises that there have been no changes in the Corporation's internal controls over financial reporting during 2010 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Management, with the participation of the certifying officers, conducted an evaluation of the effectiveness of the Corporation's internal controls over financial reporting, as of December 31, 2010, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on this evaluation, the CEO and CFO have concluded that the internal controls over financial reporting were effective as of December 31, 2010.

Supplementary information

Sensitivity analysis

The following table shows the approximate impact on the Corporation's 2010 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 annual change in net earnings ($ millions) Increase/ (decrease)	Approximate annual change in basic EPS Increase/ (decrease)
Prices			
Nickel - LME price per pound (50% basis)	US$ 0.50	12	0.04
Cobalt - Metal Bulletin price per pound (50% basis)	US$ 5.00	13	0.04
Oil - U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$ 5.00	9	0.03
Sale volumes			
Nickel - tonnes (50% basis)	1,000	4	0.01
Cobalt - tonnes (50% basis)	250	3	0.01
Oil - barrels per day	1,000	10	0.03
Exchange rate			
Strengthening of the Canadian dollar relative to the U.S. dollar	$ 0.05	(5)	(0.02)
Operating costs			
Natural gas - cost per gigajoule (Metals)(50% basis)	$ 1.00	(3)	(0.01)
Sulphuric acid - cost per tonne (Metals)(50% basis)	US$ 25.00	(1)	-
Fuel - WTI oil price (Coal Mountain Operations)	US$ 10.00	(6)	(0.02)

Non-GAAP measures

EBITDA AND OPERATING EARNINGS

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.

$ millions, for the years ended December 31	2010	2009
Revenue	$ 1,771.1	$ 1,474.9
Operating, selling, general and administrative expenses	1,234.4	1,061.8
	536.7	413.1
Add: Depreciation included in operating expenses	95.3	82.3
EBITDA	632.0	495.4
Less:		
Depreciation included in operating expenses	95.3	82.3
Depletion, amortization and accretion	162.6	179.2
Operating earnings	374.1	233.9
Loss on disposal of property, plant and equipment	-	79.5
Impairment of property, plant and equipment and intangible assets	7.9	-
Net financing expense	15.8	20.7
Other items	-	1.5
Earnings from operations before income taxes and non-controlling interests	$ 350.4	$ 132.2

ADJUSTED BALANCE SHEET

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 Sherritt's 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.

The adjusted balance sheet has been reconciled to the condensed Canadian GAAP balance sheet as at December 31, 2010. 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:		Add:		
	GAAP	Consolidated amount		Proportionate Interest		Adjusted
	Balance	Ambatovy	Energas S.A.	Ambatovy	Energas S.A	Balance
$ millions, as at December 31, 2010	Sheet	100%	100%	40%	33 1/3%	Sheet
ASSETS						
Cash, cash equivalents, short-term investments	$ 827.5	$ (53.7)	$ (21.0)	$ 21.5	$ 7.0	$ 781.3
Other current assets	689.4	(44.3)	(17.9)	17.7	6.0	650.9
Property, plant and equipment	8,099.2	(5,971.8)	(444.5)	2,388.7	148.2	4,219.8
Other	1,105.4	(7.3)	(13.1)	3.0	4.4	1,092.4
	$10,721.5	**$ (6,077.1)**	**$ (496.5)**	**$ 2,430.9**	**$ 165.6**	**$ 6,744.4**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	$ 602.6	$ (387.7)	$ (8.9)	$ 155.1	$ 3.0	$ 364.1
Long-term debt and other long-term liabilities	3,500.7	(1,767.1)	(174.8)	706.8	58.3	2,323.9
Other	740.3	(320.7)	(2.5)	128.3	0.8	546.2
	4,843.6	(2,475.5)	(186.2)	990.2	62.1	3,234.2
Non-controlling interests	2,367.7	(2,160.9)	(206.8)	-	-	-
Shareholders' equity	3,510.2	(1,440.7)	(103.5)	1,440.7	103.5	3,510.2
	$10,721.5	**$ (6,077.1)**	**$ (496.5)**	**$ 2,430.9**	**$ 165.6**	**$ 6,744.4**

Five-year financial and operating summary

$ millions, except per share amounts	2010	2009[1]	2008[1]	2007[1]	2006
Consolidated Statements of Operations					
Revenue from continuing operations	$ 1,771.1	$ 1,474.9	$ 1,611.6	$ 1,340.4	$ 1,114.4
Operating earnings (loss) [2] for continuing operations					
Metals	177.3	82.3	144.7	458.5	243.0
Coal [3]	84.5	80.9	70.5	(17.4)	(1.2)
Oil and Gas	102.5	63.6	98.3	140.0	128.7
Power	49.6	49.7	57.8	56.2	46.2
Corporate and other	(39.8)	(42.6)	(30.4)	(36.8)	(45.3)
	374.1	233.9	340.9	600.5	371.4
Share of earnings (loss) of equity-accounted investments	-	-	9.5	34.6	10.9
Non-controlling interests	11.4	20.4	26.1	21.1	17.2
Earnings (loss) from continuing operations	228.4	88.5	(286.2)	370.7	242.9
Earnings (loss) from discontinued operations	(14.4)	(2.8)	(3.5)	(0.3)	2.7
Net earnings (loss)	214.0	85.7	(289.7)	370.4	245.6
Earnings (loss) from continuing operations per share					
Basic	$ 0.78	$ 0.30	$ (1.04)	$ 1.80	$ 1.59
Diluted	$ 0.77	$ 0.30	$ (1.04)	$ 1.79	$ 1.41
Net earnings (loss) per share					
Basic	$ 0.73	$ 0.29	$ (1.05)	$ 1.80	$ 1.61
Diluted	$ 0.72	$ 0.29	$ (1.05)	$ 1.79	$ 1.42
Consolidated Balance Sheets					
Cash and cash equivalents	$ 330.8	$ 449.8	$ 500.8	$ 355.2	$ 353.3
Restricted cash	1.1	1.8	11.7	31.4	6.5
Short-term investments	496.7	420.8	106.5	103.5	9.9
Non-cash working capital	120.2	149.4	29.2	102.8	241.7
Goodwill and intangibles	784.5	791.3	791.2	373.8	-
Capital assets	8,099.2	7,162.9	6,703.0	3,282.2	1,079.9
Investments and other assets	394.6	517.8	588.8	653.3	543.6
Assets of discontinued operation	1.7	4.5	4.6	4.6	-
Long-term debt and other long-term liabilities	(3,587.0)	(3,245.1)	(2,593.0)	(657.9)	(424.4)
Asset-retirement obligation	(206.3)	(161.1)	(147.0)	(73.4)	(65.0)
Liabilities of discontinued operation	(24.2)	(11.0)	(6.6)	(4.4)	-
Non-controlling interests	(2,367.7)	(2,110.8)	(1,668.4)	(1,202.3)	(194.1)
Future taxes, net	(533.4)	(515.9)	(593.7)	(318.7)	25.9
Shareholder's equity	$ 3,510.2	$ 3,454.4	$ 3,727.1	$ 2,650.1	$ 1,577.3
Consolidated Statements of Cash Flow					
Cash provided by operating activities	$ 509.0	$ 433.7	$ 495.1	$ 729.2	$ 323.2
Capital expenditures	1,305.8	1,567.5	2,208.8	1,002.8	241.9
(Decrease) increase in net cash	(119.0)	(51.0)	145.1	2.4	(84.3)
Sales Volumes					
Nickel (thousands of pounds, 50% basis)	37,253	37,365	35,782	34,398	33,541
Cobalt (thousand of pounds, 50% basis)	4,086	4,095	3,811	3,974	3,685
Fertilizers (thousands of tonnes)	196	158	150	198	151
Coal: Prairie Operations [4] (thousands of tonnes)	34,460	34,482	34,921	35,758	36,528
Coal: Mountain Operations [5] (thousands of tonnes)	3,327	1,860	1,775	1,889	1,622
Oil (net barrels per day)	11,956	13,214	16,826	19,154	17,477
Power (GWh)	2,067	2,167	2,318	2,288	2,047
Average Realized Prices					
Nickel ($ per pound)	$ 10.11	$ 7.46	$ 9.93	$ 17.85	$ 12.59
Cobalt ($ per pound)	18.68	17.54	36.67	29.40	17.52
Coal: Prairie Operations ($ per tonne)	15.80	14.56	14.55	13.00	11.92
Coal: Mountain Operations ($ per tonne)	84.21	79.04	87.51	50.50	47.45
Oil ($ per barrel)	52.24	45.05	55.99	42.70	41.80
Electricity ($ per megawatt hour)	42.42	46.79	43.12	43.11	44.68
Common Share Prices					
High	$ 9.05	$ 8.44	$ 17.35	$ 18.04	$ 13.50
Low	$ 5.72	$ 1.69	$ 1.75	$ 11.49	$ 9.28
Shares Outstanding at December 31 (thousands)	295,017	293,981	293,051	231,809	172,012

(1) Certain prior year figures have been reclassified to conform to the current-year's presentation.
(2) For additional information, see the "Non-GAAP Measures" section.
(3) The Coal segment includes the following:
- The Corporation's 100% in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
- The Corporation's 50% proportionate interest in coal development assets.
- The Corporation's 50% proportionate interest in Royal Utilities up to June 27, 2006, share of equity earnings to the date of acquisition (May 2, 2008), and consolidated results since that date.

(4) Tonnage amounts are presented on a 100% basis for each period.
(5) Tonnage amounts are presented on a 100% basis from July 1, 2010. Prior to July 1, 2010, tonnage amounts are presented on a 50% basis for each period.

Forward-looking statements

This 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. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; production volumes; oil and gas drilling activities; sales of activated carbon; royalty revenues; debt repayments; future cash requirements for asset-retirement and pension obligations, compliance with financial covenants; collection of account receivables; and other corporate objectives, plans or goals for 2011. 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, Indonesia, 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; differences between Canadian GAAP and IFRS and other factors listed from time to time in Sherritt’s continuous disclosure documents.

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