

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2011

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

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

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

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

Key financial and operational data	2
Overview of the business	3
Executive summary	7
Review of operations	13
Metals	13
Coal	19
Oil and Gas	25
Power	29
Other	32
Consolidated financial position	33
Liquidity and capital resources	34
Managing risk	39
Environment, health and safety	48
Critical accounting estimates and accounting pronouncements	53
Three-year trend analysis	59
2011 Fourth quarter results	60
Summary of quarterly results	61
Off-balance sheet arrangements	62
Transactions with related parties	62
Controls and procedures	63
Supplementary information	64
Sensitivity analysis	64
Non-IFRS measure - EBITDA	65
Five-year financial and operating summary	66
Forward-looking statements	67

Key financial and operational data

\$ millions	For the years ended December 31		Change	
	2011	2010		
Financial highlights				
Revenue	\$ 1,978.3	\$ 1,670.6	18%	
EBITDA ⁽¹⁾	643.2	546.0	18%	
Earnings from operations and associate	410.7	342.7	20%	
Net earnings	197.3	144.8	36%	
Comprehensive income	244.0	46.7	422%	
Net earnings per share, basic (\$ per share)	0.67	0.49	37%	
Net earnings per share, diluted (\$ per share)	0.67	0.49	37%	
Cash flow				
Cash provided by operating activities	\$ 354.8	\$ 413.8	(14%)	
Spending on capital and intangible assets⁽²⁾	\$ 235.6	\$ 185.5	27%	
Production volumes				
Nickel (tonnes)(50% basis)	17,286	16,986	2%	
Cobalt (tonnes)(50% basis)	1,927	1,853	4%	
Coal - Prairie Operations (millions of tonnes)	32.7	34.4	(5%)	
Coal - Mountain Operations (millions of tonnes) ⁽³⁾	4.4	3.3	33%	
Oil - Cuba - net working-interest production (barrels per day)	11,286	11,128	1%	
Electricity (gigawatt hours) (33 ^{1/3} % basis)	618	689	(10%)	
Unit costs⁽⁴⁾				
Nickel (US\$ per pound) ⁽⁵⁾	\$ 4.35	\$ 3.35	30%	
Coal - Prairie Operations (\$ per tonne) ⁽⁶⁾	13.87	12.23	13%	
Coal - Mountain Operations (\$ per tonne)	79.61	71.32	12%	
Oil - Cuba (\$ per barrel)	12.07	10.66	13%	
Electricity (\$ per megawatt hour)	20.05	14.46	39%	
Averaged-realized sales prices⁽⁴⁾				
Nickel (\$ per pound)	\$ 10.14	\$ 10.11	-	
Cobalt (\$ per pound)	15.82	18.68	(15%)	
Coal - Prairie Operations (\$ per tonne) ⁽⁶⁾	16.31	14.18	15%	
Coal - Mountain Operations (\$ per tonne)	101.61	84.21	21%	
Oil - Cuba (\$ per barrel)	68.47	52.24	31%	
Electricity (\$ per megawatt hour)	41.00	42.42	(3%)	
\$ millions, except as noted, as at December 31				
		2011	2010	Change
Financial condition⁽⁷⁾				
Current ratio		3.73:1	4.22:1	(12%)
Net working capital balance	\$	1,016.7	\$ 1,112.6	(9%)
Cash, cash equivalents and short-term investments		631.4	759.8	(17%)
Total assets		6,497.5	6,068.2	7%
Total loans and borrowings		1,744.7	1,563.6	12%
Shareholders' equity		3,731.7	3,528.3	6%
Long-term debt to total assets ⁽⁸⁾		28%	27%	4%

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

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

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

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

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

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

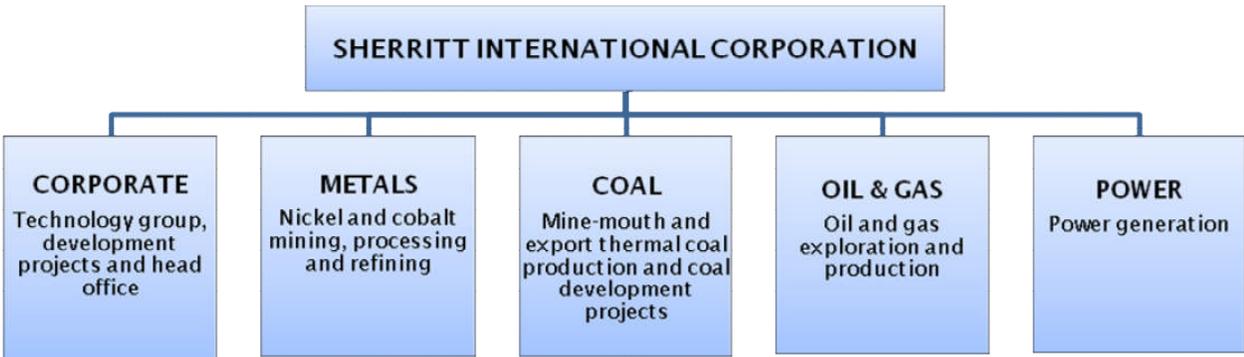
(7) The Corporation was required to change how it accounts for the Ambatovy Joint Venture and Energas under IFRS. As a result, there were significant changes to most accounts in the statement of financial position compared to those prepared under Canadian GAAP.

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

Overview of the business

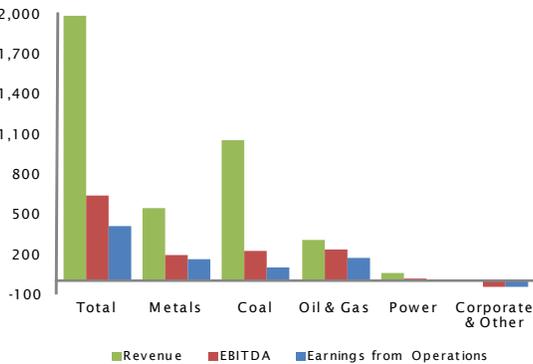
Sherritt is a leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba, Indonesia and Madagascar. The Corporation is the largest coal producer in Canada and is the largest independent energy producer in Cuba, with extensive oil and power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

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

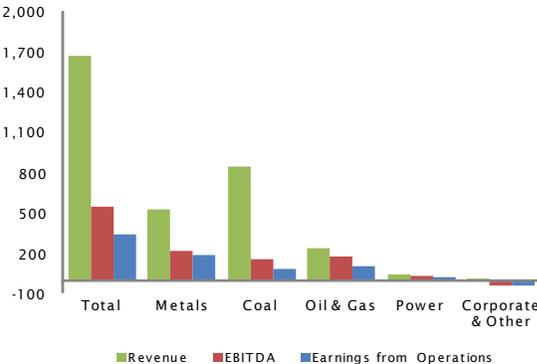


Revenue, EBITDA⁽¹⁾ and Earnings from Operations by division are as follows:

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



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



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

METALS

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

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

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

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

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

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

COAL

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

Coal consists of three distinct groups:

- Prairie Operations
- Mountain Operations
- Coal Development Assets

Prairie Operations consists of a 100% interest in Royal Utilities Income Fund (Royal Utilities). Royal Utilities indirectly owns and operates the Paintearth, Sheerness, Genesee (50% interest), Poplar River, Boundary Dam and Bienfait mines and operates the Highvale mine under contract. Prairie Operations also indirectly owns a 50% joint venture interest in the Bienfait Activated Carbon Joint Venture, which produces activated carbon for the removal of mercury from flue gas. In 2011, the plant completed its first full year of production. Prairie Operations also produces and sells char to the barbecue briquette industry from the Bienfait Char

facility. In addition, Prairie Operations holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal, potash and other minerals.

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

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

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

OIL AND GAS

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

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

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

POWER

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

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

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

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

CORPORATE AND OTHER

Technologies

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

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

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

Sulawesi Nickel Project

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

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

Executive summary

HIGHLIGHTS

The following are highlights from 2011:

Results

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

Ambatovy Project

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

Sulawesi Project

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

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

Production

- Finished nickel, cobalt and mixed sulphide production at Metals each established an annual production record primarily due to ongoing process improvements and stable plant operation.
- Production at Prairie Operations decreased primarily due to lower customer demand at the Highvale mine, an unscheduled maintenance shutdown at the generating station served by the Genesee mine in the fourth quarter, and extreme wet weather and flooding at the Boundary Dam mine in the second quarter of 2011. Production at Mountain Operations exceeded those of the prior year primarily due to the impact of Sherritt acquiring the remaining 50% interest in CVP on June 30, 2010.
- Gross working-interest oil production at Oil and Gas was relatively unchanged as the reduction in production resulting from natural reservoir declines was mostly offset by production from new wells and optimization of production from existing wells.
- Production at Power was lower due to continued gas supply shortages and the impact of two turbine failures that occurred early in 2011 that reduced available capacity.

Financial position

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

Debenture offering

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

Transition to IFRS

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

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

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

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

- At Power, it was determined that under the terms of the shareholder's agreement the Corporation has joint control with its partners and is required to proportionately consolidate its 33^{1/3} % investment in Energas S.A. on a line-by-line basis on the consolidated statement of financial position and statement of comprehensive income. IFRS differs from Canadian GAAP as it places greater emphasis on governance and decision making when determining whether an entity controls another entity on a basis other than voting interest. Under Canadian GAAP, Energas S.A. was accounted for as a variable interest entity which was fully consolidated with non-controlling interest in the net assets reported separately. As a result, net assets decreased by \$204 million and non-controlling interest decreased by \$204 million.
- At Prairie Operations, it was determined that coal supply arrangements related to the operations of the 50%-owned Genesee mine and the Highvale contract mine, as well as certain agreements to operate draglines and other assets at other mines, were leasing arrangements. It was determined that Sherritt contributed assets to these arrangements; however, the utility customer had the primary right to use those assets. In effect, Sherritt performs leasing services and is reimbursed with a return on its investment in these assets. As a result, Sherritt was required to reclassify assets of approximately \$239 million previously recognized in property, plant and equipment to finance lease receivables since Sherritt is considered the lessor. In the statement of comprehensive income, coal revenue earned from these lease arrangements is presented as finance lease income and depreciation is no longer recorded as the related assets are not considered property, plant and equipment. Earnings from operations will be lower as it does not include finance lease income related to these arrangements.
- At Power, the Boca de Jaruco and Puerto Escondido facilities were determined to be operating under service concession arrangements. A service concession arrangement is one whereby a private enterprise provides a service to a public sector entity. For Sherritt, it constructs infrastructure used to provide a public service and also operates and maintains that infrastructure for a fee for a specified period of time. At the end of the service concession arrangement, the residual interest in the infrastructure is transferred to the Cuban government. As a result of these service concession arrangements, Sherritt was required to derecognize the property, plant and equipment and other assets of \$73 million related to these facilities and record an equivalent amount as an intangible asset.

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

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

- Under IFRS, Sherritt's investment in Ambatovy Joint Venture is accounted for as an equity investment. As a result, Sherritt is no longer permitted to capitalize interest costs related to the funds it has borrowed from the Ambatovy Joint Venture partners or the amortization of the cross-guarantee fee asset related to the Ambatovy Project.
- Sherritt has provided a U.S. dollar denominated subordinated loan to Ambatovy to finance the development of the project. Under IFRS, as repayment of the loan is expected to occur in the foreseeable future it cannot be included as part of the net investment in Ambatovy as was the case under Canadian GAAP. The loan is now included in advances, loans receivable and other assets on the statement of financial position and unrealized foreign exchange gains and losses are recognized in net earnings as the loan is revalued each period.
- Under IFRS, on the acquisition of CVP, Sherritt was required to re-measure its previously held 50% equity interest to its fair value, resulting in most of the gain. Under Canadian GAAP, previously held interests are not re-measured and no gain is recorded on acquisitions.
- Sherritt was required to change how it accounted for certain stock options under IFRS and now uses the Black-Scholes model to value these options each reporting period. The amount of expense or recovery for these stock options is primarily determined by movement in the price of Sherritt's publicly-traded shares.
- The items included in Other were not significant on an individual basis. Some of these items related to accounting for environmental rehabilitation provisions, employee benefits, income taxes, foreign exchange fluctuations and the impact of

leasing arrangements at Coal and service concession arrangements at Power, as described above, and are not expected to cause significant volatility in net earnings in the future. The impact of the change related to fair valuing the Ambatovy call option did not have a significant impact on 2010 net earnings; however, the valuation of this option may cause volatility in future net earnings.

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

Consolidated financial results

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

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

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

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

- Metals' earnings from operations and associate of \$166.3 million for the year ended December 31, 2011 were \$18.7 million lower than in 2010 as higher average-realized prices for nickel and fertilizers were more than offset by higher input commodity prices, lower average-realized price for cobalt, and the impact of a stronger Canadian dollar relative to the U.S. dollar;

- Coal's earnings from operations of \$104.5 million for the year ended December 31, 2011 were \$23.3 million higher than in 2010 primarily due to higher export thermal coal prices, higher sales volumes in Mountain Operations as a result of acquiring the additional 50% of CVP on June 30, 2010 and higher coal mining revenue at Prairie Operations; this was partially offset by higher operating costs at both Prairie and Mountain Operations and the impact of a stronger Canadian dollar relative to the U.S. dollar at Mountain Operations. Mountain Operations' earnings from operations in 2010 included a \$15.6 million gain primarily related to the re-measurement of the Corporation's previously held 50% equity interest when it acquired the remaining 50% of CVP;
- Oil and Gas' earnings from operations of \$170.0 million for the year ended December 31, 2011 were \$68.8 million higher than in 2010 primarily due to an increase in the average-realized price for oil produced in Cuba;
- Power's earnings from operations of \$14.5 million for the year ended December 31, 2011 were \$4.2 million lower than in 2010 primarily due to lower sales volumes, higher operating costs and a lower average-realized sales price;
- Net finance expense of \$123.0 million for the year ended December 31, 2011 was \$41.5 million higher compared to the prior year. Finance expense was \$28.9 million higher than the prior year primarily due to an early redemption premium paid on the redemption of the 2012 Debentures in December 2011 and higher interest expense and accretion on higher average loan and borrowing balances. Finance income was \$12.6 million lower than the prior year primarily due to lower net gains on financial instruments and lower interest income on lower average investment and loan balances;
- In 2010, the Corporation closed the Mineral Products division, which included a talc mine and plant. Mineral Products is reported as a discontinued operation. See the Review of operations – Other section for more information; and
- The effective consolidated tax rate for the year ended December 31, 2011 was 31%, compared to 39% in the same period in the prior year. The 2010 comparative tax rates were impacted primarily by two significant items. Firstly, a tax benefit was not recognized on either the loss incurred by Mineral Products or on the impairment of the property in Turkey, as it was uncertain whether those losses could be used in a future period to reduce taxable income. Secondly, a \$15.9 million deferred tax expense was recognized on the Cuban tax contingency reserve. Specifically, in prior years Oil and Gas and Power deducted a 5% contingency reserve in computing current taxes under Cuban tax legislation. During the second quarter of 2010, the Corporation determined it was probable the contingency reserve would be taxable in a future period and recorded a deferred tax expense. After adjusting for these two items, the normalized effective tax rate for the year ended December 31, 2010, was 30%. The difference between the normalized 2010 effective tax rate and the effective tax rate of 31% for the year ended December 31, 2011, is primarily the result of changes in the relative mix of earnings and losses, including foreign exchange gains and losses that were incurred by the various divisions in different tax rate jurisdictions.

SIGNIFICANT FACTORS INFLUENCING OPERATING RESULTS

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

Commodity prices

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

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

Operating costs

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

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

Foreign exchange rate

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

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

Review of operations

METALS

2011 Highlights

- Annual production records achieved for both nickel and cobalt production at the Fort Saskatchewan refinery and for mixed sulphide production in Moa.
- Annual sales volume record achieved for nickel and cobalt.

Financial review

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

(1) Excluding depletion, depreciation and amortization.

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

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

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

Metal prices

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

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

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

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

Production and sales

Production (tonnes) (50% basis)	For the years ended December 31		
	2011	2010	Change
Mixed sulphides	19,320	18,873	2%
Finished nickel	17,286	16,986	2%
Finished cobalt	1,927	1,853	4%

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

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

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

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

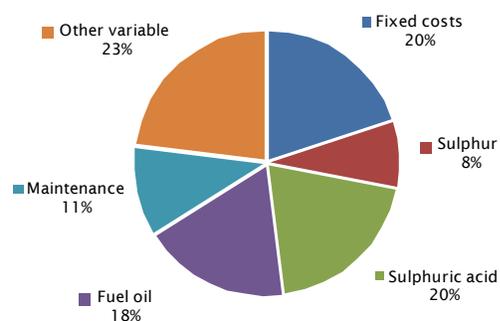
Unit costs

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

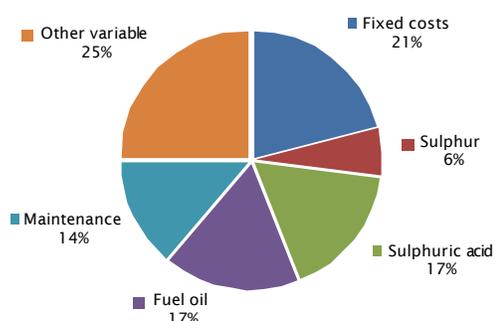
(1) Includes fertilizer profit or loss, marketing costs, premiums, and other by-product credits.

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

2011 Components of mining, processing and refining costs ⁽¹⁾



2010 Components of mining, processing and refining costs ⁽¹⁾



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

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

Spending on capital

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

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

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

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

Ambatovy Project update

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

-
- The estimated project capital cost remains US\$5.5 billion, excluding financing charges, working capital and foreign exchange. The current estimate for the financing charges, working capital and foreign exchange (“other net project costs”) is US\$900 million and may vary until commercial production is declared, which is dependent on a number of factors. The US\$900 million includes certain financing costs of US\$128 million that were previously included in the US\$5.5 billion (100%) capital cost estimate prior to the third quarter of 2011. The most significant variability in the other net project costs is likely to arise from the working capital component and the production revenue which are netted from these costs.
 - The variability in the other net project costs is anticipated to arise primarily from three categories of potential risk.
 - Parts and equipment. There still remains an inherent risk that parts and equipment may fail during early operation, and this risk will become apparent during the start-up process. In addition, if a critical part fails during start-up and replacement is not readily available, a ramp-up delay is possible.
 - Construction quality risk. As disclosed in December 2010, Sherritt identified and replaced certain contractors who had been performing inadequately at both the Power Plant and Refinery. The Power Plant is now operational and can provide sufficient power for start-up and ongoing operations. In the Refinery and in certain areas of the High Pressure Acid Leach, programs have been implemented to rectify all known quality deficiencies, but latent issues may still exist that could affect metal recoveries during start-up.
 - Operational risk. The pace of the start-up process and production ramp-up will be directly affected by the performance of core operators and maintenance teams. The commissioning process has been utilized to train and familiarize the new operators with the facility. However, their performance in an operating plant remains untested. Supplementary operators and maintenance personnel, experienced in both start-up activities and steady-state operations, are being mobilized to assist further in the training and start-up to mitigate the short-term risks. In addition, a system has been instituted that will monitor the qualifications and performance of this group and mitigate issues over the medium and long term.

Revenue from sales of nickel and cobalt in the pre-production phase offset estimated working capital requirements during that same period. As a result, estimated other net project costs may increase or decrease depending on the market price of nickel and cobalt and the volume of output during the pre-commercial production period. An estimate of 2012 production is provided in the Metals – Outlook section.

- First metal is scheduled for the first quarter of 2012. Assuming no significant impacts arise from the risks outlined above to the start-up process or production ramp-up, the Ambatovy operations are expected to be cash-flow neutral by the fourth quarter of 2012 and reach commercial production by the end of 2012 or early 2013, and achieve full production in 2013. Ambatovy is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity.
- There continue to be no material disruptions to the project due to the political situation in Madagascar. Since the third quarter of 2011, there has been progress on the implementation of the “Roadmap” designed by the Southern African Development Community to facilitate Madagascar’s return to democratic rule although several key milestones are outstanding. The project continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. The project continues to have active working relations with relevant Malagasy Ministries to facilitate the commissioning and start-up of operations.

Outlook for 2012

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

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

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

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

COAL

2011 Highlights

- Coal achieved record revenue of \$1.1 billion and earnings from operations of \$104.5 million primarily due to stronger export thermal coal pricing and record production at Mountain Operations.
- In Prairie Operations, 10-year coal supply agreements were extended with customers at the Paintearth and Highvale mines.
- In Prairie Operations, the Activated Carbon plant completed its first full year of operations with 6,513 (50% basis) tonnes of product sold.

Financial review

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

- (1) The Corporation determined certain coal supply agreements in Prairie Operations were leasing arrangements. As a result, coal revenue earned on specified assets from these arrangements was reclassified to finance income, and depreciation is no longer recorded since the related assets are not considered property, plant and equipment. Finance lease income is not included in EBITDA or earnings from operations.
- (2) Excluding depletion, depreciation and amortization.
- (3) For additional information see the Non-IFRS measure – EBITDA section.
- (4) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest. The Corporation proportionately consolidates its 50% interest in coal development assets.

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

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

Coal prices

Prices (\$/tonne)	For the years ended December 31		
	2011	2010	Change
Prairie Operations - average-realized ⁽¹⁾⁽²⁾	\$ 16.31	\$ 14.18	15%
Mountain Operations - average-realized	101.61	84.21	21%

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

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

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

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

Royalty revenue

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

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

Production and sales

Production (millions of tonnes)	For the years ended December 31		
	2011	2010	Change
Prairie Operations	32.7	34.4	(5%)
Mountain Operations ⁽¹⁾	4.4	3.3	33%
<hr/>			
Sales (millions of tonnes)			
Prairie Operations	32.0	34.5	(7%)
Mountain Operations ⁽¹⁾	4.4	3.3	33%

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

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

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

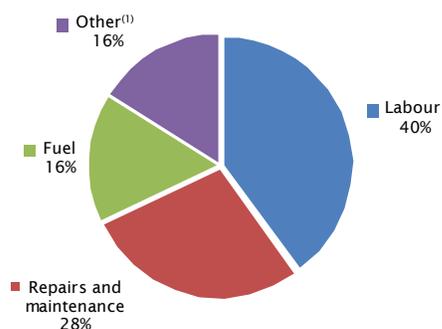
Unit costs

Unit cost (\$ per tonne)	For the years ended December 31		
	2011	2010	Change
Prairie Operations ⁽¹⁾	\$ 13.87	\$ 12.23	13%
Mountain Operations ⁽²⁾	79.61	71.32	12%

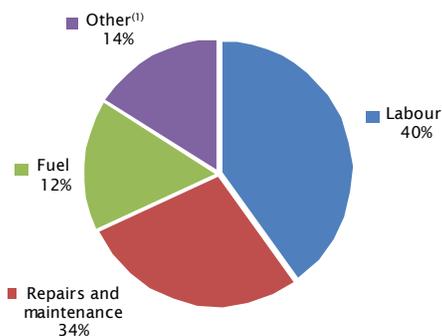
(1) Unit cost is a non-IFRS measure. The unit cost is calculated by dividing cost of sales from the Financial review table above (adjusted to exclude costs of \$19.9 million related to royalties, activated carbon and char (2010 - \$15.3 million)) by the number of tonnes sold (adjusted for the 0.1 million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

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

**2011 Prairie Operations
Components of operating costs**

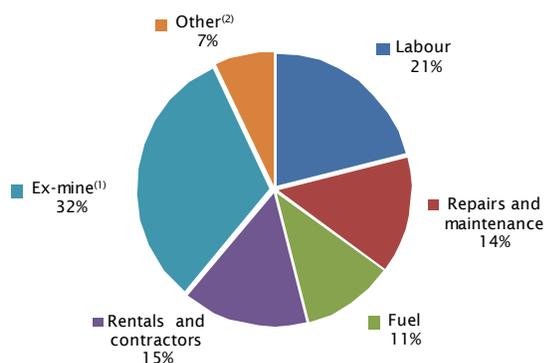


**2010 Prairie Operations
Components of operating costs**

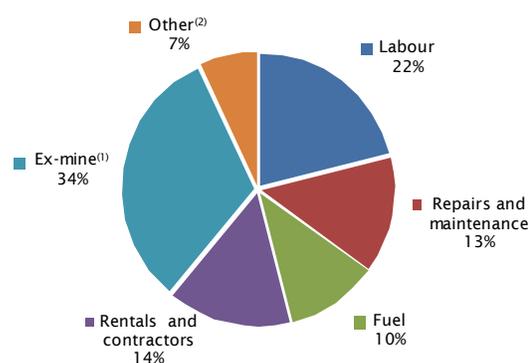


(1) Composed of rentals, subcontractors, explosives, power, taxes, tires, licenses and other miscellaneous expenses.

**2011 Mountain Operations
Components of operating costs**



**2010 Mountain Operations
Components of operating costs**



(1) Primarily composed of commissions, royalties, freight and port fees.

(2) Composed of tires, explosives, power, taxes, licenses and other miscellaneous expenses.

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

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

Spending on capital

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

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

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

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

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

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

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

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

Regulatory update

The status of the draft regulations published by the federal government on August 27, 2011, "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity" (the Draft Regulations), remains uncertain. The Draft Regulations would require, among other things, that new and certain refurbished coal-fired plants commissioned on or after July 1, 2015, achieve an emissions intensity performance standard of 375 tonnes of CO₂ per gigawatt hour. In general, for units commissioned prior to that date, the same standard would take effect 45 years from the unit's commissioning date or upon the expiration of the unit's power purchase agreement, whichever comes later. Coal provided written comments to the federal government within a prescribed 60-day comment period. Coal has also continued to actively engage with key stakeholders, including provincial and federal governments, to express its concerns with the Draft Regulations.

Outlook for 2012

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

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

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

OIL AND GAS

2011 Highlights

- Oil and Gas achieved record earnings from operations of \$170.0 million primarily due to higher oil prices.
- Sherritt commenced drilling eight development wells, seven of which were completed and four are currently producing oil. The drilling results of the three remaining wells are being assessed.

Financial review

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

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

(2) Excluding depletion, depreciation and amortization.

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

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

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

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

Oil prices

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

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

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

Production and sales

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

- (1) Oil production is stated in barrels per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
- (2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commercial viability has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.
- (3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net working-interest production', includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
- (4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net working-interest production equals 100% of gross working-interest production.

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

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

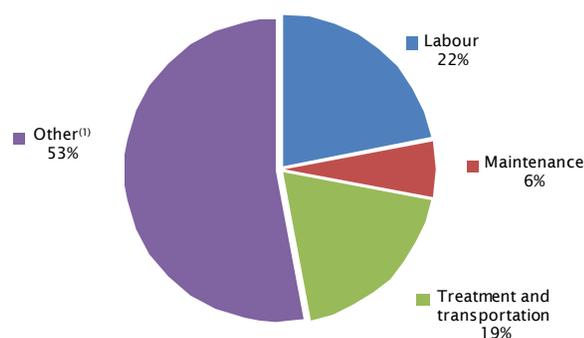
Production in Spain and Pakistan was lower than the prior year due to natural reservoir declines.

Unit costs

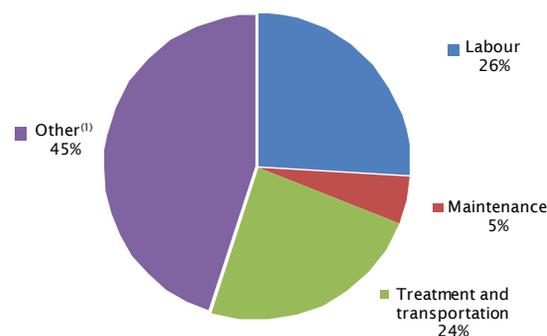
Unit cost (\$ per net boe) ⁽¹⁾	For the years ended December 31		
	2011	2010	Change
Cuba	\$ 12.07	\$ 10.66	13%
Spain	46.51	32.12	45%
Pakistan	3.44	2.01	71%
Weighted-average⁽²⁾	\$ 13.01	\$ 11.24	16%

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

2011 Components of operating costs - Cuba



2010 Components of operating costs - Cuba



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

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

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

Spending on capital

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

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

Development and facilities capital spending primarily includes \$40.7 million for development drilling activities, \$7.0 million related to facility improvements and \$6.6 million for equipment and inventory purchases. Sherritt commenced drilling eight

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

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

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

Outlook for 2012

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

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

POWER

2011 Highlight

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

Financial review

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

(1) The Corporation's 33¹/₃% interest in Energas is proportionately consolidated.

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

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

(4) Excluding depletion, depreciation and amortization.

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

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

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

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

Electricity prices

Prices (\$/MWh ⁽¹⁾)	For the year ended December 31		
	2011	2010	Change
Average-realized price	\$ 41.00	\$ 42.42	(3%)

(1) Megawatt hours (MWh).

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

Production and sales

Production/Sales (33 ¹ / ₃ basis)	For the year ended December 31		Change
	2011	2010	
Electricity sold (GWh ⁽¹⁾)	618	689	(10%)

(1) Gigawatt hours (GWh).

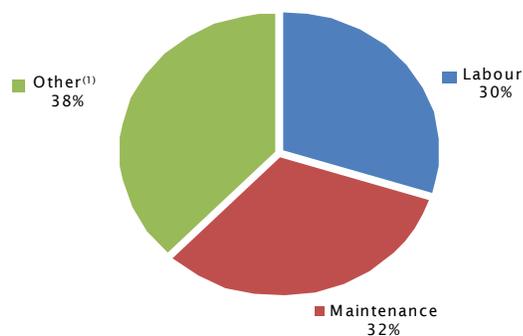
Production decreased by 71 GWh compared to the prior year primarily due to continued gas supply shortages, scheduled maintenance activities and two turbine failures that reduced available capacity. These turbines were returned to service during the year.

Unit costs

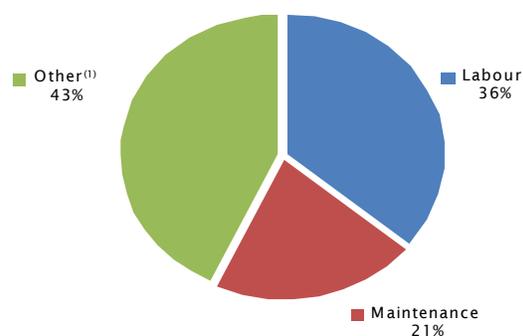
Unit cost (\$ per MWh) ⁽¹⁾	For the year ended December 31		Change
	2011	2010	
	\$ 20.05	\$ 14.46	39%

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

2011 Components of operating costs



2010 Components of operating costs



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

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

Spending on capital and service concession arrangements

\$ millions (33 1/3 basis)	For the year ended December 31		
	2011	2010	Change
Sustaining Growth ⁽¹⁾	\$ 2.7	\$ 2.5	8%
Total	\$ 5.7	\$ 4.6	24%

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

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

\$ millions (33 1/3 basis)	For the year ended December 31		
	2011	2010	Change
Service concession arrangements	\$ 21.7	\$ 5.1	325%

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

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

Outlook for 2012

Production volumes and spending on capital (33 1/3 basis) and project For the years ended December 31	Actual 2011	Projected 2012
Production		
Electricity (GWh)	618	550
Spending on capital (\$ millions)		
Cuba ⁽¹⁾	6	8
Project spending (\$ millions)		
150 MW Boca de Jaruco (100% basis)	65	109

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

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

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

OTHER

Technologies

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

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

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

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

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

Sulawesi Project update

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

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

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

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

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

Mineral Products

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

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

Consolidated financial position

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

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

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

- Cash, cash equivalents and short-term investments decreased \$128.4 million, partially offset by increases in accounts receivable and inventories of \$50.6 million and \$24.5 million, respectively. For additional information see the Liquidity and capital resources - Sources and uses of cash section; and
- The current portion of loans and borrowings increased \$23.8 million, primarily due to the senior credit facility which comes due in June of 2012.

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

Total assets:

- Non-current advances, loans receivable and other financial assets increased \$366.4 million primarily due to loans provided to the Ambatovy Joint Venture for development of the Ambatovy Project and Energas for the construction of the 150MW Boca de Jaruco combined cycle project, net of amounts repaid to Sherritt on the Metals expansion loan;
- Investment in an associate increased \$121.1 million primarily due to non-refundable cash advances provided to the Ambatovy Joint Venture;
- Property plant and equipment increased \$89.7 million as a result of capital spending and an increase in environmental rehabilitation provisions, partially offset by depletion, depreciation and amortization. A discussion of spending on capital is included in the Review of operations sections for each division; and
- Non-current investments decreased by \$61.8 million primarily due to the sale of Master Asset Vehicle (MAV) notes and amounts received by Sherritt on the Cuban certificates of deposit.

Total liabilities:

- Non-current loans and borrowing increased by \$157.3 million primarily due to the issuance of debentures in the fourth quarter net of the redemption of the 2012 Debentures, and amounts received under the Ambatovy Joint Venture additional partner loans; and
- Non-current environmental rehabilitation provisions increased by \$53.0 million primarily due to an increase in the environmental rehabilitation provision as a result of a reduction in discount rates during the year.

Shareholders' equity:

- Retained earnings increased \$152.4 million reflecting net earnings for the year of \$197.3 million net of dividends paid of \$44.9 million; and
- Accumulated other comprehensive loss decreased \$46.7 million due to a stronger Canadian dollar relative to the U.S. dollar. Comprehensive income or loss is determined by foreign currency translation differences on translation of foreign operations to Canadian dollars.

Liquidity and capital resources

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

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

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

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

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

Loans and borrowings

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

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

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Ambatovy Joint Venture

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

- Capital purchase commitments of \$57.5 million due within the next year;
- Environmental rehabilitation commitments of \$153.8 million, with no significant repayments due in the next four years; and
- Ambatovy Joint Venture senior debt financing of US\$840.0 million (\$854.3 million), with principal repayments beginning the later of six months after financial completion of the Ambatovy Project or 30 months after final draw down, but not later than June 2013.

Sulawesi Project

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

INVESTMENT LIQUIDITY

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

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

Cash and short-term investments

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

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

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

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

Long-term investments

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

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

CAPITAL STRUCTURE

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

(1) Calculated as Total debt divided by the sum of Total debt and Shareholders' equity.

(2) Calculated as annual dividends paid per common share divided by basic earnings per common share.

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

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

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

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

AVAILABLE CREDIT FACILITIES

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

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

\$ millions, as at December 31	2011		2010	
	Maximum	Available	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility ⁽¹⁾	\$ 115	\$ 109	\$ 115	\$ 109
Line of credit	20	20	20	20
Letters of credit facility ⁽²⁾	64	6	49	-
Long-term				
Ambatovy Joint Venture partner loans (US\$) ⁽³⁾	213	127	213	127
Senior credit facility agreement ⁽⁴⁾	235	159	235	121
MAV note loans	-	-	33	33
Total Canadian equivalent	\$ 651	\$ 424	\$ 664	\$ 409
Supplementary information				
Ambatovy Project financing (US\$) (40%) ⁽⁵⁾	\$ 840	-	\$ 840	\$ 112
Finance leases ⁽⁶⁾	\$ 190	\$ 41	\$ 190	\$ 51

- (1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At December 31, 2011, the Corporation had \$6.2 million of letters of credit outstanding.
- (2) Uncommitted letter of credit facility entered into and available to CVP.
- (3) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.
- (4) Available to Prairie Mines and Royalty Ltd (PMRL), a subsidiary of Royal Utilities. At December 31, 2011 PMRL had drawn \$43.0 million on this facility and had \$33.2 million of letters of credit outstanding.
- (5) Due to the equity accounting for Ambatovy Joint Venture previously discussed, this loan is not included in loans and borrowings on the Corporation's statement of financial position.
- (6) Finance leases include only those that have been committed by lenders.

Covenants

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

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

Base shelf prospectus

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

SOURCES AND USES OF CASH

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

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

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

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

Common shares

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

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

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

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

Managing risk

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

MARKET CONDITIONS

Generally

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

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

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

Commodity risk

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

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

Price fluctuations and share price volatility

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

PROJECT DEVELOPMENT

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

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

Capital and operating cost estimates

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

Ambatovy Project

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

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

Although primary construction of the Ambatovy Project has been completed, significant amounts of additional capital, in addition to project debt financing, may be required until the project achieves financial self-sufficiency. The shareholders agreement among the Ambatovy Partners and Sherritt permits the shareholders to advance additional funds in the event other shareholders do not comply with their funding obligations. However, the shareholders agreement contains restrictions on the entry of alternative or additional equity partners. There can be no assurance that each of the shareholders will advance any or all of the

funds required to be advanced by it or that sufficient alternative financing will be available on acceptable terms or at all in the event a shareholder ceases to contribute its pro rata share of such funding.

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

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

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

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

Moa Joint Venture expansion

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

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

POLITICAL, ECONOMIC AND OTHER RISKS OF FOREIGN OPERATIONS

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

change in government in the first quarter of 2009. Any of these risks could have a material adverse effect on the Corporation's business, results of operations and financial performance.

RESTRICTIONS IN DEBT INSTRUMENTS

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

ACCESS TO ADDITIONAL CAPITAL

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

EXPLORATION AND DEVELOPMENT RISKS

Oil and Gas

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

Metals

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

UNCERTAINTY OF GAS SUPPLY TO ENERGAS

Energas does not own the gas reserves contained in the oil fields located in the vicinity of the Energas plant sites, nor does it control the rate or manner in which such gas reserves are produced. CUPET reserves the right to produce crude oil from such fields at such rates as the Government of Cuba may deem necessary in the national interest, which may affect the future supply of gas to Energas. Although the Corporation believes that generation of electricity will remain a key priority of the Government of Cuba and that the fields will be operated in a manner which ensures sufficient gas production, there can be no certainty that sufficient quantities of gas will be available to operate the Energas facilities at maximum or economic capacity for the duration of

the term of the Energas Joint Venture. Adequate future supplies of gas may depend, in part, upon the successful development of new oil fields as the existing fields are being depleted and the introduction of production practices designed to optimize the recovery of oil and gas reserves. No independent reserve report has been prepared with respect to gas reserves in Cuba, due to a lack of available technical information from CUPET.

UNCERTAINTY OF RESERVE ESTIMATES

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

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

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

ACCESS TO COAL RESERVES AND RESOURCES

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

ENVIRONMENTAL REHABILITATION PROVISIONS

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

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

RELIANCE ON PARTNERS

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

RISK RELATED TO SHERRITT'S INVESTMENTS IN CUBA

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

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

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

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

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

RISKS RELATED TO U.S. GOVERNMENT POLICY TOWARDS CUBA

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

The U.S. embargo

In its current form, apart from the Helms-Burton Act, the embargo applies to almost all transactions involving Cuba or Cuban enterprises, and it bars all "U.S. Persons" from participating in such transactions unless such persons obtain specific licenses from the U.S. Department of the Treasury (Treasury) authorizing their participation in the transactions. U.S. Persons include U.S. citizens, U.S. residents, individuals or enterprises located in the United States, enterprises organized under U.S. laws and enterprises owned or controlled by any of the foregoing. Subsidiaries of U.S. enterprises are subject to the embargo's prohibitions. The embargo also extends to entities deemed to be owned or controlled by Cuba (specially designated nationals or SDNs). The three entities constituting the Moa Joint Venture in which Sherritt holds an indirect 50% interest, have been deemed SDNs by Treasury. Sherritt is not an SDN. The U.S. embargo generally prohibits U.S. Persons from engaging in transactions involving the 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, 2012. The Corporation has nevertheless received letters from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest. Even if the suspension were permitted to expire, Sherritt does not believe that its operations would be materially affected by any Helms-Burton Act lawsuits, because Sherritt's minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. Management believes it unlikely that a court in any country in which Sherritt has material assets would enforce a Helms-Burton Act judgment.

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

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

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

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

In addition to authorizing private lawsuits, the Helms-Burton Act also authorizes the U.S. Secretary of State and the U.S. Attorney General to exclude from the United States those aliens who engage in certain "trafficking" activities, as well as those aliens who are corporate officers, principals, or controlling shareholders of "traffickers" or who are spouses, minor children or agents of such excludable persons. The U.S. Department of State has deemed Sherritt's indirect 50% interest in Moa Nickel S.A. to be a form of "trafficking" under the Helms-Burton Act. In their capacities as directors or officers of the Corporation, certain individuals

have been excluded from entry into the U.S. under this provision. Management does not believe the exclusion from entry into the U.S. of such individuals will have any material effect on the conduct of the Corporation's business.

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

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

Significant customers

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

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

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

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

FOREIGN EXCHANGE AND PRICING RISKS

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

ENVIRONMENT, HEALTH AND SAFETY (EH&S)

The Corporation's activities are also subject to extensive laws governing the protection of the environment and worker health and safety. These EH&S laws require the Corporation to obtain certain operating licenses and impose certain standards and

controls on the Corporation's activities, and on the Corporation's distribution and marketing of nickel, cobalt and other metals products. Compliance with EH&S laws and operating licenses can require significant expenditures, including expenditures for clean-up costs and damages arising out of contaminated properties. There can be no assurance that the costs to ensure future or current compliance with EH&S laws would not materially affect the Corporation's business, results of operations or financial performance.

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

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

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

The potential impact of evolving regulations, including on product demand and methods of production and distribution, is not possible to predict. However, the Corporation does closely monitor developments and evaluate the impact such changes may have on the Corporation's financial condition, product demand and methods of production and distribution. Independently and through involvement in various associations, the Corporation responds to potential changes to EH&S laws by participating, as appropriate, in the public review process, thus ensuring the Corporation's position is understood and considered in the decision-making process. The Corporation seeks to anticipate and prepare for public and regulatory concerns well in advance of such projects. Communication with regulators and the public is considered a key tool in gaining acceptance and approval for new projects.

CLIMATE CHANGE/GREENHOUSE GAS EMISSIONS

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

CREDIT RISK

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

LEGAL CONTINGENCIES

In October 2001, the Corporation and Dynatec were named as defendants in a statement of claim brought by Fluor Australia Pty Ltd. (Fluor) in the Supreme Court of Victoria, Australia alleging negligence in connection with a mine development in

Australia. On December 20, 2002, Fluor formally discontinued its proceeding against the Corporation and Dynatec, but reserved its right to recommence proceedings against them at a later date. The Corporation believes Fluor's claims against it are without merit and would vigorously defend any further claim brought by Fluor.

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

ACCOUNTING POLICIES

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

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

Environment, health and safety

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

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

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

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

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

METALS

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

Moa Joint Venture

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

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

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

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

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

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

During 2011, the Fort Saskatchewan site continued a program to better define standards of performance, improve teaching and training structures, and enhance accountability for learning and evaluation. The program is improving the effectiveness of training provided to site personnel in safe work practices and safety management systems. Employees engaged in operations and maintenance activities continue to receive safety training related to the work they perform, such as Safe Work Permit Understanding, Control of Hazardous Energy, Confined Space Entry, Mobile Equipment Operation, Workplace Hazardous Materials Information System and Transportation of Dangerous Goods. Employees in leadership roles continue to participate in skills training to increase their understanding of safety management concepts and best practices to improve stewardship of safe work practices. To ensure continuous improvement, the focus will continue to be placed on site systems that drive worker behaviour, competency and understanding. These initiatives helped the Fort Saskatchewan site achieve its lowest TRI rate since the site started using its current methodology of tracking injuries in 1996.

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

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

Ambatovy Joint Venture

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

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

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

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

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

COAL

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

In Canada, the coal mining industry is subject to extensive regulation by federal, provincial and local authorities on various matters including: employee health and safety; air quality; water quality and availability; the protection and enhancement of the environment (including the protection of plants and wildlife); land-use zoning; development approvals; the generation, handling,

use, storage, transportation, release, disposal and clean-up of regulated materials, including wastes; and the reclamation and restoration of mining properties after mining is completed. Mining operations are regulated primarily by provincial legislation, although the Corporation's coal interests must also comply with applicable federal legislation and local by-laws.

In order to preserve the quality of water and air leaving the mine sites, Coal manages surface and 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 2011, Coal continued the regulatory and consultative process involved in authorizing the continued access to available mining areas. During 2011, this mostly involved the Coal Valley mine where required documentation was completed to expand the current mining area. The Genesee and Paintearth mines are also engaged in the regulatory process of obtaining mine permit extensions.

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

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

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

OIL AND GAS

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

Oil and Gas has maintained its commitment to ensuring a safe and environmentally sound workplace. 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 EH&S as well as safe work practices are understood and continue to be a critical component of daily operational activities. In 2011, there was one lost time injury.

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

POWER

Power's 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 the 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. In 2011, there was one lost time injury.

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

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

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

CLIMATE CHANGE AND GREENHOUSE GAS EMISSIONS

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

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

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

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

most of the facilities in Canada from which the Corporation ultimately obtains power, and the industrial sectors to which the Corporation provides its products.

On August 27, 2011, the federal government published the draft regulations, "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity". The Draft Regulations would require, among other things, that new and certain refurbished coal-fired plants commissioned on or after July 1, 2015, achieve an emissions intensity performance standard of 375 tonnes of CO₂ per gigawatt hour. In general, for units commissioned prior to that date, the same standard would take effect 45 years from the unit's commissioning date or upon the expiration of the unit's power purchase agreement, whichever comes later. In practice, although there are certain exceptions to the performance standard, the Draft Regulations may result in certain coal-fired units retiring earlier than they would have otherwise. The public was provided with 60 days following the publication of the Draft Regulations to offer comments. If the Draft Regulations are not revised prior to being passed into law, they could have a significant effect on the customers of Sherritt Coal's Prairie Operations, which in turn could, over time, significantly reduce the demand for the coal produced from Sherritt's Prairie Operations mines.

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

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

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

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

Critical accounting estimates and accounting pronouncements

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical accounting estimates

ENVIRONMENTAL REHABILITATION PROVISIONS

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

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

RESERVES FOR MINING AND OIL & GAS PROPERTIES

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

INCOME TAXES

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

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

PURCHASE PRICE ALLOCATIONS

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

MEASUREMENT OF UNQUOTED FINANCIAL INSTRUMENTS

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

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

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

Critical accounting judgments

PROPERTY, PLANT AND EQUIPMENT

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

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

ASSET IMPAIRMENT

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

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

OVERBURDEN REMOVAL COSTS

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

EXPLORATION AND EVALUATION (E&E)

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

INCOME TAXES

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

ARRANGEMENTS CONTAINING A LEASE

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

SERVICE CONCESSION ARRANGEMENTS

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

ACCOUNTING PRONOUNCEMENTS

IFRS 7 – Financial instruments: disclosures

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

IFRS 9 – Financial instruments

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

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

IFRS 10 – Consolidated financial statements

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

IFRS 11 – Joint arrangements

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

IFRS 12 – Disclosure of interests in other entities

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

IFRS 13 – Fair value measurement

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

IAS 1 – Presentation of financial statements

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

IAS 19 – Employee benefits

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

IAS 27 – Separate financial statements

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

IAS 28 – Investments in associates and joint ventures

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

IAS 32 – Financial instruments: presentation

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

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

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

Three-year trend analysis

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

\$ millions, except per share amounts	For the years ended December 31		
	2011	2010	2009 ⁽¹⁾⁽²⁾
Revenue	\$ 1,978.3	\$ 1,670.6	\$ 1,474.9
EBITDA ⁽³⁾	643.2	546.0	495.4
Earnings from operations and associate ⁽⁴⁾	410.7	342.7	233.9
Net earnings from continuing operations	198.5	159.5	88.5
Net earnings	197.3	144.8	85.7
Net Earnings per share from continuing operations (basic and diluted)	\$ 0.67	\$ 0.54	\$ 0.30
Net Earnings per share (basic and diluted)	0.67	0.49	0.29
Dividend rate per share	0.152	0.146	0.144
Total assets	\$ 6,497.5	\$ 6,068.2	\$ 9,908.4
Total loans and borrowings	1,744.7	1,563.6	2,993.9
Production volumes			
Nickel (tonnes) (50% basis)	17,286	16,986	16,800
Cobalt (tonnes) (50% basis)	1,927	1,853	1,861
Coal - Prairie Operations (millions of tonnes)	32.7	34.4	35.4
Coal - Mountain Operations (millions of tonnes) ⁽⁵⁾	4.4	3.3	2.0
Oil - Cuba - net working-interest production (barrels per day)	11,286	11,128	12,489
Electricity (gigawatt hours) (33 1/3% basis)	618	689	722

- (1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result financial information has not been restated to IFRS. Production volumes for electricity have been adjusted to reflect the Corporation's proportionate share of production consistent with IFRS.
- (2) The Corporation was required to change how it accounts for Ambatovy Joint Venture and Energas under IFRS. As a result, there were significant changes to most accounts in the statement of financial position compared to those prepared under Canadian GAAP
- (3) For additional information see the Non-IFRS measure - EBITDA section.
- (4) For 2009 under Canadian GAAP, earnings from operations and associate has been derived as: revenue less operating, selling, general and administrative expenses and depletion, amortization and accretion.
- (5) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.

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

Production for nickel and cobalt has increased over the three-year period as a result of ongoing process improvements and stable plant operation at Metals. Production at Mountain Operations reflects the Corporation's increased ownership in the division from June 30, 2010. Production in Prairie Operations was lower in 2011 compared to the preceding two years primarily as a result of lower customer demand at the Highvale and Genesee mines. Production at Oil and Gas in 2010 and 2011 was lower primarily due to an adjustment related to the Varadero production-sharing contract and natural reservoir declines. Production at Power has been lower over the three-year period primarily as a result of periodic gas supply shortages.

2011 Fourth quarter results

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

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

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

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

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

- EBITDA for the fourth quarter of 2011 was \$172.4 million compared to \$158.3 million in the same period in the prior year. Higher EBITDA was primarily a result of higher revenue, partially offset by higher operating costs at Coal and higher input commodity prices at Metals;
- Net earnings for the fourth quarter of 2011 were \$28.1 million compared to \$42.7 million in the same period in the prior year. Offsetting the impact of revenue and operating costs discussed above, net earnings were also impacted by higher net finance expense as a result of an early redemption premium paid on the redemption of the 2012 Debentures in December 2011 and higher interest expense and accretion on higher average loans and borrowings balances; higher depletion expense primarily due to higher average property, plant and equipment balances and an increase in the estimate of environmental rehabilitation costs.

Summary of quarterly results

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

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

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

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

Off-balance sheet arrangements

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

Transactions with related parties

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

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

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

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

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Supplementary information

SENSITIVITY ANALYSIS

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

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

NON-IFRS MEASURE – EBITDA

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

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

The table below reconciles EBITDA to earnings before tax.

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

FIVE-YEAR FINANCIAL AND OPERATING SUMMARY

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

- (1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result these years have not been restated to IFRS. Sales volumes for Power have been adjusted to reflect the Corporation's proportionate share consistent with IFRS
- (2) For 2009 and prior years, earnings from operations and associate is derived using Canadian GAAP amounts as: revenue less operating, selling, general and administrative expenses; depletion, amortization and accretion; and impairment of property, plant and equipment; plus share of earnings of equity accounted investments.
- (3) The Coal segment includes the following:
 - The Corporation's 100% in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
 - The Corporation's 50% proportionate interest in coal development assets.
 - The Corporation's share of equity earnings to the date of acquisition of Royal Utilities (May 2, 2008), and consolidated results since that date.
- (4) The Corporation was required to change how it accounts for Ambatovy Joint Venture and Energas under IFRS. As a result, there were significant changes to most accounts in the statement of financial position compared to those prepared under Canadian GAAP.
- (5) Tonnage amounts are presented on a 100% basis for each period.
- (6) Tonnage amounts are presented on a 100% basis from July 1, 2010. Prior to July 1, 2010, tonnage amounts are presented on a 50% basis for each period.

FORWARD-LOOKING STATEMENTS

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

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

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