INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three and nine months ended September 30, 2011

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Condensed consolidated statements of financial position

Unaudited, Canadian $ millions, as at	Note	2011 September 30	2010 December 31 (note 30)	2010 January 1 (note 30)
ASSETS				
Current assets				
Cash and cash equivalents	27	$ 120.7	$ 263.1	$ 164.7
Restricted cash		1.1	1.1	1.8
Short-term investments	27	465.9	496.7	420.8
Investments	13	30.2	30.8	34.6
Advances, loans receivable and other assets	14	81.9	83.8	89.0
Finance lease receivable	14	24.2	19.9	19.9
Trade accounts receivable, net	27	399.2	335.9	290.6
Income taxes receivable		19.5	25.6	21.2
Inventories	10	233.0	190.6	172.3
Prepaid expenses		20.0	10.3	10.9
		1,395.7	1,457.8	1,225.8
Non-current assets				
Advances, loans receivable and other assets	14	1,178.7	940.6	790.1
Finance lease receivable	14	198.5	196.7	202.8
Property, plant and equipment	12	1,409.0	1,340.7	1,269.6
Investments	13	41.5	96.5	112.5
Investment in an associate	9	1,043.7	932.0	993.0
Goodwill	15	307.9	307.9	307.9
Intangible assets	16	787.8	792.9	803.1
Deferred income taxes		3.2	1.4	19.7
		4,970.3	4,608.7	4,498.7
Assets of discontinued operation	7	1.6	1.7	-
		$ 6,367.6	$ 6,068.2	$ 5,724.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loans and borrowings	17	$ 25.0	$ 33.1	$ 34.4
Trade accounts payable and accrued liabilities		206.0	169.4	160.5
Income taxes payable		23.3	26.0	9.7
Other liabilities	17	77.8	91.2	54.0
Provisions	18	31.9	25.5	24.1
		364.0	345.2	282.7
Non-current liabilities				
Loans and borrowings	17	1,559.2	1,530.5	1,342.8
Other liabilities	17	201.2	208.7	219.1
Intangible liability	6	10.3	13.7	-
Provisions	18	223.5	182.8	140.0
Deferred income taxes		236.4	234.5	218.8
		2,230.6	2,170.2	1,920.7
Liabilities of discontinued operation	7	8.6	24.5	-
		2,603.2	2,539.9	2,203.4
Shareholders' equity				
Capital stock	19	2,789.1	2,787.3	2,771.9
Retained earnings		768.0	632.5	530.7
Contributed surplus		208.7	206.6	218.5
Accumulated other comprehensive loss		(1.4)	(98.1)	-
		3,764.4	3,528.3	3,521.1
		$ 6,367.6	$ 6,068.2	$ 5,724.5

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

Condensed consolidated statements of comprehensive income (loss)

Unaudited, Canadian $ millions, except per share amounts	Note	For the three months ended **2011 September 30**	2010 September 30 (note 30)	For the nine months ended **2011 September 30**	2010 September 30 (note 30)
Revenue		**$ 466.4**	$ 412.7	**$ 1,441.5**	$ 1,185.4
Cost of sales	24	**360.0**	320.8	**1,074.6**	891.2
Gross profit		**106.4**	91.9	**366.9**	294.2
Administrative expenses		**15.2**	20.7	**55.8**	65.9
Operating profit		**91.2**	71.2	**311.1**	228.3
Share of (loss) earnings of an associate, net of tax	9	**(1.5)**	1.2	**0.6**	(1.1)
Gain on acquisition of CVP	6	**-**	-	**-**	15.6
Earnings from operations and associate		**89.7**	72.4	**311.7**	242.8
Financing income	22	**(5.6)**	(10.2)	**(35.7)**	(45.0)
Financing expense	22	**33.2**	37.1	**106.9**	104.6
Net finance expense		**27.6**	26.9	**71.2**	59.6
Earnings before tax		**62.1**	45.5	**240.5**	183.2
Income tax expense	25	**16.3**	21.1	**70.4**	74.2
Net earnings from continuing operations		**45.8**	24.4	**170.1**	109.0
Loss from discontinued operation, net of tax	7	**0.3**	1.9	**0.9**	6.9
Net earnings for the period		**$ 45.5**	$ 22.5	**$ 169.2**	$ 102.1
Other comprehensive income (loss)					
Foreign currency translation differences on foreign operations		**151.4**	(55.1)	**96.7**	(33.1)
Comprehensive income (loss)		**$ 196.9**	$ (32.6)	**$ 265.9**	$ 69.0
Earnings from continuing operations per common share:	20				
Basic		**$ 0.16**	$ 0.08	**$ 0.58**	$ 0.37
Diluted		**$ 0.15**	$ 0.08	**$ 0.57**	$ 0.37
Net earnings per common share:	20				
Basic		**$ 0.16**	$ 0.07	**$ 0.58**	$ 0.35
Diluted		**$ 0.15**	$ 0.07	**$ 0.57**	$ 0.35

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

Condensed consolidated statements of cash flow

Unaudited, Canadian $ millions	Note	For the three months ended **2011 September 30**	2010 September 30 (note 30)	For the nine months ended **2011 September 30**	2010 September 30 (note 30)
Operating activities					
Net earnings		**$ 45.5**	$ 22.5	**$ 169.2**	$ 102.1
Add (deduct)					
Depletion, depreciation and amortization		**55.3**	56.7	**157.7**	149.8
Accretion expense on environmental rehabilitation provisions	18	**1.4**	1.2	**4.2**	3.5
Stock-based compensation (recovery) expense	21	**(2.8)**	6.3	**(4.2)**	8.8
Share of (earnings) loss of an associate, net of tax	9	**1.5**	(1.2)	**(0.6)**	1.1
Impairment losses	24	**2.2**	8.3	**2.7**	10.7
Net gain (loss) on financial instruments	22	**5.2**	1.6	**(2.5)**	(9.0)
Gain on CVP acquisition	6	**-**	-	**-**	(15.6)
Current income taxes	25	**19.3**	18.0	**72.8**	54.1
Deferred income taxes	25	**(3.0)**	3.1	**(2.4)**	20.1
Unrealized foreign-exchange (gain) loss		**(7.7)**	(0.1)	**(3.9)**	2.7
Liabilities settled for environmental rehabilitation	18	**(4.4)**	(2.8)	**(12.4)**	(8.1)
Service concession arrangement	16	**(4.3)**	(0.6)	**(13.4)**	(3.5)
Cross-guarantee fee amortization	22	**3.0**	3.0	**9.0**	9.0
Interest income	22	**(10.8)**	(11.8)	**(33.2)**	(36.0)
Interest expense	22	**28.8**	30.5	**85.7**	82.6
Other items		**2.8**	2.6	**6.4**	9.6
		132.0	137.3	**435.1**	381.9
Net change in non-cash working capital	11	**(24.1)**	(32.4)	**(101.0)**	(37.4)
		107.9	104.9	**334.1**	344.5
Interest received		**8.8**	10.2	**30.0**	29.3
Interest paid		**(5.0)**	(2.6)	**(43.8)**	(40.2)
Income tax paid		**(15.9)**	(21.2)	**(68.7)**	(58.1)
Cash provided by operating activities		**95.8**	91.3	**251.6**	275.5
Investing activities					
Property, plant and equipment expenditures		**(34.8)**	(36.1)	**(80.9)**	(102.2)
Intangible asset expenditures		**(2.0)**	(0.7)	**(5.4)**	(4.3)
Increase in advances, loans receivable and other assets		**(11.5)**	(4.2)	**(33.5)**	(10.9)
Repayment of advances, loans receivable and other assets		**7.5**	17.1	**34.2**	47.2
Investments		**46.4**	7.0	**59.7**	21.1
Loans to an associate		**(55.8)**	(74.8)	**(182.7)**	(170.7)
Investment in an associate		**(28.7)**	-	**(98.8)**	-
Restricted cash		**-**	-	**-**	0.7
Net proceeds from sale of property, plant and equipment		**-**	0.1	**1.3**	0.4
Acquisition of CVP, net of cash acquired	6	**-**	-	**-**	(31.8)
Short-term investments		**(335.2)**	(43.1)	**30.8**	(71.3)
Cash used for investing activities		**(414.1)**	(134.7)	**(275.3)**	(321.8)
Financing activities					
Repayment of loans and borrowings and other liabilities		**(30.8)**	(16.0)	**(118.7)**	(42.6)
Increase in loans and borrowings and other liabilities		**-**	20.2	**46.7**	93.5
Acquisition of loan from former partner	6	**-**	-	**-**	(10.1)
Increase in (repayment of) short-term loans		**-**	14.4	**(14.2)**	19.4
Increase in finance lease receivable		**(6.2)**	(3.7)	**(17.2)**	(7.4)
Repayment of finance lease receivable		**5.2**	5.0	**16.0**	14.8
Issuance of common shares	19	**2.4**	1.1	**2.5**	1.1
Treasury stock - restricted stock plan	19	**-**	-	**(0.7)**	(0.8)
Dividends paid on common shares		**(11.3)**	(10.6)	**(33.7)**	(31.8)
Cash (used for) provided by financing activities		**(40.7)**	10.4	**(119.3)**	36.1
Effect of exchange rate changes on cash and cash equivalents		**1.3**	11.2	**0.6**	4.2
Decrease in cash and cash equivalents		**(357.7)**	(21.8)	**(142.4)**	(6.0)
Cash and cash equivalents at beginning of period		**478.4**	180.5	**263.1**	164.7
Cash and cash equivalents at end of period		**$ 120.7**	$ 158.7	**$ 120.7**	$ 158.7
Cash and cash equivalents consist of:					
Cash on hand and balances with banks		**$ 66.8**	$ 93.3	**$ 66.8**	$ 93.3
Cash equivalents		**53.9**	65.4	**53.9**	65.4

Condensed consolidated statements of changes in equity

Unaudited, Canadian $ millions

	Note	Capital stock (note 19)	Retained earnings	Contri-buted surplus	Other compre-hensive income (loss)	Total
Balance at January 1, 2010	30	$ 2,771.9	$ 530.7	$ 218.5	$ -	$ 3,521.1
Shares issued for:						
Treasury stock - restricted stock plan		(0.8)	-	-	-	(0.8)
Employee share purchase plan		1.1	-	-	-	1.1
Other		1.2	-	-	-	1.2
Restricted stock plan amortization		-	-	0.6	-	0.6
Employee share purchase plan expense		-	-	1.1	-	1.1
Dividends declared to common shareholders		-	(31.8)	-	-	(31.8)
Net earnings for the period		-	102.1	-	-	102.1
Other comprehensive income (loss):						
Foreign currency translation differences on foreign operations		-	-	-	(33.1)	(33.1)
Balance at September 30, 2010	30	$ 2,773.4	$ 601.0	$ 220.2	$ (33.1)	$ 3,561.5
Shares issued for:						
Cross-guarantee		13.9	-	(13.9)	-	-
Restricted stock plan amortization		-	-	0.2	-	0.2
Employee share purchase plan expense		-	-	0.1	-	0.1
Dividends declared to common shareholders		-	(11.2)	-	-	(11.2)
Net earnings for the period		-	42.7	-	-	42.7
Other comprehensive loss						
Foreign currency translation differences on foreign operations		-	-	-	(65.0)	(65.0)
Balance at December 31, 2010	30	$ 2,787.3	$ 632.5	$ 206.6	$ (98.1)	$ 3,528.3
Shares issued for:						
Treasury stock - restricted stock plan		(0.7)	-	-	-	(0.7)
Employee share purchase plan		2.4	-	-	-	2.4
Stock options exercised		0.1	-	-	-	0.1
Restricted stock plan amortization		-	-	0.7	-	0.7
Employee share purchase plan expense		-	-	0.6	-	0.6
Stock option plan expense		-	-	0.8	-	0.8
Dividends declared to common shareholders		-	(33.7)	-	-	(33.7)
Net earnings for the period		-	169.2	-	-	169.2
Other comprehensive income						
Foreign currency translation differences on foreign operations		-	-	-	96.7	96.7
Balance at September 30, 2011		$ 2,789.1	$ 768.0	$ 208.7	$ (1.4)	$ 3,764.4

Notes to the interim condensed consolidated financial statements

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

1 NATURE OF OPERATIONS AND CORPORATE INFORMATION

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

The Corporation is domiciled in Ontario, Canada and its registered office is 1133 Yonge Street, Toronto, Ontario, M4T 2Y7. These interim condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee of the Board of Directors of Sherritt on October 25, 2011. The Corporation is listed on the Stock Exchange in Toronto.

2 BASIS OF PRESENTATION

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

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

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

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

Changeover from Canadian generally accepted accounting principles

These interim condensed consolidated financial statements represent the Corporation's initial presentation of its results of operations and financial position under IFRS. They were prepared in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of IFRS", and those IFRS standards and IFRIC interpretations issued and effective as at the time of preparing these financial statements. The IFRS standards and IFRIC interpretations applicable at December 31, 2011, including those applicable on an optional basis, were not known with certainty at the time of preparing these interim condensed consolidated financial statements.

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

The Corporation's date of transition was January 1, 2010 (Transition Date). On adoption of IFRS, the accounting policies of the Corporation's subsidiaries, joint ventures and an associate were changed as necessary to ensure consistency with the policies of the Corporation. Reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRS on the Corporation's consolidated financial statements are provided in note 30.

Certain information that has not changed from the information disclosed in the Corporation's annual 2010 Canadian GAAP financial statements has not been included in these interim condensed consolidated financial statements. This information can be found in the notes to the Corporation's annual 2010 Canadian GAAP financial statements:

- Investments – descriptions and related disclosures of Cuban certificates of deposit and Master Asset Vehicle (MAV) notes.
- Advances, loans receivable and other assets – descriptions and related disclosures of advances and loans receivable, other financial assets including the Ambatovy call option, deferred reclamation recoveries, and other non-financial assets including the cross-guarantee fee asset.
- Intangible assets – descriptions of royalty agreements, mining contracts, contractual arrangements, customer relationships, customer contracts, and technical knowledge.
- Loans, borrowings and other liabilities – descriptions of short-term loans, including the syndicated 364-day revolving term credit facility, the line of credit, long-term loans including the 7.875% senior unsecured debentures due 2012, the 8.25% senior unsecured debentures due 2014, the 7.75% senior unsecured debentures due 2015, the Ambatovy Joint Venture additional partner loans, the Ambatovy Joint Venture partner loans, the senior credit facility agreement, the loan from financial institution, the 3-year non-revolving term facility, and advances and loans payable.
- Stock-based compensation plans – descriptions and related disclosures of the stock-based compensation plans related to stock options and options with tandem stock appreciation rights, stock appreciation rights, restricted share units, deferred share units, restricted stock plan, and the employee share purchase plan.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented in this note have not changed from the policies disclosed in the Corporation's March 31, 2011 interim condensed consolidated financial statements.

Principles of consolidation

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

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

	Relationship	Geographic location	Economic interest	Basis of accounting
Metals				
Moa Joint Venture	Jointly-controlled entity		50%	Proportionate consolidation
Composed of the following operating companies:				
International Cobalt Company Inc.		Bahamas	50%	
Moa Nickel S.A.		Cuba	50%	
The Cobalt Refinery Company Inc.		Canada	50%	
Ambatovy Joint Venture	Associate		40%	Equity method
Composed of the following operating companies:				
Ambatovy Minerals S.A.		Madagascar	40%	
Dynatec Madagascar S.A.		Madagascar	40%	
Coal				
Royal Utilities Income Fund	Subsidiary	Canada	100%	Full consolidation
Coal Valley Partnership (1)	Subsidiary	Canada	50%/100%	Proportionate/Full consolidation
Carbon Development Partnership	Jointly-controlled entity	Canada	50%	Proportionate consolidation
Oil and Gas				
Sherritt International (Cuba) Oil and Gas Ltd.	Subsidiary	Cuba	100%	Full consolidation
Sherritt International Oil and Gas Ltd.	Subsidiary	Canada	100%	Full consolidation
Power				
Energas S.A. (Energas)	Jointly-controlled entity	Cuba	33 1/3%	Proportionate consolidation

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

Subsidiaries

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

Interests in Joint Ventures

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

(i) Jointly-controlled entities

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

(ii) Jointly-controlled operations

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

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

Associate

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

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

Business combinations

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

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

- Goodwill and fair value adjustments arising on acquisition of foreign operations are translated to Canadian dollars at exchange rates at the reporting date;
- Equity instruments issued as consideration in a business combination are measured based on the fair value of the instrument on the date the consideration is transferred; and
- Transaction costs are expensed as incurred.

Statements of cash flow

The Corporation presents interest paid and received as an operating activity on the consolidated statements of cash flow.

Discontinued operations

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

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

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

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

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

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

Basis of segmented disclosure

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

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

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

Revenue recognition

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

Metals

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

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

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

Coal

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

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

Royalty revenue is recognized when the underlying commodity is extracted.

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

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

Oil and Gas

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

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

Power

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

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

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

Interest and royalties

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

Foreign currency translation

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

Translation of foreign entities

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

- Monetary and non-monetary assets and liabilities are translated at the rate of exchange in effect at the reporting date;
- Revenue and expense items (including depletion, depreciation, and amortization) are translated at average rates of exchange prevailing during the period; and
- Exchange gains and losses that result from the translation are deferred and disclosed as a foreign currency translation adjustment in accumulated other comprehensive income (loss).

Translation of transactions and balances

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

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

Property, plant and equipment

Property, plant and equipment, include capitalized development and pre-production expenditures that are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Also included in the cost of property, plant and equipment are borrowing costs on qualifying capital projects. These are incurred while construction is in progress and before the commencement of commercial production, for which the commencement date for capitalization is on or after January 1, 2010. Once construction of an asset is substantially complete and is ready for its intended use, the costs are depreciated.

Plant, equipment and land

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

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

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

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

Mining properties

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

Oil and gas properties

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

Derecognition

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

Capitalization of borrowing costs

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

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

Leases

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

Corporation as a lessor

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

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

Corporation as a lessee

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

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

Determining whether an arrangement contains a lease

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

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

Overburden removal costs

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

Intangible assets

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

Exploration and evaluation

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

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

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

Service concession arrangements

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

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

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

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

Amortization

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

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

Goodwill

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

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

Impairment of non-financial assets

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

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

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

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

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

Exploration and evaluation expenditures at Oil and Gas

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

Goodwill

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

Impairment of financial assets

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

Impairment of advances, loans receivable and investments

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

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

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

Impairment of the investment in an associate

At each reporting date, the Corporation assesses whether there is any indication that the carrying amount of the Corporation's investment in an associate, including related mineral rights, may be impaired. The mineral rights are tested for impairment annually, as this asset is not yet available for use. Significant changes in commodity prices forecasts, reserve estimates, and production forecasts are examples of factors that could indicate impairment.

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

Provisions

In general, provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in cost of sales or administrative expenses, depending on the nature of the provision. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as financing expense. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

Environmental rehabilitation

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

The amount recognized as a liability for environmental rehabilitation is calculated as the present value of the estimated future costs determined in accordance with local conditions and requirements. An amount corresponding to the provision is capitalized as part of property, plant and equipment and is depreciated over the life of the corresponding asset. The impact of amortization or unwinding of the discount rate applied in establishing the net present value of the provision is recognized in financing

expense. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates.

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

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

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

Income taxes

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and where the Corporation has the legal right to offset them.

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

Stock-based compensation

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

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

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

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

Post-employment benefits

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

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

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

The defined benefit pension liability and expense are measured actuarially using the projected benefit method. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on market interest rates, as at the measurement date, for high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

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

Financial instruments

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

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

Financial assets

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

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

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

- MAV notes.

Loans and receivables, measured at amortized cost:

- Cash on hand and balances at bank; advances and loans receivable; trade accounts receivable; long-term receivables; notes receivable; Cuban certificates of deposit; finance lease receivable.

Financial liabilities

Other financial liabilities, measured at amortized cost:

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

Financial assets at fair value through profit or loss

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

Trade accounts receivable

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

Trade accounts payable and accrued liabilities

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

Loans and borrowings

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

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

Other financial assets and liabilities

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

Derivative instruments

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

Derecognition of financial assets and liabilities

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

Financial instrument measurement hierarchy

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

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

The Corporation's financial assets subject to the measurement hierarchy are provided in note 27.

Inventories

Uncovered coal, raw materials, materials in process, and finished products are valued at the lower of average production cost and net realizable value, with cost determined on a moving weighted-average basis. The cost of inventory includes all costs related to bringing that inventory to its current condition, including mining and processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs. Spare parts and operating materials within inventory are valued at the lower of average cost and net realizable value, and recognized as cost of sales when used. Write downs to net realizable value may be reversed, up to the amount previously written down when circumstances support an increased inventory value.

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

Government grants

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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.

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.

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

For those assets depreciated on a straight-line basis, management estimates the useful life of the assets and their components, which in certain cases, may be based on an estimate of the producing life of the property. These assessments require the use of

estimates and assumptions including market conditions at the end of the assets useful life, costs of decommissioning the asset and the amount of recoverable reserves.

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

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. Goodwill is tested for impairment annually.

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

Overburden removal costs

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

Exploration and evaluation

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

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.

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.

Purchase price allocations

Business acquisitions are accounted for by the purchase 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 includes estimates of acquired mineral reserves, future commodity prices and discount rates. Changes in any of the assumptions or estimates could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

Arrangements containing a lease

The Corporation determined that certain property, plant, and equipment at Coal are subject to finance lease arrangements, and 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 by 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.

Measurement of unquoted financial instruments

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

Measuring the fair value of the Corporation’s interest in the Ambatovy Joint Venture

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

5 RECENT ACCOUNTING PRONOUNCEMENTS

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. IFRS 9 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 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, required 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 is currently evaluating the impact of the amendments on its 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.

6 ACQUISITION OF COAL VALLEY PARTNERSHIP

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

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

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

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

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

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

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

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

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

The amortization of the intangible liability was $1.1 million and $3.4 million for the three and nine month periods ended September 30, 2011. The remaining amortization period of the intangible liability is 2.25 years as at September 30, 2011. For the three and nine months ended September 30, 2010, the Corporation excluded net earnings of $nil and a net loss of $2.5 million, respectively, relating to the 50% interest it did not own.

7 DISCONTINUED OPERATION – MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products, which included a talc mine and plant, through the acquisition of the Dynatec Corporation. During the second quarter of 2010, the Corporation made an economic decision to close the talc mine and plant on August 27, 2010. During the third quarter of 2010, the Corporation classified Mineral Products as a discontinued operation once the talc mine and plant closed with the prior periods of the consolidated statements of comprehensive income (loss) being restated accordingly. Results of Mineral Products are included in the Corporate and Other segment (note 29).

Losses from the discontinued operation for the periods are as follows:

	For the three months ended		For the nine months ended	
	2011	2010	**2011**	2010
Canadian $ millions	**September 30**	September 30	**September 30**	September 30
Revenue	**$ -**	$ 0.6	**$ -**	$ 2.2
Expenses	**0.3**	2.5	**0.9**	9.1
Loss from discontinued operation, net of tax	**$ 0.3**	$ 1.9	**$ 0.9**	$ 6.9

These losses had a nominal impact on the earnings per share of the Corporation.

For the nine months ended September 30, 2010, the Corporation wrote down inventory and other asset balances in the amount of $2.4 million and accrued termination benefits of $0.4 million. In addition, the environmental rehabilitation provision was increased by $1.0 million to $2.3 million. The higher obligation was primarily due to an acceleration of the cash outflows required for reclamation activities because of the shortened mine and plant life.

The impact of the discontinued operation on the operating cash flows of the Corporation was a $1.2 million and $2.1 million decrease for the three and nine months ended September 30, 2011, respectively ($2.3 million and $4.8 million decrease in cash for the three and nine months ended September 30, 2010).

8 INTEREST IN JOINT VENTURES

Jointly controlled entities

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

Entity	Principal activities	2011 September 30	2010 December 31	2010 January 1
		Economic interest		
Moa Joint Venture	Nickel and cobalt mining and processing	**50%**	50%	50%
Carbon Development Partnership	Coal recovery and coal gasification project	**50%**	50%	50%
Coal Valley Partnership[1]	Thermal coal mining	**100%**	50%/100%	50%
Energas	Power generation	**33 1/3%**	33 1/3%	33 1/3%

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

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

Canadian $ millions, as at September 30, 2011

	Moa Joint Venture	Carbon Development Partnership	Energas
	50%	**50%**	**33 1/3%**
Current assets	**$ 168.4**	**$ 1.1**	**$ 21.8**
Non-current assets	**564.2**	**29.7**	**127.1**
Current liabilities	**107.6**	**0.8**	**13.6**
Non-current liabilities	**237.3**	**0.5**	**68.9**
Net assets	**$ 387.7**	**$ 29.5**	**$ 66.4**

Canadian $ millions, for the three months ended September 30, 2011

	Moa Joint Venture	Carbon Development Partnership	Energas
	50%	**50%**	**33 1/3%**
Revenue	**$ 114.7**	**$ 0.2**	**$ 12.7**
Expenses	**90.1**	**0.4**	**5.1**
Net earnings (loss)	**$ 24.6**	**$ (0.2)**	**$ 7.6**

Interim condensed consolidated financial statements (unaudited)

Canadian $ millions, for the nine months ended September 30, 2011

		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		50%		33 1/3%
Revenue	$	374.6	$	0.7	$	37.3
Expenses		272.0		1.2		27.8
Net earnings (loss)	$	102.6	$	(0.5)	$	9.5

Canadian $ millions, as at December 31, 2010

		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		50%		33 1/3%
Current assets	$	174.3	$	0.6	$	15.1
Non-current assets		534.5		29.7		118.2
Current liabilities		101.0		0.7		11.8
Non-current liabilities		260.2		0.4		59.1
Net assets	$	347.6	$	29.2	$	62.4

Canadian $ millions, for the three months ended September 30, 2010

		Moa Joint Venture		Carbon Development Partnership		Coal Valley Partnership (1)		Energas
		50%		50%		50%		33 1/3%
Revenue	$	120.0	$	0.1	$	-	$	9.7
Expenses		84.3		0.2		-		8.2
Net earnings (loss)	$	35.7	$	(0.1)	$	-	$	1.5

Canadian $ millions, for the nine months ended September 30, 2010

		Moa Joint Venture		Carbon Development Partnership		Coal Valley Partnership (1)		Energas
		50%		50%		50%		33 1/3%
Revenue	$	349.7	$	0.5	$	89.1	$	30.3
Expenses		265.1		0.7		91.6		22.1
Net earnings (loss)	$	84.6	$	(0.2)	$	(2.5)	$	8.2

Canadian $ millions, as at January 1, 2010

		Moa Joint Venture		Carbon Development Partnership		Coal Valley Partnership (1)		Energas
		50%		50%		50%		33 1/3%
Current assets	$	144.9	$	0.4	$	28.1	$	20.0
Non-current assets		555.8		29.9		83.5		120.0
Current liabilities		96.1		1.2		50.4		11.6
Non-current liabilities		321.0		0.1		36.8		63.1
Net assets	$	283.6	$	29.0	$	24.4	$	65.3

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

At September 30, 2011, the share of commitments of the jointly controlled entities are as follows:

Canadian $ millions, as at September 30, 2011		
Property, plant and equipment commitments	$	6.1
Construction commitments relating to service concession arrangements		147.0
Other commitments		2.3

Jointly controlled operations

Production sharing contracts

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

At September 30, 2011, the Corporation's share of capital commitments for the production sharing contracts was $16.8 million.

Beinfait Activated Carbon Joint Venture

The Corporation has a contractual arrangement with another company for the production and sale of activated carbon to coal fired utility plants. Coal acts as operator of the plant facilities, while the other company conducts marketing activities. The assets of the operation are jointly owned by the Corporation and the other company based on their respective 50% ownership interests (December 31, 2010 - 50%).

9 INVESTMENT IN AN ASSOCIATE

The Corporation indirectly holds a 40% interest in the Ambatovy Joint Venture companies Ambatovy Minerals S.A. and Dynatec Madagascar S.A. Sherritt is the operator of the Ambatovy Project and has as its partners, Sumitomo Corporation, Korea Resources Corporation and SNC-Lavalin Incorporated. The Ambatovy Project is a large tonnage nickel and cobalt project with two nickel deposits located near Moramanga which are planned to be mined over a 29-year period. The ore from these deposits will be delivered via pipeline to a processing plant and refinery located near the Port of Toamasina. The Ambatovy Joint Venture has an annual reporting date of December 31.

The following provides additional information for the Ambatovy Joint Venture:

Condensed statement of financial position

Canadian $ millions, 40% interest, as at	2011 September 30	2010 December 31	2010 January 1
Assets			
Cash on hand and balances with banks[1]	$ 12.1	$ 23.9	$ 111.3
Inventories[2]	37.4	2.4	-
Other current assets	39.8	15.3	8.7
Property, plant and equipment	2,963.2	2,459.1	2,124.8
Other assets	3.1	2.9	3.6
Deferred income taxes	-	0.1	-
Liabilities			
Current liabilities	138.4	108.0	85.6
Long-term debt			
Ambatovy Joint Venture financing[3]	856.3	706.8	646.7
Subordinated loan payable[4]	866.5	620.9	391.8
Environmental rehabilitation	30.2	20.5	9.8
Other long-term liabilities	0.1	0.4	0.3
Deferred income taxes	120.4	115.1	121.2
Net assets	$ 1,043.7	$ 932.0	$ 993.0

(1) The Ambatovy Joint Venture cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

(2) Inventories are primarily comprised of raw materials.

(3) The Ambatovy Joint Venture financing totalling US$2,100.0 million is limited recourse project financing with a group of international lenders that matures June 15, 2024. The first repayment will be at the latest of six months after financial completion or 30 months after the final draw down, but in no case later than June 2013. The project financing is guaranteed by the project sponsors until the project passes certain completion tests at which point the project financing is secured by the project assets. Interest is payable based on LIBOR rates plus applicable margins, depending on the lenders. Interest is currently payable based on LIBOR rates plus applicable margins of approximately 1.4%. As part of the project financing, Sherritt is required to demonstrate its financial capacity to fund its share of the project. Sherritt is required to have available cash or un-drawn partner loans equal to 3 months of its shareholder contributions. If Sherritt's net tangible assets fall below $1,600.0 million or the ratio of debt-to-total-capitalization on a three-year rolling average basis is equal to or greater than 0.55:1, Sherritt will be required to set aside its remaining shareholder contributions. If these requirements are not met, the Ambatovy Joint Venture will be unable to draw down on the project financing. At September 30, 2011, the Ambatovy Joint Venture had borrowed US$2,100.0 million (December 31, 2010 - US$1,820.1 million) under the project financing.

(4) The subordinated loan payable is comprised of pro-rata contributions provided by the Ambatovy Joint Venture partners. The debt bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. Interest expense capitalized to property, plant and equipment is eliminated on consolidation. The Corporation has recorded its share of subordinated loan receivable in advances, loans receivable and other assets (note 14).

Results of operations

For the three and nine months ended September 30, 2011, the Corporation recognized a net loss of $1.5 million and net earnings of $0.6 million, respectively, composed primarily of a tax recovery offset by financing expense (net earnings of $1.2 million and net loss of $1.1 million for the three and nine months ended September 30, 2010, composed primarily of administrative and financing expenses).

Contingent liabilities and commitments

At September 30, 2011, the Corporation's share of property, plant and equipment commitments of the associate is $83.6 million.

10 INVENTORIES

Canadian $ millions, as at	2011 September 30	2010 December 31	2010 January 1
Uncovered coal	$ 9.4	$ 7.7	$ 5.7
Raw materials	7.0	5.0	4.8
Materials in process	46.9	29.2	31.4
Finished products	74.2	55.8	50.0
	137.5	97.7	91.9
Spare parts and operating materials	95.5	92.9	80.4
	$ 233.0	$ 190.6	$ 172.3

For the three and nine months ended September 30, 2011, the cost of inventories recognized as an expense and included in cost of sales was $254.5 million and $754.2 million, respectively ($217.2 million and $589.8 million for the three and nine months ended September 30, 2010).

11 NET CHANGE IN NON-CASH WORKING CAPITAL

	For the three months ended		For the nine months ended	
Canadian $ millions,	2011 September 30	2010 September 30	2011 September 30	2010 September 30
Accounts receivable	$ 1.8	$ (26.4)	$ (38.5)	$ (48.2)
Inventories	(16.2)	(11.4)	(39.8)	(12.7)
Prepaid expenses	(6.1)	(1.7)	(14.6)	(7.5)
Accounts payable and accrued liabilities	(3.6)	7.1	(8.1)	31.0
	$ (24.1)	$ (32.4)	$ (101.0)	$ (37.4)

12 PROPERTY, PLANT AND EQUIPMENT

Canadian $ millions, for the nine months ended September 30				2011
	Mining properties	Oil and Gas properties	Plant, equipment and land	Total
Cost				
Balance, beginning of the period	$ 367.9	$ 984.8	$ 1,808.8	$ 3,161.5
Additions	7.4	36.0	74.7	118.1
Capitalized closure costs	18.1	0.4	34.9	53.4
Disposals	-	-	(5.4)	(5.4)
Capitalized interest	-	-	2.7	2.7
Effect of movements in exchange rates	1.0	44.2	47.6	92.8
Balance, end of the period	$ 394.4	$ 1,065.4	$ 1,963.3	$ 3,423.1
Depletion, depreciation and impairment losses				
Balance, beginning of the period	$ 208.5	$ 851.2	$ 761.1	$ 1,820.8
Depletion and depreciation	29.9	39.1	65.4	134.4
Disposals	-	-	(2.7)	(2.7)
Effect of movements in exchange rates	1.0	39.7	20.9	61.6
Balance, end of the period	$ 239.4	$ 930.0	$ 844.7	$ 2,014.1
Net book value	$ 155.0	$ 135.4	$ 1,118.6	$ 1,409.0

Canadian $ millions, for the year ended December 31								2010
		Mining properties		Oil and Gas properties		Plant, equipment and land		Total
Cost								
Balance, beginning of the year	$	291.4	$	1,008.3	$	1,699.0	$	2,998.7
Additions		12.0		35.8		109.0		156.8
Additions through business acquisitions		47.7		-		70.3		118.0
Capitalized closure costs		18.2		0.6		5.9		24.7
Disposals		-		-		(25.7)		(25.7)
Capitalized interest		-		-		4.5		4.5
Effect of movements in exchange rates		(1.4)		(59.9)		(54.2)		(115.5)
Balance, end of the year	$	367.9	$	984.8	$	1,808.8	$	3,161.5
Depletion, depreciation and impairment losses								
Balance, beginning of the year	$	179.8	$	849.6	$	699.7	$	1,729.1
Depletion and depreciation		29.2		55.0		93.8		178.0
Disposals		-		-		(21.9)		(21.9)
Effect of movements in exchange rates		(0.5)		(53.4)		(10.5)		(64.4)
Balance, end of the year	$	208.5	$	851.2	$	761.1	$	1,820.8
Net book value	$	159.4	$	133.6	$	1,047.7	$	1,340.7

Canadian $ millions		**Plant, equipment and land**
Assets held under finance lease at net book value, included in above		
As at September 30, 2011	**$**	**93.5**
As at December 31, 2010		82.0
As at January 1, 2010		58.3
Assets under construction, included in above		
As at September 30, 2011	**$**	**287.2**
As at December 31, 2010		265.8
As at January 1, 2010		309.5
Capital commitments, as at September 30, 2011		
Year 1	**$**	**15.6**
Total	**$**	**15.6**

Mineral properties

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

The Corporation can elect to spend an additional US$80.0 million by December 31, 2016 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited. Exploration and evaluation expenditures related to mineral deposits are recognized in cost of sales as incurred until it is established that the mineral property has development potential. The Corporation expensed $0.6 million and $6.2 million relating to this project for the three and nine months ended September 30, 2011, respectively (note 24).

The Corporation acts as a lessor in operating leases related to the Power facilities in Varadero, Cuba and in Madagascar. The following table summarizes future minimum lease payments relating to operating leases receivable:

Canadian $ millions, as at	2011 September 30	2010 December 31	2010 January 1
Less than one year	$ 5.4	$ 5.1	$ 5.8
Between one and five years	11.2	14.6	22.2
	$ 16.6	$ 19.7	$ 28.0

All operating lease payments related to the Varadero facility are contingent on power generation. For the three and nine months ended September 30, 2011, contingent revenue was $3.6 million and $10.4 million, respectively ($4.2 million and $12.9 million for the three and nine months ended September 30, 2010).

Operating lease payments, denominated in Euros, related to the Madagascar facility, provide a fixed return based on the construction costs of that facility. The term of the lease is 60 months, with an option to extend an additional 24 months. At the end of the extended term, the lessee has the option to purchase the facility at a mutually agreed upon price.

13 INVESTMENTS

Canadian $ millions, as at	Note	2011 September 30	2010 December 31	2010 January 1
Cuban certificates of deposit		$ 66.0	$ 82.4	$ 112.6
Master Asset Vehicle notes	27	-	39.3	28.8
Other		5.7	5.6	5.7
		71.7	127.3	147.1
Current portion of investments		(30.2)	(30.8)	(34.6)
		$ 41.5	$ 96.5	$ 112.5

MAV notes

In September 2011, the Corporation sold the MAV notes for proceeds of $39.8 million (note 27). The MAV notes consisted of A1, A2, B, C, tracking and non-tracking notes that were received in exchange for the Corporation's asset backed commercial paper in 2009.

14 ADVANCES, LOANS RECEIVABLE, OTHER ASSETS AND FINANCE LEASE RECEIVABLE

Advances and loans receivable and other assets

Canadian $ millions, as at	Note	2011 September 30	2010 December 31	2010 January 1
Advances, loans receivable				
Ambatovy subordinated loan receivable		$ 866.5	$ 620.9	$ 391.8
Energas conditional sales agreement		154.4	134.1	144.8
Moa Joint Venture loans receivable		148.1	168.1	210.0
Other		26.7	32.1	48.7
Other financial assets				
Ambatovy call option	27	38.3	34.5	34.8
Deferred reclamation recoveries		6.4	6.3	6.4
Other non-financial assets				
Cross-guarantee fee asset		13.9	22.6	34.5
Pension asset		2.1	2.0	2.6
Other		4.2	3.8	5.5
		1,260.6	1,024.4	879.1
Current portion of advances, loans and other assets		(81.9)	(83.8)	(89.0)
		$ 1,178.7	$ 940.6	$ 790.1

Ambatovy subordinated loan receivable

A funding agreement was entered into by the Corporation with the Ambatovy Joint Venture to finance the development of the Ambatovy Project. The facility bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually.

Energas conditional sales agreement

A conditional sales agreement was entered into by the Corporation with Energas to finance construction activity on specific power generating assets in Cuba. The agreement directs the Corporation to arrange for the performance of certain construction activity on behalf of Energas, and contains design specifications for each new construction phase. The Corporation retains title to the constructed assets until the loan is fully repaid. The facility bears interest at 8%. Income generated by the constructed assets will be used to repay the facilities. Until the loan is fully repaid, all of the income generated by these assets is paid to the Corporation.

Finance lease receivables

Canadian $ millions, as at			**2011 September 30**			2010 December 31			2010 January 1
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 39.6**	**$ 15.4**	**$ 24.2**	$ 34.9	$ 15.0	$ 19.9	$ 35.5	$ 15.6	$ 19.9
Between one and five years	**129.0**	**45.9**	**83.1**	120.8	47.4	73.4	128.0	48.3	79.7
More than five years	**144.5**	**29.1**	**115.4**	155.5	32.2	123.3	158.0	34.9	123.1
	$ 313.1	**$ 90.4**	**$ 222.7**	$ 311.2	$ 94.6	$ 216.6	$ 321.5	$ 98.8	$ 222.7

Finance lease receivables relate to arrangements within Coal's Prairie Operations that contain leases. Lease payments consist of blended monthly payments of principal and interest. The interest rates implicit in the leases as at September 30, 2011 are between 5.0% and 8.6% (December 31, 2010 – 5.0% and 8.9%). The Corporation has both fixed and variable rate leasing arrangements.

15 GOODWILL

The goodwill of $307.9 million arose on the acquisition of Royal Utilities in 2008. Royal Utilities is comprised of several Prairie coal-mining operations, each determined to be a CGU. Goodwill is tested for impairment by allocating it to the Royal Utilities' CGUs as one group as this is the lowest level that goodwill is monitored. Impairment testing is performed annually on October 1 by comparing the recoverable amount of Royal Utilities to its carrying amount including goodwill. The annual impairment review as at October 1, 2010 resulted in no impairment charge.

Prior to the Corporation's acquisition of all trust units issued and outstanding that it did not already own, the trust units of Royal Utilities were publicly traded on an active market. Fair value was measured at the acquisition date using a discounted cash flow valuation model (valuation model). The Corporation determined the recoverable amount of Royal Utilities by reference to its fair value less cost to sell using this valuation model.

Key assumptions in the valuation model include cash flows, growth opportunities, and the discount rate. The details of how these assumptions were updated are described below.

Cash flows

Cash flows are projected over a 49 year period and are based on production and growth plans, internal forecasts, and risk assessments that take into account the unique operations of each mine site. Revenue and expenses were projected over a 10 year period based on internal long range plans. Revenue and expenses beyond this period were extrapolated using growth rates between 0.5% and 3.9% based on the average historical growth of each mine site. Cash flows are relatively stable as the majority of mine sites supply utility customers under long-term supply agreements in Alberta and Saskatchewan.

Growth opportunities

Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium to long term.

Discount rate

A blended discount rate of 7.9 % for mine site operations and 6.5% for royalty revenue was used to discount cash flows in the valuation model, which resulted in an excess of fair value over carrying amount of approximately $177.2 million as at October 1, 2010. The valuation of Royal Utilities is sensitive to changes in the discount rate. A 0.5% increase in the discount rate would lead to a decrease in the excess of fair value less costs to sell over carrying amount of Royal Utilities by approximately $107.7 million. A corresponding decrease in the discount rate would increase the excess of fair value less costs to sell over carrying amount by approximately $119.2 million. The sensitivity was calculated as of the impairment testing date. The discount rate is based on current market information at the date of valuation.

16 INTANGIBLE ASSETS

Canadian $ millions, for the nine months ended September 30							2011
	Royalty agreements	Mining contracts	Contractual arrangements	Exploration and evaluation	Service concession arrangement	Other	Total
Cost							
Balance, beginning of the period	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 79.4	$ 44.1	$ 877.0
Additions through:							
Internal development	-	-	-	2.8	15.5	-	18.3
Effect of movements in exchange rates	-	-	-	0.2	4.1	-	4.3
Balance, end of the period	$ 479.0	$ 236.0	$ 27.0	$ 14.5	$ 99.0	$ 44.1	$ 899.6
Amortization and impairment losses							
Balance, beginning of the period	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Amortization	8.2	5.5	1.4	-	2.8	7.4	25.3
Impairments	-	-	-	2.0	-	-	2.0
Effect of movements in exchange rates	-	-	-	0.1	0.3	-	0.4
Balance, end of the period	$ 37.2	$ 25.2	$ 15.3	$ 11.0	$ 6.9	$ 16.2	$ 111.8
Net book value	$ 441.8	$ 210.8	$ 11.7	$ 3.5	$ 92.1	$ 27.9	$ 787.8
Remaining amortization period							
Weighted-average number of years, as at September 30, 2011	41.1	33.9	6.4	-	11.5	23.0	

Canadian $ millions, for the year ended December 31							2010
	Royalty agreements	Mining contracts	Contractual arrangements	Exploration and evaluation	Service concession arrangement	Other	Total
Cost							
Balance, beginning of the year	$ 479.0	$ 236.0	$ 27.0	$ 7.8	$ 76.0	$ 23.1	$ 848.9
Additions through:							
Internal development	-	-	-	3.9	7.2	-	11.1
Business combinations	-	-	-	-	-	21.0	21.0
Effect of movements in exchange rates	-	-	-	(0.2)	(3.8)	-	(4.0)
Balance, end of the year	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 79.4	$ 44.1	$ 877.0
Amortization and impairment losses							
Balance, beginning of the year	$ 18.1	$ 12.3	$ 12.1	$ -	$ -	$ 3.3	$ 45.8
Amortization for the year	10.9	7.4	1.8	-	3.9	5.5	29.5
Impairments	-	-	-	9.0	-	-	9.0
Effect of movements in exchange rates	-	-	-	(0.1)	(0.1)	-	(0.2)
Balance, end of the year	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Net book value	$ 450.0	$ 216.3	$ 13.1	$ 2.6	$ 75.6	$ 35.3	$ 792.9

Exploration and Evaluation

E&E assets are composed of the Corporation's exploration projects in Oil and Gas pending the determination of proven and/or probable reserves.

Service concession arrangements construction activity

Construction at the Energas Boca de Jaruco facility is currently under way and is scheduled for completion in 2013. Construction revenue and expense relating to the new construction activity for the three and nine months ended September 30, 2011 is $4.3 million and $13.4 million, respectively ($0.6 million and $3.5 million for the three and nine months ended September 30, 2010).

Expenses incurred in relation to the new construction activity are included in cost of sales on the consolidated statements of comprehensive income. The amount of interest expense capitalized was $2.1 million as at September 30, 2011 (December 31, 2010 – $2.1 million) at a weighted-average capitalization rate of 8%.

17 LOANS, BORROWINGS AND OTHER LIABILITIES

Loans and borrowings

Canadian $ millions, as at	2011 September 30	2010 December 31	2010 January 1
Long-term loans			
7.875% senior unsecured debentures due 2012	**$ 271.5**	$ 269.8	$ 267.8
8.25% senior unsecured debentures due 2014	**222.8**	222.4	221.8
7.75% senior unsecured debentures due 2015	**272.8**	272.4	272.0
Ambatovy Joint Venture additional partner loans	**697.4**	597.4	422.0
Ambatovy Joint Venture partner loans	**93.5**	88.7	91.7
Senior credit facility agreement	**9.0**	80.9	65.6
Loan from financial institution	**2.7**	8.0	18.3
3-year non-revolving term loan[1]	**14.5**	24.0	18.0
	1,584.2	1,563.6	1,377.2
Current portion of loans and borrowings	**(25.0)**	(33.1)	(34.4)
	$ 1,559.2	$ 1,530.5	$ 1,342.8

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

In May 2011, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility. The maximum available credit under the facility is $115.0 million; however, the total available draw is based on eligible receivables and inventory. As at September 30, 2011, $nil amounts were drawn on this facility (December 31, 2010 - $nil) and the Corporation had outstanding letters of credit totalling $6.3 million (December 31, 2010 - $6.1 million). These letters of credit relate to various contractual obligations of the Corporation. This facility is subject to the following financial covenants: financial debt-to-equity of not more than 0.5:1; quarterly adjusted net financial debt-to-EBITDA not exceeding between 2.5:1 and EBITDA-to-interest expense of not less than 3:1. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 1.625% per annum or bankers' acceptances plus 2.625% and the facility expires on May 7, 2012.

In August 2011, the Corporation amended the $20.0 million line of credit to extend the expiry date to August 2, 2012. This facility is subject to the same financial covenants as the syndicated 364-day revolving-term credit facility. There were no amounts drawn on this facility as at September 30, 2011.

The Corporation terminated its MAV note loans facility of $31.5 million in September 2011, as a result of the sale of the Corporation's MAV notes (note 13). There were no amounts owing on the MAV note loans at the time of extinguishment.

Interest and accretion expense on loans and borrowings was $25.9 million and $77.7 million for the three and nine months ended September 30, 2011 ($27.9 million and $75.4 million for the three and nine months ended September 30, 2010).

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction or, where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings. The amount of interest expense capitalized was $4.8 million as at September 30, 2011 (December 31, 2010 – $6.6 million) at a weighted-average capitalization rate of 7.15%.

Other liabilities

Canadian $ millions, as at	**2011 September 30**	2010 December 31	2010 January 1
Other financial liabilities			
Advances and loans payable	**$ 105.6**	$ 116.7	$ 131.0
Finance lease obligations	**118.5**	106.2	88.6
Other long-term financial liabilities	**18.0**	19.1	20.1
Stock compensation liability	**8.2**	16.8	10.0
Other non-financial liabilities			
Pension liability	**16.0**	17.3	21.4
Deferred revenue	**12.7**	23.8	2.0
	279.0	299.9	273.1
Current portion of other liabilities	**(77.8)**	(91.2)	(54.0)
	$ 201.2	$ 208.7	$ 219.1

Finance lease obligations

Canadian $ millions, as at	**2011 September 30**			2010 December 31			2010 January 1		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 46.0**	**$ 5.8**	**$ 40.2**	$ 38.6	$ 3.8	$ 34.8	$ 32.4	$ 4.0	$ 28.4
Between one and five years	**85.2**	**6.9**	**78.3**	78.8	7.4	71.4	65.4	5.2	60.2
	$ 131.2	**$ 12.7**	**$ 118.5**	$ 117.4	$ 11.2	$ 106.2	$ 97.8	$ 9.2	$ 88.6

Finance lease obligations of $118.5 million bear interest at rates ranging from 0.9% to 18.7% having a weighted-average interest rate of 5.9%. These finance leases mature between 2011 and 2016 and are repayable by blended monthly payments of principal and interest.

The Corporation has guaranteed a letter of credit issued on behalf of CVRI and payments under a lease contract entered into by CVRI. In June 2011, Sherritt amended the arrangement to replace its former partner as a guarantor and increase the Corporation's guarantee for the potential obligations under the letter of credit of Coal to a maximum of $64.0 million. As at September 30, 2011, $58.7 million was outstanding ($48.1 million was outstanding as at December 31, 2010).

The Corporation and its former partner each had also guaranteed the payments under a lease of equipment contract entered into by CVP, up to a maximum of $27.5 million each. As at September 30, 2011, $33.4 million was outstanding ($35.9 million was outstanding as at December 31, 2010).

Other long-term financial liabilities

The other long-term liabilities are mostly composed of other equipment financing arrangements.

Canadian $ millions, as at	**2011 September 30**	2010 December 31	2010 January 1
Less than one year	**$ 4.0**	$ 4.3	$ 5.1
Between one and five years	**7.7**	8.7	8.8
More than five years	**6.3**	6.1	6.2
	$ 18.0	$ 19.1	$ 20.1

Other equipment financing lease arrangements for the Coal segment of $9.8 million bear interest at rates ranging from 5.31% to 9.85% having a weighted-average interest rate of 6.33%. These finance leases mature between 2011 and 2015 and are repayable by blended monthly payments of principal and interest.

18 PROVISIONS

Environmental rehabilitation provision

The following is a reconciliation of the environmental rehabilitation provision:

Canadian $ millions	For the nine months ended 2011 September 30	For the year ended 2010 December 31
Balance, beginning of the period	$ 208.3	$ 164.1
Acquisition of CVP	-	33.7
Additions	11.3	22.1
Change in estimates	41.1	3.5
Utilized during the period	(12.4)	(13.4)
Accretion	4.2	4.8
Foreign exchange translation	2.9	(5.1)
Other	-	(1.4)
Balance, end of the period	255.4	208.3
Current portion	(31.9)	(25.5)
	$ 223.5	$ 182.8

Sherritt increased its provision by $40.6 million in the quarter related primarily to a reduction in the discount rates during the third quarter and also as a result of re-assessing factors affecting soil contamination and their potential impact on Sherritt's obligations for rehabilitating the Moa Joint Venture Fort Saskatchewan site. The rehabilitation of the Fort Saskatchewan site is the responsibility of both Sherritt and predecessor companies that were located on the site.

Contingencies

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

A number of the Corporation's subsidiaries and affiliates have operations located in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. Having regard to legal and other developments in the United States, and remedies available in Canada and in Europe, the Corporation believes that the impact of any claims against it will not be material.

In addition to the above matters, the Corporation and its subsidiaries are also subject to routine legal proceedings and tax audits. The Corporation does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated net earnings, cash flow or financial position.

Guarantees

Ambatovy Joint Venture

Sherritt has provided guarantees of up to US$840.0 million as its pro-rata share of completion guarantees under the Ambatovy Joint Venture financing. The other joint venture partners have cross-guaranteed US$598.0 million and have also agreed to provide letters of credit up to US$242.0 million to the senior lenders. These guarantees are released once Ambatovy has satisfied certain required completion tests (note 9).

Other

In respect of various divestitures, environmental, tax and other indemnities have been provided to the purchasers. The indemnities generally extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with a loan agreement entered into with a financial institution, the Corporation has also agreed to indemnify the financial institution against any environmental exposures relating to the Power expansion. The indemnities extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In respect of certain work being performed on behalf of the Corporation, indemnities have been provided to certain contractors and consultants for any claims, costs, losses or expenses arising out of the performance of work performed by the contractor or consultant. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with the issuance of common shares, debt instruments and other corporate finance transactions, indemnities have been given to the underwriters. Indemnities have also been given to financial advisors in connection with transactions undertaken by the Corporation. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

19 CAPITAL STOCK

The Corporation's common shares have no par value and the authorized share capital is composed of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

Canadian $ millions, except share amounts,	Note	**For the nine months ended 2011 September 30**			For the year ended 2010 December 31		
		Number		**Capital stock**	Number		Capital stock
Balance, beginning of the period		**295,016,500**	**$**	**2,787.3**	293,981,277	$	2,771.9
Employee share purchase plan		**477,560**		**2.4**	186,820		1.1
Cross-guarantee		**-**		**-**	943,277		13.9
Treasury stock - restricted stock plan	21	**(88,500)**		**(0.7)**	(94,874)		(0.8)
Other		**-**		**-**	-		1.2
Stock options exercised		**20,000**		**0.1**	-		-
Balance, end of the period		**295,425,560**	**$**	**2,789.1**	295,016,500	$	2,787.3

On December 31, 2010, the Corporation issued 943,277 common shares valued at $14.74 per common share as the third of four annual issuances in relation to the cross-guarantees provided by Sumitomo and SNC-Lavalin on the Ambatovy senior credit facility. The issuance resulted in a total of $13.9 million being reclassified from contributed surplus to capital stock.

The following dividends were paid or were declared but unpaid:

Canadian $ millions, except share amounts,	**For the nine months ended 2011 September 30**			For the year ended 2010 December 31		
		Per share	**Total**		Per share	Total
Dividends paid during the year	$	0.114	$ 33.7	$	0.144	$ 42.4
Dividends declared but unpaid		0.038	11.2		0.038	11.2

Accumulated foreign currency translation adjustment

Shareholders' equity includes the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation's foreign operations which have a foreign dollar functional currency.

20 EARNINGS PER SHARE

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

Net earnings per share

	For the three months ended		For the nine months ended	
	2011	2010	**2011**	2010
Canadian $ millions, except per share amounts,	**September 30**	September 30	**September 30**	September 30
Earnings from continuing operations	**$ 45.8**	$ 24.4	**$ 170.1**	$ 109.0
Loss from discontinued operation	**0.3**	1.9	**0.9**	6.9
Net earnings - basic	**$ 45.5**	$ 22.5	**$ 169.2**	$ 102.1
Earnings from continuing operations	**$ 45.8**	$ 24.4	**$ 170.1**	$ 109.0
Adjustment to cash-settled share-based compensation expense [1]	**-**	(0.3)	**-**	(0.3)
Earnings from continuing operations - diluted	**45.8**	24.1	**170.1**	108.7
Loss from discontinued operation	**0.3**	1.9	**0.9**	6.9
Net earnings - diluted	**$ 45.5**	$ 22.2	**$ 169.2**	$ 101.8
Weighted-average number of common shares - basic	**295.2**	294.0	**295.0**	293.9
Weighted-average effect of dilutive securities:[1]				
Employee share purchase	**-**	0.1	**-**	0.1
Stock options	**-**	0.1	**-**	0.1
Restricted stock	**0.3**	0.2	**0.3**	0.2
Cross-guarantee	**0.9**	1.9	**0.9**	1.9
Weighted-average number of common shares - diluted	**296.4**	296.3	**296.2**	296.2
Earnings from continuing operations per common share				
Basic	**$ 0.16**	$ 0.08	**$ 0.58**	$ 0.37
Diluted	**$ 0.15**	$ 0.08	**$ 0.57**	$ 0.37
Loss from discontinued operation per common share				
Basic	**$ -**	$ (0.01)	**$ -**	$ (0.02)
Diluted	**$ -**	$ (0.01)	**$ -**	$ (0.02)
Net earnings per common share				
Basic	**$ 0.16**	$ 0.07	**$ 0.58**	$ 0.35
Diluted	**$ 0.15**	$ 0.07	**$ 0.57**	$ 0.35

(1) The determination of the weighted-average number of common shares - diluted excludes 5.4 million shares related to stock options that were anti-dilutive for the three and nine months ended September 30, 2011, respectively (4.4 million for the three and nine months ended September 30, 2010). There were 0.8 million shares related to the employee share purchase plan that were anti-dilutive for the three and nine months ended September 30, 2011, respectively (0.4 million shares for the three and nine months ended September 30, 2010).

21 STOCK-BASED COMPENSATION PLANS

Stock options and options with tandem stock appreciation rights

The following is a summary of stock option activity:

For the three months ended September 30	2011		2010	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of period	**5,370,580**	**$ 10.23**	5,194,146	$ 10.43
Forfeited	**(15,000)**	**15.02**	(210,000)	10.84
Outstanding, end of period	**5,355,580**	**10.22**	4,984,146	10.41
Options exercisable, end of period	**3,935,461**	**$ 11.08**	3,121,322	$ 11.61

For the nine months ended September 30	2011		2010	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of year	**4,819,146**	**$ 10.37**	4,774,906	$ 10.69
Granted	**638,100**	**8.69**	724,240	8.33
Exercised for cash	**(51,666)**	**5.16**	-	-
Exercised for shares	**(20,000)**	**5.05**	-	-
Forfeited	**(30,000)**	**15.02**	(515,000)	10.08
Outstanding, end of period	**5,355,580**	**10.22**	4,984,146	10.41
Options exercisable, end of period	**3,935,461**	**$ 11.08**	3,121,322	$ 11.61

The following table summarizes information on stock options outstanding and exercisable at September 30, 2011:

Range of exercise prices	**Number outstanding**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Exercisable number**	**Exercisable weighted-average exercise price**
$3.05-5.05	40,000	7.1 years	$ 3.69	26,666	$ 3.69
$5.06-9.77	2,182,245	8.5 years	7.31	775,460	6.36
$9.78-11.64	1,828,335	3.6 years	10.42	1,828,335	10.42
$11.65-15.23	1,305,000	5.9 years	14.98	1,305,000	14.98
Total	5,355,580	6.2 years	$ 10.22	3,935,461	$ 11.08

As at September 30, 2011, 4,717,480 options with tandem stock appreciation rights (SARs) (September 30, 2010 – 4,964,146) and 638,100 options (September 30, 2010 – 20,000) remained outstanding for which the Corporation has recognized a compensation recovery of $2.5 million and $5.3 million for the three and nine months ended September 30, 2011 (compensation expense of $2.8 million and $3.2 million for the three and nine months ended September 30, 2010). The carrying amount of liabilities associated with cash settled compensation arrangements is $4.1 million at September 30, 2011 (December 31, 2010 – $10.4 million).

Inputs for measurement of grant date fair values

The fair value at the grant date of the stock options and options with tandem SARs was measured using Black-Scholes. There were no stock options and options with tandem SARs granted for the three months ended September 30, 2011 and 2010. The following summarizes the fair value measurement factors for options granted during the nine months ended September 30, 2011 and 2010:

For the nine months ended September 30	**2011**	2010
Share price at grant date	**$ 6.14 - $ 8.95**	$ 8.62
Exercise price	**$ 6.22 - $ 9.10**	$ 8.33
Risk-free interest rate (based on 10-year Government of Canada bonds)	**3.09% - 3.33%**	3.45%
Expected volatility	**48.42% - 48.48%**	49.07%
Expected dividend yield	**1.63% - 2.41%**	1.72%
Expected life of options	**10 years**	10 years
Weighted-average fair value of options granted during the period	**$ 2.74 - $ 4.49**	$ 4.23

Expected volatility is estimated based on the average historical share price volatility for a period equal to the expected life of the option. The expected life of the option is estimated to equal its legal life at the time of grant. The expected dividend yield is determined by comparing total dividends paid during the preceding 12 months to the share price at grant date.

Other stock-based compensation

A summary of SARs, RSUs, DSUs and RSPs outstanding as at September 30, 2011 and 2010 and changes during the year is as follows:

For the three months ended September 30				**2011**
	SAR	**RSU**	**DSU**	**RSP**
Outstanding, beginning of period	**-**	**1,689,067**	**330,952**	**292,230**
Dividends credited	**-**	**14,716**	**2,882**	**-**
Exercised	**-**	**-**	**-**	**-**
Forfeited	**-**	**-**	**-**	**-**
Outstanding, end of period	**-**	**1,703,783**	**333,834**	**292,230**
Units exercisable, end of period	**-**	**n/a**	**333,834**	**n/a**
Weighted-average exercise price	**$ -**	**n/a**	**n/a**	**n/a**

For the three months ended September 30				2010
	SAR	RSU	DSU	RSP
Outstanding, beginning of period	140,000	1,733,451	280,833	203,730
Issued	-	18,150	-	-
Dividends credited	-	7,704	1,254	-
Forfeited	-	(39,384)	-	-
Outstanding, end of period	140,000	1,719,921	282,087	203,730
Units exercisable, end of period	140,000	n/a	282,087	n/a
Weighted-average exercise price	$ 5.56	n/a	n/a	n/a

For the nine months ended September 30				2011
	SAR	**RSU**	**DSU**	**RSP**
Outstanding, beginning of year	**140,000**	**1,531,914**	**283,359**	**203,730**
Issued	**-**	**509,605**	**44,000**	**88,500**
Dividends credited	**-**	**33,284**	**6,475**	**-**
Exercised	**(140,000)**	**(316,568)**	**-**	**-**
Forfeited	**-**	**(54,452)**	**-**	**-**
Outstanding, end of period	**-**	**1,703,783**	**333,834**	**292,230**
Units exercisable, end of period	**-**	**n/a**	**333,834**	**n/a**
Weighted-average exercise price	**$ -**	**n/a**	**n/a**	**n/a**

For the nine months ended September 30				2010
	SAR	RSU	DSU	RSP
Outstanding, beginning of year	212,500	1,304,689	216,946	108,856
Issued	-	703,900	60,880	94,874
Dividends credited	-	26,326	4,261	-
Exercised	(72,500)	(214,299)	-	-
Forfeited	-	(100,695)	-	-
Outstanding, end of period	140,000	1,719,921	282,087	203,730
Units exercisable, end of period	140,000	n/a	282,087	n/a
Weighted-average exercise price	$ 5.56	n/a	n/a	n/a

The Corporation recorded a compensation recovery of $0.3 million and a compensation expense of $1.1 million for the three and nine months ended September 30, 2011, for other stock-based compensation plans (compensation expense of $3.5 million and $5.6 million nine for the three and nine months ended September 30, 2010). The carrying amount of liabilities associated with cash settled compensation arrangements is $4.1 million at September 30, 2011 (December 31, 2010 - $6.4 million).

Measurement of fair values at grant date

The fair value of the RSUs, DSUs and RSPs are determined by reference to the market value of the shares at the time of grant. The following summarizes the fair value measurement factor for the RSU, DSU, and RSP grants during the period:

For the three months ended September 30			2011
	RSU	**DSU**	**RSP**
Share price at grant date	**$ -**	**$ -**	**$ -**

For the three months ended September 30			2010
	RSU	DSU	RSP
Share price at grant date	$ 5.72	$ -	$ -

For the nine months ended September 30			2011
	RSU	**DSU**	**RSP**
Share price at grant date	**$ 8.95**	**$ 8.95**	**$ 6.14 - 8.95**

For the nine months ended September 30			2010
	RSU	DSU	RSP
Share price at grant date	$ 5.72 - 6.73	$ 6.57	$ 8.82

The intrinsic value of cash settled stock-based compensation awards vested and outstanding as at September 30, 2011 was $4.5 million (December 31, 2010 - $8.3 million).

22 NET FINANCE EXPENSE

Canadian $ millions	For the three months ended 2011 September 30	2010 September 30	For the nine months ended 2011 September 30	2010 September 30
Net (loss) gain on financial instruments	**$ (5.2)**	$ (1.6)	**$ 2.5**	$ 9.0
Interest income on cash, cash equivalents, and short-term investments	**1.3**	0.8	**4.4**	1.5
Interest income on investments	**2.5**	3.2	**7.3**	10.2
Interest income on advances and loans receivable	**2.6**	3.5	**8.3**	11.6
Interest income on finance leases	**4.4**	4.3	**13.2**	12.7
Total financing income	**5.6**	10.2	**35.7**	45.0
Interest expense and accretion on loans and borrowings	**$ 25.9**	$ 27.9	**$ 77.7**	$ 75.4
Interest expense on other liabilities	**0.9**	1.0	**2.5**	3.1
Interest expense on finance lease obligations	**2.0**	1.6	**5.5**	4.1
Accretion expense on environmental rehabilitation provisions	**1.4**	1.2	**4.2**	3.5
Foreign exchange (gain) loss	**(4.2)**	(0.4)	**(1.8)**	2.5
Cross-guarantee fee amortization	**3.0**	3.0	**9.0**	9.0
Other finance charges	**4.2**	2.8	**9.8**	7.0
Total financing expense	**33.2**	37.1	**106.9**	104.6
Net finance expense	**$ 27.6**	$ 26.9	**$ 71.2**	$ 59.6

23 GOVERNMENT GRANTS

For the three and nine months ended September 30, 2011, the Corporation recognized government grants relating to Energas re-investment credits of $0.5 million and $0.9 million, respectively ($0.4 million and $1.6 million for the three and nine months ended September 30, 2010). Re-investment credits are earned as a result of providing financing for construction projects approved by the Cuban government. Receipt of these credits is contingent on Energas generating taxable income, and therefore re-investment credits are included in income only as Energas accrues income tax.

24 COST OF SALES

Cost of sales includes the following select information:

Canadian $ millions	For the three months ended 2011 September 30	2010 September 30	For the nine months ended 2011 September 30	2010 September 30
Employee costs	**$ 86.9**	$ 83.0	**$ 265.7**	$ 235.7
Depletion, depreciation and amortization on property, plant and equipment and intangible assets	**53.3**	53.0	**149.0**	141.1
Exploration and evaluation expenses	**0.9**	0.1	**7.0**	0.1
Impairment losses	**2.2**	8.3	**2.7**	10.7

The exploration and evaluation expenses incurred by the Corporation relate mainly to the Sulawesi Project in Indonesia. Of this amount, $nil was included in liabilities as at September 30, 2011.

25 INCOME TAXES

Canadian $ millions	For the three months ended 2011 September 30	2010 September 30	For the nine months ended 2011 September 30	2010 September 30
Current tax expense - current period	$ 19.3	$ 18.0	$ 72.8	$ 54.1
Deferred tax expense (recovery)				
Origination and reversal of temporary differences	$ (8.9)	$ 3.1	$ (9.7)	$ 20.1
Reduction in tax rate	0.7	-	-	-
Non-recognition (recognition) of tax assets (not) previously recognized	5.2	-	7.3	-
	(3.0)	3.1	(2.4)	20.1
	$ 16.3	$ 21.1	$ 70.4	$ 74.2

26 RELATED PARTY TRANSACTIONS

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly controlled entities and an associate at exchange amounts (cost, commercial rates and other various contractual terms). The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt, and certain by-products produced by certain jointly controlled entities and an associate in the Metals business.

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated and are not disclosed in this note. A listing of the Corporation's subsidiaries is included in note 3, under principles of consolidation.

A description of the Corporation's interest in jointly controlled entities and an associate is included in note 8 and 9, respectively.

Jointly controlled entities and associate

Canadian $ millions	For the three months ended 2011 September 30	2010 September 30	For the nine months ended 2011 September 30	2010 September 30
Total value of goods and services:				
Provided to jointly-controlled entities	$ 17.9	$ 15.3	$ 54.0	$ 51.2
Provided to associate	0.3	0.3	0.9	0.9
Purchased from jointly-controlled entities	14.9	10.2	53.5	45.9
Net financing income from jointly-controlled entities	6.0	2.4	17.9	15.9

Canadian $ millions, as at	2011 September 30	2010 December 31	2010 January 1
Accounts receivable from jointly-controlled entities	$ 4.5	$ 5.5	$ 6.9
Accounts receivable from associate	31.8	11.9	5.8
Accounts payable to jointly-controlled entities	0.4	0.3	1.4
Accounts payable to associate	-	-	0.3
Advances and loans receivable from associate	866.5	620.9	391.8
Advances and loans receivable from certain Moa Joint Venture entities	148.1	168.1	210.0
Loan receivable from Coal Valley Resources Inc.	-	-	5.0
Advances and loans receivable from Energas	154.4	134.1	144.8

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 periods for bad debts in respect of amounts owed by related parties.

27 FINANCIAL INSTRUMENTS

Financial instrument hierarchy

Financial instruments measured at fair value at each reporting date have been ranked using a three-level hierarchy that reflects the significance of the inputs used in determining fair value. The following table identifies the hierarchy levels and values:

Canadian $ millions, as at	Note	Hierarchy Level	**2011 September 30**	2010 December 31	2010 January 1
Financial assets:					
Held for trading, measured at fair value					
Cash equivalents		1	**$ 53.9**	$ 167.2	$ 102.9
Short-term investments		1	**465.9**	496.7	420.8
Master Asset Vehicle notes	13	3	**-**	39.3	28.8
Ambatovy call option	14	3	**38.3**	34.5	34.8

The following assets have been ranked Level 1 as their market value is readily observable:

Cash equivalents

These are liquid Canadian government treasury bills having original maturity dates of three months or less.

Short-term investments

These are liquid Canadian government treasury bills having original maturity dates greater than three months and less than one year.

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

Canadian $ million, as at September 30	**Master Asset Vehicle notes**	**Ambatovy call option**	**Total**	**2011**
Balance, beginning of period	**$ 39.3**	**$ 34.5**	**$ 73.8**	
Total gains in net earnings [1]	**0.5**	**2.0**	**2.5**	
Effect of movements in exchange rates	**-**	**1.8**	**1.8**	
Sale of investment	**(39.8)**	**-**	**(39.8)**	
Balance, end of period	**$ -**	**$ 38.3**	**$ 38.3**	

Canadian $ millions, as at December 31	Master Asset Vehicle notes	Ambatovy call option	Total	2010
Balance, beginning of period	$ 28.8	$ 34.8	$ 63.6	
Total gains in net earnings [1]	10.5	1.6	12.1	
Effect of movements in exchange rates	-	(1.9)	(1.9)	
Balance, end of period	$ 39.3	$ 34.5	$ 73.8	

Canadian $ millions, as at September 30			2010
	Master Asset Vehicle notes	Ambatovy call option	Total
Balance, beginning of period	$ 28.8	$ 34.8	$ 63.6
Total gains in net earnings [1]	7.5	1.5	9.0
Effect of movements in exchange rates	-	(0.7)	(0.7)
Balance, end of period	$ 36.3	$ 35.6	$ 71.9

(1) Gains (losses) are recognized in net financing expense (note 22).

MAV notes

In September 2011, the Corporation sold the MAV notes for proceeds of $39.8 million (note 13). The MAV notes were designated as fair value through profit or loss using the fair value option. In determining the fair value, the Corporation historically used credit spreads based on the current market bids available for A1, A2, B, C and Class 15 notes. The notes held by the Corporation were not widely traded and the fair value was determined using discounted cash flows; the interest rate used was based on management's estimate of credit and other risk factors.

During the three and nine months ended September 30, 2011, the Corporation recognized a downward fair value adjustment of $5.0 million and an upward fair value adjustment of $0.5 million, respectively (upward fair value adjustment for the three and nine months ended September 30, 2010 - $0.2 million and $7.5 million, respectively) in financing income on its MAV notes primarily due to a decrease in credit spreads.

Ambatovy call option

The fair value of the call option is determined by applying the Black-Scholes option pricing model. The Black-Scholes model requires several inputs: exercise price of the option; fair value of the Ambatovy project; risk-free interest rate; estimated date that certain project milestones will be met; and volatility which is based on a blend of historical commodity prices and the publicly traded stock prices of companies with comparable projects.

During the three and nine months ended September 30, 2011, the Corporation recognized a downward fair value adjustment of $0.2 million and an upward fair value adjustment of $2.0 million, respectively (downward fair value adjustment of $1.8 million and upward fair value adjustment of $1.5 million for the three and nine months ended September 30, 2010) in financing income on the Ambatovy call option primarily due to an increase in estimated fair value of the Ambatovy project.

Fair values

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

Canadian $ millions, as at	**2011 September 30**		2010 December 31		2010 January 1	
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
7.875% senior unsecured debentures due 2012	**$ 271.5**	**$ 280.9**	$ 269.8	$ 286.0	$ 267.8	$ 279.2
8.25% senior unsecured debentures due 2014	**222.8**	**233.8**	222.4	241.3	221.8	231.3
7.75% senior unsecured debentures due 2015	**272.8**	**285.8**	272.4	291.5	272.0	278.2

At September 30, 2011, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of loans and borrowings, trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The fair values of non-current loans and borrowings approximate their carrying amount. The fair value of a financial instrument on initial recognition is normally the transaction price, the fair value of the consideration given or received. Fair values of advances and loans receivable are estimated based on discounted cash flows. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

At September 30, 2011, the carrying amount for the Cuban certificates of deposit is approximately equal to the fair value (note 13).

At September 30, 2011, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to the fair value (note 14).

Cash, cash equivalents and short-term investments

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was $25.5 million at September 30, 2011 (December 31, 2010 – $20.5 million).

As at September 30, 2011, $7.3 million of cash on the Corporation's consolidated statements of financial position was held by Energas and $18.2 million by Moa Joint Venture (December 31, 2010 – $7.0 million and $34.3 million, respectively). These funds are for the use of each joint venture, respectively.

As at September 30, 2011, the Corporation had $519.8 million in Government of Canada treasury bills (December 31, 2010 - $663.9 million) included in cash and cash equivalents and short-term investments.

Trade accounts receivable

The Corporation's trade accounts receivable are composed of the following:

Canadian $ millions, as at	**2011 September 30**	2010 December 31	2010 January 1
Trade accounts receivable	**$ 343.3**	$ 287.9	$ 267.5
Allowance for doubtful accounts	**(0.2)**	(2.2)	(6.6)
Other	**56.1**	50.2	29.7
	$ 399.2	$ 335.9	$ 290.6

Of which are:

Canadian $ million, as at	**2011 September 30**	2010 December 31	2010 January 1
Not past due	**$ 341.7**	$ 292.6	$ 271.1
Past due no more than 30 days	**35.6**	22.7	14.5
Past due for more than 30 days but no more than 60 days	**8.1**	10.3	2.4
Past due for more than 60 days	**14.0**	12.5	9.2
	$ 399.4	$ 338.1	$ 297.2

Current payment terms for oil sales to an agency of the Cuban government are based on West Texas Intermediate (WTI) reference prices. When the WTI price exceeds US$29.50, payment terms are 180 days from the date of invoice.

Payment terms for electricity and by-product sales to Cuban state enterprises are 60 days from the date of invoice.

28 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

Risk management policies and hedging activities

The Corporation is sensitive to changes in commodity prices, foreign-exchange and interest rates. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Although the Corporation has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification.

Credit risk

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

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

$ millions, as at	**2011 September 30**	2010 December 31	2010 January 1
Cash	**$ 25.5**	$ 20.5	$ 22.7
Trade accounts receivable, net	**215.0**	165.8	157.2
Advances and loans receivable	**533.7**	550.0	664.6
Cuban certificates of deposit	**66.0**	82.4	112.6
Total	**$ 840.2**	$ 818.7	$ 957.1

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

Liquidity risk

Liquidity risk arises from the Corporation's financial obligations and in the management of its assets, liabilities and capital structure. The Corporation manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, capital-expenditure requirements, scheduled repayments of long-term loans and borrowing obligations, credit capacity and debt and equity capital market conditions.

The Corporation's liquidity requirements are met through a variety of sources, including cash and cash equivalents, cash generated from operations, existing credit facilities, leases, and debt and equity capital markets.

At September 30, 2011, considering the Corporation's financial position and available credit facilities, the Corporation currently does not need to access public debt and equity capital markets for financing over the next twelve months. However, the Corporation may access these markets.

Based on management's assessment of its financial position and liquidity profile at September 30, 2011, the Corporation will be able to satisfy its current and long-term obligations as they come due.

In respect of the Ambatovy Joint Venture financing, Sherritt has a completion guarantee of US$840.0 million, all of which is cross-guaranteed or covered by letters of credit to be provided by its partners (note 14).

The agreements establishing certain jointly controlled entities require the unanimous consent of shareholders to pay dividends. It is not expected that this restriction will have a material impact on the ability of the Corporation to meet its obligations.

Financial obligation maturity analysis

The Corporation's significant contractual commitments, obligations, and interest and principal repayments on its financial liabilities are presented in the following table:

Canadian $ millions, as at September 30, 2011	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due more than 5 years
Trade accounts payable and accrued liabilities	$ 206.0	$ 206.0	$ -	$ -	$ -	$ -	$ -
Advances and loans payable	147.6	20.0	11.4	14.2	10.8	10.7	80.5
Income taxes payable	23.3	23.3	-	-	-	-	-
Loans and borrowings[1]	2,471.1	87.2	356.0	151.1	653.4	148.0	1,075.4
Finance leases and other equipment financing	141.9	50.2	38.8	25.4	17.2	10.3	-
Environmental rehabilitation provision	369.4	32.0	15.9	14.2	18.4	36.2	252.7
Operating leases	62.3	18.6	15.4	9.4	3.4	2.9	12.6
Total	$ 3,421.6	$ 437.3	$ 437.5	$ 214.3	$ 703.2	$ 208.1	$ 1,421.2

(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. The amounts above are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, productions 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.

Loans and borrowings is composed primarily of $767.1 million in three public issues of senior unsecured debentures having interest rates of between 7.75% and 8.25% and maturities in 2012, 2014 and 2015; and $697.4 million and $93.5 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of LIBOR plus a margin of 7.0% and 1.125%, respectively. These partner loans are to be repaid from Sherritt's share of cash distributions from the Ambatovy Joint Venture.

Market risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including interest rates, foreign-exchange rates commodity prices and stock-based compensation costs.

Foreign-exchange risk

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is also sensitive to foreign-exchange exposure when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign-exchange rates.

Based on financial instrument balances as at September 30, 2011, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $2.1 million, respectively, on net earnings. This amount excludes the foreign-exchange risk arising from the translation of the subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss), as this is limited to the net investment in these operations, which is not considered a financial instrument.

Commodity price risk

The Corporation is exposed to fluctuations in certain commodity prices. Realized prices for finished products and for input commodities are the most significant factors affecting the Corporation's revenue and earnings. Revenue, earnings and cash flows from the sale of nickel, cobalt, oil and export-destined coal are sensitive to changes in market prices over which the Corporation has little or no control.

The Corporation has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but generally does not enter into such arrangements. Sherritt reduces the business-cycle risks inherent in its commodity operations through industry diversification.

The Corporation has certain provisional pricing agreements in Metals. These provisionally priced transactions are periodically adjusted to actual as prices are confirmed as the settlement occurs within a short period of time. In periods of volatile price movements, adjustments may be material.

Interest rate risk

The Corporation is exposed to interest rate risk based on its outstanding loans and borrowings and short-term and other investments. A change in interest rates could affect future cash flows or the fair value of financial instruments.

Based on the balance of short-term and long-term loans and borrowings and cash, cash equivalent and short-term and long-term investments at September 30, 2011, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $1.7 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Stock-based compensation cost risk

The Corporation is exposed to a financial risk related to stock-based compensation costs.

Potential fluctuations in the price of Sherritt's common shares would have an impact on the stock-based compensation expense. Based on balances at September 30, 2011, a strengthening or weakening of $1.00 in the price of the Corporation's common shares would have had an unfavourable or favourable impact of approximately $2.7 million on annual net earnings, respectively.

Capital risk management

In the definition of capital capacity, the Corporation includes, as disclosed on its consolidated statements of financial position: retained earnings, capital stock, loans and borrowings including the current portion, investments including the current portion, restricted cash, cash and cash equivalents and un-drawn credit facilities.

$ millions, as at	**2011 September 30**	2010 December 31	2010 January 1
Cash and cash equivalents	**$ 120.7**	$ 263.1	$ 164.7
Restricted cash	**1.1**	1.1	1.8
Short and long-term investments	**537.6**	624.0	567.9
Loans and borrowings	**1,584.2**	1,563.6	1,377.2
Capital stock	**2,789.1**	2,787.3	2,771.9
Retained earnings	**768.0**	632.5	530.7
Un-drawn credit facilities	**458.8**	408.6	441.5

The Corporation's objectives, when managing capital, are to maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations throughout the various resource cycles with sufficient capital and capacity to manage unforeseen operational and industry developments and to ensure the corporation has the capital and capacity to allow for business growth opportunities and/or to support the growth of its existing businesses.

In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets or adjust the amount of cash and short-term investment balances.

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

The Corporation and its divisions were in compliance with all of their financial covenants as at September 30, 2011. The Corporation is not subject to any externally imposed capital restrictions.

29 SEGMENTED INFORMATION

Business segments

Canadian $ millions, for the three months ended September 30						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 122.9	$ 247.2	$ 78.5	$ 14.0	$ 3.8	$ 466.4
Cost of sales	83.3	230.5	33.4	10.3	2.5	360.0
Gross profit	39.6	16.7	45.1	3.7	1.3	106.4
Administrative expenses	2.4	2.7	1.7	-	8.4	15.2
Operating profit (loss)	37.2	14.0	43.4	3.7	(7.1)	91.2
Share of loss of associate	(1.5)	-	-	-	-	(1.5)
Earnings (loss) from operations and associate	35.7	14.0	43.4	3.7	(7.1)	89.7
Financing income	-	(4.1)	(1.6)	(0.7)	0.8	(5.6)
Financing expense	12.3	4.0	23.8	(10.6)	3.7	33.2
Net finance expense (income)	12.3	(0.1)	22.2	(11.3)	4.5	27.6
Earnings (loss) before tax	23.4	14.1	21.2	15.0	(11.6)	62.1
Income tax expense (recovery)	5.0	(0.2)	12.6	0.4	(1.5)	16.3
Net earnings (loss) from continuing operations	$ 18.4	$ 14.3	$ 8.6	$ 14.6	$ (10.1)	$ 45.8
Loss from discontinued operation	-	-	-	-	0.3	0.3
Net earnings (loss) for the period	$ 18.4	$ 14.3	$ 8.6	$ 14.6	$ (10.4)	$ 45.5
Supplementary information						
Depletion, depreciation and amortization	$ 7.2	$ 29.5	$ 15.4	$ 2.7	$ 0.5	$ 55.3
Property, plant and equipment expenditures	5.6	7.0	21.9	0.3	-	34.8
Intangible asset expenditures	-	-	1.2	0.8	-	2.0

Canadian $ millions, as at September 30						2011
Non-current assets[1]	$ 660.2	$ 1,413.3	$ 244.2	$ 168.9	$ 18.1	$ 2,504.7
Total assets	$ 2,804.1	$ 1,886.4	$ 905.2	$ 422.3	$ 349.6	$ 6,367.6

Canadian $ millions, for the three months ended September 30						2010
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 127.8	$ 217.8	$ 53.2	$ 11.0	$ 2.9	$ 412.7
Cost of sales	75.9	203.6	35.4	5.9	-	320.8
Gross profit	51.9	14.2	17.8	5.1	2.9	91.9
Administrative expenses	3.1	2.0	3.4	0.3	11.9	20.7
Operating profit (loss)	48.8	12.2	14.4	4.8	(9.0)	71.2
Share of earnings of associate	1.2	-	-	-	-	1.2
Earnings (loss) from operations and associate	50.0	12.2	14.4	4.8	(9.0)	72.4
Financing income	1.7	(4.4)	(2.5)	(0.7)	(4.3)	(10.2)
Financing expense	11.7	3.7	(1.7)	1.4	22.0	37.1
Net finance expense (income)	13.4	(0.7)	(4.2)	0.7	17.7	26.9
Earnings (loss) before tax	36.6	12.9	18.6	4.1	(26.7)	45.5
Income tax expense (recovery)	15.8	(3.2)	7.4	0.3	0.8	21.1
Net earnings (loss) from continuing operations	$ 20.8	$ 16.1	$ 11.2	$ 3.8	$ (27.5)	$ 24.4
Loss from discontinued operation	-	-	-	-	1.9	1.9
Net earnings (loss) for the period	$ 20.8	$ 16.1	$ 11.2	$ 3.8	$ (29.4)	$ 22.5
Supplementary information						
Depletion, depreciation and amortization	$ 7.6	$ 29.5	$ 16.2	$ 2.7	$ 0.7	$ 56.7
Property, plant and equipment expenditures	13.4	7.1	12.4	3.0	0.2	36.1
Intangible asset expenditures	-	-	0.2	0.5	-	0.7

Canadian $ millions, as at December 31						2010
Non-current assets[1]	$ 607.6	$ 1,427.1	$ 233.1	$ 153.6	$ 20.1	$ 2,441.5
Total assets	$ 2,401.6	$ 1,891.4	$ 782.0	$ 391.5	$ 601.7	$ 6,068.2

(1) Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

Interim condensed consolidated financial statements (unaudited)

Canadian $ millions, for the nine months ended September 30						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 412.7	$ 747.2	$ 230.5	$ 41.4	$ 9.7	$ 1,441.5
Cost of sales	261.0	678.6	91.1	31.1	12.8	1,074.6
Gross profit (loss)	151.7	68.6	139.4	10.3	(3.1)	366.9
Administrative expenses	9.1	12.5	7.2	0.5	26.5	55.8
Operating profit (loss)	142.6	56.1	132.2	9.8	(29.6)	311.1
Share of earnings of associate	0.6	-	-	-	-	0.6
Earnings (loss) from operations and associate	143.2	56.1	132.2	9.8	(29.6)	311.7
Financing income	(2.2)	(13.3)	(5.5)	(1.6)	(13.1)	(35.7)
Financing expense	43.5	12.2	21.8	(14.7)	44.1	106.9
Net finance expense (income)	41.3	(1.1)	16.3	(16.3)	31.0	71.2
Earnings (loss) before tax	101.9	57.2	115.9	26.1	(60.6)	240.5
Income tax expense (recovery)	31.1	2.3	40.6	0.8	(4.4)	70.4
Net earnings (loss) from continuing operations	$ 70.8	$ 54.9	$ 75.3	$ 25.3	$ (56.2)	$ 170.1
Loss from discontinued operation	-	-	-	-	0.9	0.9
Net earnings (loss) for the period	$ 70.8	$ 54.9	$ 75.3	$ 25.3	$ (57.1)	$ 169.2
Supplementary information						
Depletion, depreciation and amortization	$ 22.1	$ 79.1	$ 47.0	$ 7.9	$ 1.6	$ 157.7
Property, plant and equipment expenditures	19.5	14.5	45.4	1.2	0.3	80.9
Intangible asset expenditures	-	-	3.3	2.1	-	5.4

Canadian $ millions, as at September 30						2011
Non-current assets[1]	$ 660.2	$ 1,413.3	$ 244.2	$ 168.9	$ 18.1	$ 2,504.7
Total assets	$ 2,804.1	$ 1,886.4	$ 905.2	$ 422.3	$ 349.6	$ 6,367.6

Canadian $ millions, for the nine months ended September 30						2010
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 382.0	$ 585.7	$ 176.3	$ 34.7	$ 6.7	$ 1,185.4
Cost of sales	238.2	540.5	96.2	18.9	(2.6)	891.2
Gross profit	143.8	45.2	80.1	15.8	9.3	294.2
Administrative expenses	9.5	7.2	8.7	1.9	38.6	65.9
Operating profit (loss)	134.3	38.0	71.4	13.9	(29.3)	228.3
Share of loss of associate	(1.1)	-	-	-	-	(1.1)
Gain on acquisition of CVP	-	15.6	-	-	-	15.6
Earnings (loss) from operations and associate	133.2	53.6	71.4	13.9	(29.3)	242.8
Financing income	(1.6)	(13.4)	(7.8)	(2.4)	(19.8)	(45.0)
Financing expense	47.7	10.4	(2.3)	(4.0)	52.8	104.6
Net finance expense (income)	46.1	(3.0)	(10.1)	(6.4)	33.0	59.6
Earnings (loss) before tax	87.1	56.6	81.5	20.3	(62.3)	183.2
Income tax expense (recovery)	40.5	(10.0)	40.8	2.2	0.7	74.2
Net earnings (loss) from continuing operations	$ 46.6	$ 66.6	$ 40.7	$ 18.1	$ (63.0)	$ 109.0
Loss from discontinued operation	-	-	-	-	6.9	6.9
Net earnings (loss) for the period	$ 46.6	$ 66.6	$ 40.7	$ 18.1	$ (69.9)	$ 102.1
Supplementary information						
Depletion, depreciation and amortization	$ 23.0	$ 66.9	$ 50.0	$ 8.4	$ 1.5	$ 149.8
Property, plant and equipment expenditures	33.2	27.2	36.7	3.8	1.3	102.2
Intangible asset expenditures	-	-	2.8	1.5	-	4.3

Canadian $ millions, as at December 31						2010
Non-current assets[1]	$ 607.6	$ 1,427.1	$ 233.1	$ 153.6	$ 20.1	$ 2,441.5
Total assets	$ 2,401.6	$ 1,891.4	$ 782.0	$ 391.5	$ 601.7	$ 6,068.2

(1) Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

Geographic segments

The Corporation carries on business in the following geographic areas:

Canadian $ millions, as at	2011 September 30 Non-current assets[1]	2011 September 30 Total assets	2010 December 31 Non-current assets[1]	2010 December 31 Total assets
Canada	$ 1,672.5	$ 2,943.1	$ 1,665.8	$ 3,127.0
Cuba	807.9	1,333.7	756.7	1,194.3
Madagascar	14.7	1,969.9	12.7	1,566.4
Europe	8.2	24.6	5.9	38.7
Asia	1.4	1.9	0.3	0.7
Other	-	94.4	0.1	141.1
	$ 2,504.7	$ 6,367.6	$ 2,441.5	$ 6,068.2

(1) Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

Canadian $ millions	For the three months ended 2011 September 30 Total revenue	For the three months ended 2010 September 30 Total revenue	For the nine months ended 2011 September 30 Total revenue	For the nine months ended 2010 September 30 Total revenue
Canada	$ 164.5	$ 147.5	$ 511.6	$ 475.5
Cuba	88.3	60.8	257.0	197.1
Madagascar	2.6	2.1	6.8	6.2
Europe	66.8	58.8	216.2	166.4
Asia	95.2	103.1	303.2	244.7
Other	49.0	40.4	146.7	95.5
	$ 466.4	$ 412.7	$ 1,441.5	$ 1,185.4

For its geographic segments, the Corporation has allocated assets based on their physical location and revenue based on the location of the customer.

Revenue segments

Revenue includes the following significant categories:

Canadian $ millions	For the three months ended 2011 September 30	For the three months ended 2010 September 30	For the nine months ended 2011 September 30	For the nine months ended 2010 September 30
Commodity and electricity	$ 434.3	$ 385.6	$ 1,341.0	$ 1,100.2
Royalty	12.8	12.3	44.7	40.2
Other	19.3	14.8	55.8	45.0
	$ 466.4	$ 412.7	$ 1,441.5	$ 1,185.4

Significant customers

In Coal's Prairie Operations, one customer located in Canada accounted for $44.6 million and $145.2 million for the three and nine months ended September 30, 2011, respectively ($44.1 million and $135.1 million, for the three and nine months ended September 30, 2010, respectively).

Oil and Gas derived $74.6 million and $217.1 million of its revenue for the three and nine months ended September 30, 2011, respectively ($50.5 million and $165.0 million for the three and nine months ended September 30, 2010) directly and indirectly from agencies of the Government of Cuba.

30 TRANSITION TO IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the amount of cash the Corporation generates, it has resulted in significant changes to the Corporation's financial statements.

The accounting policies described in note 3 have been applied in preparing these interim condensed consolidated financial statements for the three and nine months ended September 30, 2011 as well as the comparative information presented in the consolidated financial statements for the year ended December 31, 2010, the three and nine months ended September 30, 2010 and the opening IFRS consolidated statements of financial position at January 1, 2010.

The most significant difference from Canadian GAAP is the change in the method of accounting for the Corporation's investments in the Ambatovy Joint Venture and Energas. Under Canadian GAAP, these entities are considered investments in variable interest entities as defined by Accounting Guideline 15 Consolidation of Variable Interest Entities (AcG-15) and are fully consolidated with non-controlling interest in the net assets reported separately. Under IFRS, Ambatovy Joint Venture and Energas do not meet the criteria to be fully consolidated.; Ambatovy is an investment in an associate and is accounted for using the equity method of accounting; and Energas is a jointly controlled entity and accounted for using proportionate consolidation. Given the magnitude of the adjustments resulting from de-consolidating these entities, the impact on the consolidated statements of financial position has been included in a separate column in the various reconciliations of financial statements under Canadian GAAP to IFRS.

In order for users of the financial statements to better understand all of these changes, the Corporation's consolidated Canadian GAAP balance sheet, statements of operations and statements of cash flow have been reconciled to consolidated financial statements prepared under IFRS. The following reconciliations have been provided:

(i) Reconciliation of consolidated statements of financial position as at:

- January 1, 2010;
- September 30, 2010; and
- December 31, 2010.

(ii) Reconciliation of the change in consolidated shareholders' equity as at:

- January 1, 2010;
- September 30, 2010; and
- December 31, 2010.

(iii) Reconciliation of consolidated statements of comprehensive income (loss) for:

- The three and nine months ended September 30, 2010; and
- The twelve months ended December 31, 2010.

(iv) Reconciliation of consolidated statements of cash flow for:

- The three and nine months ended September 30, 2010; and
- The twelve months ended December 31, 2010.

Transition Date Statements

January 1, 2010 Statements

Reconciliation of consolidated statements of financial position as at January 1, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 449.8	$ (276.1)	$ (9.0)	$ -	$ 164.7	Cash and cash equivalents
Restricted cash		1.8	-	-	-	1.8	Restricted cash
Short-term investments		420.8	-	-	-	420.8	Short-term investments
Current portion of long-term investments		40.5	(5.9)	-	-	34.6	Investments
Current portion of other assets		66.0	18.5	4.5	-	89.0	Advances, loans receivable and other assets
	(h)	-	-	19.9	-	19.9	Finance lease receivable
Accounts receivable, net	(f)(k)	320.7	(31.6)	1.5	-	290.6	Trade accounts receivable, net
		-	-	-	21.2	21.2	Income taxes receivable
Inventories	(k)	168.7	(12.4)	16.0	-	172.3	Inventories
Prepaid expenses		11.5	(0.9)	0.3	-	10.9	Prepaid expenses
Future income taxes		29.1	-	(7.7)	(21.4)	-	
Assets of discontinued operation		3.1	-	(3.1)	-	-	
		1,512.0	(308.4)	22.4	(0.2)	1,225.8	
							Non-current assets
	(b)(k)	-	88.4	416.2	285.5	790.1	Advances, loans receivable and other assets
	(h)	-	-	202.8	-	202.8	Finance lease receivable
Long-term receivables		21.2	-	-	(21.2)	-	
Property, plant and equipment	(a)(d)(e)(h)(i)(k)(l)(n)	7,162.9	(5,306.6)	(597.5)	10.8	1,269.6	Property, plant and equipment
Investments		125.8	(13.3)	-	-	112.5	Investments
	(k)	-	1,364.8	(371.8)	-	993.0	Investment in an associate
Other assets	(b)(i)(k)(o)	285.5	-	-	(285.5)	-	
Goodwill		307.9	-	-	-	307.9	Goodwill
Intangible assets	(e)(i)	483.4	(3.4)	333.9	(10.8)	803.1	Intangible assets
Future income taxes	(d)(f)	8.3	-	3.0	8.4	19.7	Deferred income taxes
Assets of discontinued operation		1.4	-	(1.4)	-	-	
		$ 9,908.4	$ (4,178.5)	$ 7.6	$ (13.0)	$ 5,724.5	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current Liabilities							**Current liabilities**
		-	-	-	34.4	34.4	Loans and borrowings
Accounts payable and accrued liabilities	(f)	359.9	(197.4)	8.0	(10.0)	160.5	Trade accounts payable and accrued liabilities
Income taxes payable		10.8	(1.1)	-	-	9.7	Income taxes payable
Deferred revenue		2.0	-	-	(2.0)	-	
		-	-	-	54.0	54.0	Other liabilities
Current portion of long-term debt and other long-term liabilities		77.4	-	-	(77.4)	-	
Current portion of asset-retirement obligations		24.1	-	-	-	24.1	Provisions
Future income taxes		0.8	-	-	(0.8)	-	
Liabilities of discontinued operation		9.7	-	(9.7)	-	-	
		484.7	(198.5)	(1.7)	(1.8)	282.7	
							Non-current liabilities
Long-term debt and other long-term liabilities		3,167.7	(1,616.7)	(0.1)	(208.1)	1,342.8	Loans and borrowings
	(b)	-	-	10.0	209.1	219.1	Other liabilities
Asset-retirement obligations	(d)	137.0	(24.6)	27.6	-	140.0	Provisions
Future income taxes	(b)(d)(f)(h)(l)(n)(o)	552.5	(312.7)	(8.8)	(12.2)	218.8	Deferred income taxes
Liabilities of discontinued operation		1.3	-	(1.3)	-	-	
		4,343.2	(2,152.5)	25.7	(13.0)	2,203.4	
Non-controlling interests		2,110.8	(2,110.8)	-	-	-	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,771.9	-	-	-	2,771.9	Capital stock
Retained earnings	(a)(b)(c)(d)(f)(h)(k)(l)(n)(o)	549.3	96.5	(115.1)	-	530.7	Retained earnings
Contributed surplus	(f)	218.1	-	0.4	-	218.5	Contributed surplus
Accumulated other comprehensive loss	(c)(k)	(84.9)	(11.7)	96.6	-	-	Accumulated other comprehensive loss
		3,454.4	84.8	(18.1)	-	3,521.1	
		$ 9,908.4	$ (4,178.5)	$ 7.6	$ (13.0)	$ 5,724.5	

Reconciliation of change in consolidated Shareholders' equity as at January 1, 2010

Canadian $ millions, as at	Reference		2010 January 1
Shareholders' equity under Canadian GAAP		$	3,454.4
Share-based payments	(f)		(4.2)
Income taxes			(7.5)
Property, plant and equipment	(a)		14.8
Employee benefits	(b)		(9.2)
The effects of changes in foreign exchange rate	(c)(k)		(4.6)
Borrowing costs	(l)		(32.0)
Change in accounting for Ambatovy Joint Venture and Energas	(m)		84.8
Impairment of assets	(n)		9.4
Provisions, contingent liabilities and contingent assets	(d)		(11.2)
Lease arrangements	(h)		1.6
Financial instruments	(o)		24.8
Total Shareholders' equity under IFRS		$	3,521.1

September 30, 2010 Statements

Reconciliation of consolidated statements of financial position as at September 30, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 215.9	$ (57.2)	$ -	$ -	$ 158.7	Cash and cash equivalents
Restricted cash		1.1	-	-	-	1.1	Restricted cash
Short-term investments		492.1	-	-	-	492.1	Short-term investments
Current portion of long-term investments		37.4	(5.4)	-	-	32.0	Investments
Current portion of other assets	(h)	60.8	17.3	4.5	0.2	82.8	Advances, loans receivable and other assets
	(h)	-	-	20.0	-	20.0	Finance lease receivable
Accounts receivable, net	(f)(k)	355.8	(34.3)	10.8	(2.2)	330.1	Trade accounts receivable, net
		-	-	-	36.5	36.5	Income taxes receivable
Inventories	(k)	200.1	(13.2)	13.8	-	200.7	Inventories
Prepaid expenses		19.4	(1.1)	(0.1)	-	18.2	Prepaid expenses
Future income taxes		25.1	-	(11.2)	(13.9)	-	
Assets of discontinued operation		0.4	-	-	(0.4)	-	
		1,408.1	(93.9)	37.8	20.2	1,372.2	
							Non-current assets
	(b)(k)(h)	-	98.7	603.9	206.3	908.9	Advances, loans receivable and other assets
	(h)	-	-	197.8	-	197.8	Finance lease receivable
Long-term receivables		34.3	-	-	(34.3)	-	
Property, plant and equipment	(a)(d)(e)(g)(h)(i)(k)(l)(n)	8,016.2	(6,059.9)	(601.1)	11.2	1,366.4	Property, plant and equipment
Investments		110.9	(10.0)	-	-	100.9	Investments
	(k)	-	1,520.5	(566.1)	-	954.4	Investment in an associate
Other assets	(b)(i)(k)(o)	206.5	-	-	(206.5)	-	
Goodwill		307.9	-	-	-	307.9	Goodwill
Intangible assets	(e)(g)(i)	481.8	(3.4)	334.0	(11.2)	801.2	Intangible assets
Future income taxes	(d)(f)(g)	6.5	-	4.8	(2.7)	8.6	Deferred income taxes
Assets of discontinued operation		1.5	-	-	0.4	1.9	Assets of discontinued operation
		$ 10,573.7	$ (4,548.0)	$ 11.1	$ (16.6)	$ 6,020.2	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current Liabilities							**Current liabilities**
		-	-	-	26.4	26.4	Loans and borrowings
Accounts payable and accrued liabilities	(f)	437.0	(212.1)	7.3	(38.7)	193.5	Trade accounts payable and accrued liabilities
		-	(0.9)	-	24.3	23.4	Income taxes payable
Deferred revenue		7.1	-	-	(7.1)	-	
		-	-	-	54.9	54.9	Other liabilities
Current portion of long-term debt and other long-term liabilities		71.8	-	-	(71.8)	-	
Current portion of asset-retirement obligations		28.5	-	-	-	28.5	Provisions
Future income taxes		4.0	-	-	(4.0)	-	
Liabilities of discontinued operation		16.0	-	0.4	(16.4)	-	
		564.4	(213.0)	7.7	(32.4)	326.7	
							Non-current liabilities
Long-term debt and other long-term liabilities		3,413.0	(1,747.8)	-	(213.6)	1,451.6	Loans and borrowings
	(b)	-	-	16.2	210.7	226.9	Other liabilities
	(g)	-	-	-	14.9	14.9	Intangible liability
Asset-retirement obligations	(d)(g)	177.3	(31.3)	39.0	-	185.0	Provisions
Future income taxes	(b)(d)(f)(g)(h)(l)(n)(o)	562.2	(310.2)	(2.5)	(12.6)	236.9	Deferred income taxes
Liabilities of discontinued operation		0.3	-	-	16.4	16.7	Liabilities of discontinued operation
		4,717.2	(2,302.3)	60.4	(16.6)	2,458.7	
Non-controlling interests		2,335.6	(2,335.6)	-	-	-	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,773.4	-	-	-	2,773.4	Capital stock
Retained earnings	(a)(b)(c)(d)(f)(g)(h)(i)(k)(l)(m)(n)(o)	650.5	96.5	(146.0)	-	601.0	Retained earnings
Contributed surplus	(f)	218.7	-	1.5	-	220.2	Contributed surplus
Accumulated other comprehensive loss	(c)(k)	(121.7)	(6.6)	95.2	-	(33.1)	Accumulated other comprehensive loss
		3,520.9	89.9	(49.3)	-	3,561.5	
		$ 10,573.7	$ (4,548.0)	$ 11.1	$ (16.6)	$ 6,020.2	

Reconciliation of change in consolidated Shareholders' equity as at September 30, 2010

Canadian $ millions, as at	Reference		2010 September 30
Shareholders' equity under Canadian GAAP		$	3,520.9
Share-based payments	(f)		(5.2)
Income taxes			(11.3)
Property, plant and equipment	(a)		16.3
Employee benefits	(b)		(8.4)
The effects of changes in foreign exchange rate	(c)(k)		(12.7)
Borrowing costs	(l)		(69.2)
Change in accounting for Ambatovy Joint Venture and Energas	(m)		89.9
Impairment of assets	(n)		9.0
Provisions, contingent liabilities and contingent assets	(d)		(10.2)
Business combinations	(g)		13.8
Service concession arrangements	(i)		0.6
Lease arrangements	(h)		2.4
Financial instruments	(o)		25.6
Total Shareholders' equity under IFRS		$	3,561.5

Reconciliation of consolidated statements of comprehensive loss for the three months ended September 30, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Revenue	(h)(i)	$ 440.5	$ (17.7)	$ (10.1)	$ -	$ 412.7	**Revenue**
Operating, selling, general and administrative expenses	(g)(h)(i)(k)	308.4	(8.2)	(3.7)	24.3	320.8	Cost of sales
			(9.5)	(6.4)	(24.3)	91.9	**Gross profit**
	(f)(k)		(1.1)	(0.7)	22.5	20.7	Administrative expenses
			(8.4)	(5.7)	(46.8)	71.2	**Operating profit**
			1.2	-	-	1.2	Share of earnings of an associate, net of tax
Earnings before undernoted items		132.1	(7.2)	(5.7)	(46.8)	72.4	**Earnings from operations and associate**
Depletion, amortization and accretion		41.5	-	-	(41.5)	-	
Impairment of property, plant and equipment		7.9	-	-	(7.9)	-	
Net financing income		(4.4)	3.1	(0.1)	1.4	-	
	(h)(o)		(2.1)	(2.5)	(5.6)	(10.2)	Financing income
	(k)(l)(o)		(0.2)	30.5	6.8	37.1	Financing expense
			(2.3)	28.0	1.2	26.9	**Net finance expense**
Earnings from operations before income taxes and non-controlling interests		87.1	(8.0)	(33.6)	-	45.5	**Earnings before tax**
Non-controlling interests		6.9	(6.9)	-	-	-	
Income taxes	(f)(h)(l)(g)	21.1	(1.1)	1.1	-	21.1	Income tax expense
Earnings from continuing operations		59.1	-	(34.7)	-	24.4	**Net earnings from continuing operations**
Loss from discontinued operation		1.5	-	0.4	-	1.9	Loss from discontinued operation, net of tax
Net earnings		$ 57.6	$ -	$ (35.1)	$ -	$ 22.5	**Net earnings for the period**
Other comprehensive income							
Unrealized foreign currency loss on self-sustaining foreign operations	(k)	(64.4)	(5.5)	14.8	-	(55.1)	Foreign currency translation differences on foreign operations
Comprehensive loss		$ (6.8)	$ (5.5)	$ (20.3)	$ -	$ (32.6)	**Comprehensive loss**
Earnings from continuing operations per common share							**Earnings from continuing operations per common share**
Basic		$ 0.20				$ 0.08	Basic
Diluted		$ 0.20				$ 0.08	Diluted
Net earnings per share							**Net earnings per share**
Basic		$ 0.20				$ 0.07	Basic
Diluted		$ 0.19				$ 0.07	Diluted

Reconciliation of consolidated statements of comprehensive income for the nine months ended September 30, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Revenue	(h)(i)	$ 1,263.1	$ (52.4)	$ (25.3)	$ -	$ 1,185.4	**Revenue**
Operating, selling, general and administrative expenses	(g)(h)(i)(k)	874.3	(28.0)	(13.8)	58.7	891.2	Cost of sales
			(24.4)	(11.5)	(58.7)	294.2	**Gross profit**
	(f)(g)(k)		(1.5)	1.5	65.9	65.9	Administrative expenses
			(22.9)	(13.0)	(124.6)	228.3	**Operating profit**
			(1.1)	-	-	(1.1)	Share of loss of an associate, net of tax
			-	15.6	-	15.6	Gain on acquisition of CVP
Earnings before undernoted items		388.8	(24.0)	2.6	(124.6)	242.8	**Earnings from operations and associate**
Depletion, amortization and accretion		123.7	-	-	(123.7)	-	
Impairment of property, plant and equipment		7.9	-	-	(7.9)	-	
Net financing expense		25.1	0.3	(0.1)	(25.3)	-	
	(h)(o)		1.9	(14.2)	(32.7)	(45.0)	Financing income
	(g)(k)(l)(o)		(6.1)	45.7	65.0	104.6	Financing expense
			(4.2)	31.5	32.3	59.6	**Net finance expense**
Earnings from operations before income taxes and non-controlling interests		232.1	(20.1)	(28.8)	-	183.2	**Earnings before tax**
Non-controlling interests		14.4	(14.4)	-	-	-	
Income taxes	(f)(h)(l)(g)	78.2	(5.7)	1.7	-	74.2	Income tax expense
Earnings from continuing operations		139.5	-	(30.5)	-	109.0	**Net earnings from continuing operations**
Loss from discontinued operation		6.5	-	0.4	-	6.9	Loss from discontinued operation, net of tax
Net earnings		$ 133.0	$ -	$ (30.9)	$ -	$ 102.1	**Net earnings for the period**
Other comprehensive income							
Unrealized foreign currency loss on self-sustaining foreign operations	(k)	(36.8)	5.0	(1.3)	-	(33.1)	Foreign currency translation differences on foreign operations
Comprehensive income		$ 96.2	$ 5.0	$ (32.2)	$ -	$ 69.0	**Comprehensive income**
Earnings from continuing operations per common share							**Earnings from continuing operations per common share**
Basic		$ 0.47				$ 0.37	Basic
Diluted		$ 0.47				$ 0.37	Diluted
Net earnings per share							**Net earnings per share**
Basic		$ 0.45				$ 0.35	Basic
Diluted		$ 0.45				$ 0.35	Diluted

Reconciliation of consolidated statements of cash flow for the three months ended September 30, 2010

(Canadian $ millions)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Operating activities						**Operating activities**
Earnings from continuing operations	$ 59.1	$ -	$ (36.6)	$ -	$ 22.5	Net Earnings
Add (deduct)						Add (deduct)
Non-controlling interests	6.9	(6.9)	-	-	-	
Depletion, amortization and accretion	66.9	(23.5)	15.9	(2.6)	56.7	Depletion, depreciation and amortization
	-	-	(1.4)	2.6	1.2	Accretion expense on environmental rehabilitation provisions
Stock-based compensation recovery	5.0	-	1.3	-	6.3	Stock-based compensation expense
	-	(1.2)	-	-	(1.2)	Share of earnings of an associate, net of tax
	-	-	2.4	5.9	8.3	Impairment losses
Impairment of property, plant and equipment	7.9	-	-	(7.9)	-	
Fair value adjustment	(0.2)	-	1.8	-	1.6	Net loss on financial instruments
	-	(5.9)	23.9	-	18.0	Current income taxes
Future income taxes	2.2	(4.4)	5.3	-	3.1	Deferred income taxes
Unrealized foreign-exchange gain	(16.5)	1.1	15.3	-	(0.1)	Unrealized foreign-exchange gain
Liabilities settled for asset-retirement obligations	(3.5)	-	0.7	-	(2.8)	Liabilities settled for environmental rehabilitation
	-	-	(0.6)	-	(0.6)	Service concession arrangement
	-	-	3.0	-	3.0	Cross-guarantee fee amortization
	-	(2.1)	(2.1)	(7.6)	(11.8)	Interest income
	-	0.9	7.6	22.0	30.5	Interest expense
Other items	2.5	-	(1.5)	1.6	2.6	Other items
	130.3	(42.0)	35.0	14.0	137.3	
Net change in non-cash working capital	(26.9)	48.5	(53.6)	(0.4)	(32.4)	Net change in non-cash working capital
	103.4	6.5	(18.6)	13.6	104.9	
	-	-	-	10.2	10.2	Interest received
	-	-	-	(2.6)	(2.6)	Interest paid
	-	-	-	(21.2)	(21.2)	Income tax paid
Cash provided by operating activities	103.4	6.5	(18.6)	-	91.3	**Cash provided by operating activities**
Cash used for discontinued operation	(1.5)	-	1.5	-	-	
Cash provided by operating activities	101.9	6.5	(17.1)	-	91.3	**Cash provided by operating activities**
Investing activities						**Investing activities**
Capital expenditures	(247.5)	201.7	12.8	(3.1)	(36.1)	Property, plant and equipment expenditures
	-		(0.7)	-	(0.7)	Intangible asset expenditures
Purchase of short-term investments	(43.1)	-	-	-	(43.1)	Short-term investments
Advances, loans receivable and other assets	16.8	4.1	0.1	(25.2)	(4.2)	Increase in advances, loans receivable and other assets
	-	-	-	17.1	17.1	Repayments of advances, loans receivable and other assets
	-	(3.6)	2.5	8.1	7.0	Investments
	-	(74.8)	-	-	(74.8)	Loans to an associate
Net proceeds from sale of property, plant, and equipment	-	0.1	-	-	0.1	Net proceeds from sale of property, plant, and equipment
Acquisition of CVP, net of cash acquired	(0.1)	-	0.1	-	-	Acquisition of CVP, net of cash acquired
Net change in non-cash capital expenditures	(41.8)	46.5	(7.8)	3.1	-	
Cash used for continuing operations	(315.7)	174.0	7.0	-	(134.7)	**Cash used for investing activities**
Cash used for discontinued operation	-	-	-	-	-	
Cash used for investing activities	(315.7)	174.0	7.0	-	(134.7)	**Cash used for investing activities**
Financing activities						**Financing activities**
Short-term debt borrowings	-	-	14.4	-	14.4	Increase in short-term loans
Long-term debt repayments	(16.0)	-	-	-	(16.0)	Repayment of loans and borrowings and other liabilities
Long-term debt borrowings	82.2	(61.2)	(0.8)	-	20.2	Increase in loans and borrowings and other liabilities
	-	-	(3.7)	-	(3.7)	Increase in finance lease receivable
	-	-	5.0	-	5.0	Repayment of finance lease receivable
Funding from Ambatovy Joint Venture partners	112.1	(112.1)	-	-	-	
Issuance of common shares	1.1	-	-	-	1.1	Issuance of common shares
Dividends paid to non-controlling interests	(12.6)	12.6	-	-	-	
Dividends paid on common shares	(10.6)	-	-	-	(10.6)	Dividends paid on common shares
Cash provided by continuing operations	156.2	(160.7)	14.9	-	10.4	**Cash provided by financing activities**
Cash provided by discontinued operation	2.3		(2.3)		-	
Cash provided by financing activities	158.5	(160.7)	12.6	-	10.4	**Cash provided by financing activities**
Effect of exchange rate changes on cash and cash equivalents	1.1	1.1	9.0	-	11.2	**Effect of exchange rate changes on cash and cash equivalents**
Decrease in cash and cash equivalents	(54.2)	20.9	11.5	-	(21.8)	**Decrease in cash and cash equivalents**
Cash and cash equivalents at beginning of period	270.1	(78.1)	(11.5)	-	180.5	**Cash and cash equivalents at beginning of period**
Cash and cash equivalents at end of period	$ 215.9	$ (57.2)	$ -	$ -	$ 158.7	**Cash and cash equivalents at end of period**
Cash and cash equivalents consist of:						**Cash and cash equivalents consist of:**
Cash on hand and balances with banks	$ 150.5	$ (57.2)	$ -	$ -	$ 93.3	Cash on hand and balances with banks
Cash equivalents	65.4	-	-	-	65.4	Cash equivalents

Reconciliation of consolidated statements of cash flow for the nine months ended September 30, 2010

(Canadian $ millions)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Operating activities						**Operating activities**
Earnings from continuing operations	$ 139.5	$ -	$ (37.4)	$ -	$ 102.1	Net Earnings
Add (deduct)						Add (deduct)
Non-controlling interests	14.4	(14.4)	-	-	-	
Depletion, amortization and accretion	190.4	(14.0)	(19.7)	(6.9)	149.8	Depletion, depreciation and amortization
	-	-	(3.4)	6.9	3.5	Accretion expense on environmental rehabilitation provisions
Stock-based compensation expense	6.6	-	2.2	-	8.8	Stock-based compensation expense
	-	1.1	-	-	1.1	Share of loss of an associate, net of tax
	-	-	(15.6)	-	(15.6)	Gain on CVP acquisition
	-	-	1.4	9.3	10.7	Impairment losses
Impairment of property, plant and equipment	7.9	-	-	(7.9)	-	
Fair value adjustment	(7.5)	-	(1.5)	-	(9.0)	Net gain on financial instruments
	-	(3.4)	57.5	-	54.1	Current income taxes
Future income taxes	20.8	(2.3)	1.6	-	20.1	Deferred income taxes
Unrealized foreign-exchange gain	(10.8)	0.2	13.3	-	2.7	Unrealized foreign-exchange loss
Liabilities settled for asset-retirement obligations	(9.7)	-	1.6	-	(8.1)	Liabilities settled for environmental rehabilitation
	-	-	(3.5)	-	(3.5)	Service concession arrangement
	-	-	9.0	-	9.0	Cross-guarantee fee amortization
	-	1.9	(14.7)	(23.2)	(36.0)	Interest income
	-	(5.9)	29.0	59.5	82.6	Interest expense
Other items	2.4	-	8.6	(1.4)	9.6	Other items
	354.0	(36.8)	28.4	36.3	381.9	
Net change in non-cash working capital	(19.3)	15.6	(66.4)	32.7	(37.4)	Net change in non-cash working capital
	334.7	(21.2)	(38.0)	69.0	344.5	
	-	-	-	29.3	29.3	Interest received
	-	-	-	(40.2)	(40.2)	Interest paid
	-	-	-	(58.1)	(58.1)	Income tax paid
Cash provided by operating activities	334.7	(21.2)	(38.0)	-	275.5	**Cash provided by operating activities**
Cash used for discontinued operation	(3.3)	-	3.3	-	-	
Cash provided by operating activities	331.4	(21.2)	(34.7)	-	275.5	**Cash provided by operating activities**
Investing activities						**Investing activities**
Capital expenditures	(962.3)	823.4	45.8	(9.1)	(102.2)	Property, plant and equipment expenditures
	-	-	(4.3)	-	(4.3)	Intangible asset expenditures
Purchase of short-term investments	(71.3)	-	-	-	(71.3)	Short-term investments
Advances, loans receivable and other assets	51.1	12.1	(2.2)	(71.9)	(10.9)	Increase in advances, loans receivable and other assets
	-	-	-	47.2	47.2	Repayments of advances, loans receivable and other assets
	-	(3.6)	-	24.7	21.1	Investments
	-	(170.7)	-	-	(170.7)	Loans to an associate
Restricted cash	0.7	-	-	-	0.7	Restricted cash
Net proceeds from sale of property, plant, and equipment	0.7	(0.3)	-	-	0.4	Net proceeds from sale of property, plant, and equipment
Acquisition of CVP, net of cash acquired	(32.2)	-	0.4	-	(31.8)	Acquisition of CVP, net of cash acquired
Net change in non-cash capital expenditures	28.2	(25.7)	(11.6)	9.1	-	
Cash used for continuing operations	(985.1)	635.2	28.1	-	(321.8)	**Cash used for investing activities**
Cash used for discontinued operation	(0.1)	-	0.1	-	-	
Cash used for investing activities	(985.2)	635.2	28.2	-	(321.8)	**Cash used for investing activities**
Financing activities						**Financing activities**
Acquisition of loan from former partner	(10.1)	-	-	-	(10.1)	Acquisition of loan from former partner
Short-term debt borrowings	5.0	-	14.4	-	19.4	Increase in short-term loans
Long-term debt repayments	(42.6)	-	-	-	(42.6)	Repayment of loans and borrowings and other liabilities
Long-term debt borrowings	248.6	(153.6)	(1.5)	-	93.5	Increase in loans and borrowings and other liabilities
	-	-	(7.4)	-	(7.4)	Increase in finance lease receivable
	-	-	14.8	-	14.8	Repayment of finance lease receivable
Funding from Ambatovy Joint Venture partners	255.2	(255.2)	-	-	-	
Issuance of common shares	1.1	-	-	-	1.1	Issuance of common shares
Treasury stock - restricted stock plan	(0.8)	-	-	-	(0.8)	Treasury stock - restricted stock plan
Dividends paid to non-controlling interests	(12.6)	12.6	-	-	-	
Dividends paid on common shares	(31.8)	-	-	-	(31.8)	Dividends paid on common shares
Cash provided by continuing operations	412.0	(396.2)	20.3	-	36.1	**Cash provided by financing activities**
Cash provided by discontinued operation	4.8	-	(4.8)	-	-	
Cash provided by financing activities	416.8	(396.2)	15.5	-	36.1	**Cash provided by financing activities**
Effect of exchange rate changes on cash and cash equivalents	3.1	1.1	-	-	4.2	**Effect of exchange rate changes on cash and cash equivalents**
Decrease in cash and cash equivalents	(233.9)	218.9	9.0	-	(6.0)	**Decrease in cash and cash equivalents**
Cash and cash equivalents at beginning of period	449.8	(276.1)	(9.0)	-	164.7	**Cash and cash equivalents at beginning of period**
Cash and cash equivalents at end of period	$ 215.9	$ (57.2)	$ -	$ -	$ 158.7	**Cash and cash equivalents at end of period**
Cash and cash equivalents consist of:						**Cash and cash equivalents consist of:**
Cash on hand and balances with banks	$ 150.5	$ (57.2)	$ -	$ -	$ 93.3	Cash on hand and balances with banks
Cash equivalents	65.4	-	-	-	65.4	Cash equivalents

December 31, 2010 Statements

Reconciliation of consolidated statements of financial position as at December 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 330.8	$ (67.7)	$ -	$ -	$ 263.1	Cash and cash equivalents
Restricted cash		1.1	-	-	-	1.1	Restricted cash
Short-term investments		496.7	-	-	-	496.7	Short-term investments
Current portion of long-term investments		36.0	(5.2)	-	-	30.8	Investments
Current portion of other assets		63.1	16.1	4.5	0.1	83.8	Advances, loans receivable and other assets
	(h)	-	-	19.9	-	19.9	Finance lease receivable
Accounts receivable, net	(f)(k)	361.5	(25.7)	1.8	(1.7)	335.9	Trade accounts receivable, net
		-	-	-	25.6	25.6	Income taxes receivable
Inventories	(k)	195.0	(18.9)	13.7	0.8	190.6	Inventories
Prepaid expenses	(k)	11.1	(0.7)	(0.1)	-	10.3	Prepaid expenses
Future income taxes		21.4	-	(8.8)	(12.6)	-	
Assets of discontinued operation		0.2	-	-	(0.2)	-	
		1,516.9	(102.1)	31.0	12.0	1,457.8	
							Non-current assets
	(b)(k)	-	97.5	653.0	190.1	940.6	Advances, loans receivable and other assets
	(h)	-	-	196.7	-	196.7	Finance lease receivable
Long-term receivables		23.9	-	-	(23.9)	-	
Property, plant and equipment	(a)(d)(e)(g)(h)(i)(k)(l)(n)	8,099.2	(6,150.7)	(618.8)	11.0	1,340.7	Property, plant and equipment
Investments		105.3	(8.8)	-	-	96.5	Investments
	(k)	-	1,539.9	(607.9)	-	932.0	Investment in an associate
Other assets	(b)(i)(k)(o)	190.2	-	-	(190.2)	-	
Goodwill		307.9	-	-	-	307.9	Goodwill
Intangibles assets	(e)(g)(i)	476.6	(3.5)	330.6	(10.8)	792.9	Intangible assets
Future income taxes	(d)(f)(g)	-	-	4.4	(3.0)	1.4	Deferred income taxes
Assets of discontinued operation		1.5	-	-	0.2	1.7	Assets of discontinued operation
		$ 10,721.5	$ (4,627.7)	$ (11.0)	$ (14.6)	$ 6,068.2	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current Liabilities							**Current liabilities**
Short-term debt		-	-	-	33.1	33.1	Loans and borrowings
Accounts payable and accrued liabilities	(f)	384.3	(207.7)	8.6	(15.8)	169.4	Trade accounts payable and accrued liabilities
Income taxes payable		63.5	(37.5)	-	-	26.0	Income taxes payable
Deferred revenue		23.5	-	-	(23.5)	-	
		-	-	0.3	90.9	91.2	Other liabilities
Current portion of long-term debt and other long-term liabilities		86.3	-	0.1	(86.4)	-	
Current portion of asset-retirement obligations		25.5	-	-	-	25.5	Provisions
Liabilities of discontinued operation		19.5	-	-	(19.5)	-	
		602.6	(245.2)	9.0	(21.2)	345.2	
							Non-current liabilities
Long-term debt and other long-term liabilities		3,500.7	(1,767.0)	-	(203.2)	1,530.5	Loans and borrowings
	(b)(g)	-	-	16.5	192.2	208.7	Other liabilities
		-	-	-	13.7	13.7	Intangible liability
Asset-retirement obligations	(d)(g)	180.8	(32.6)	34.6	-	182.8	Provisions
Future income taxes	(b)(d)(f)(g)(h)(l)(n)(o)	554.8	(300.3)	(4.4)	(15.6)	234.5	Deferred income taxes
Liabilities of discontinued operation		4.7	-	0.3	19.5	24.5	Liabilities of discontinued operation
		4,843.6	(2,345.1)	56.0	(14.6)	2,539.9	
Non-controlling interest		2,367.7	(2,367.7)	-	-	-	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,787.3	-	-	-	2,787.3	Capital stock
Retained earnings	(a)(b)(c)(d)(f)(g)(h) (i)(k)(l)(m)(n)(o)	720.3	96.5	(184.3)	-	632.5	Retained earnings
Contributed surplus	(f)	205.0	-	1.6	-	206.6	Contributed surplus
Accumulated other comprehensive income (loss)	(c)(k)	(202.4)	(11.4)	115.7	-	(98.1)	Accumulated other comprehensive income loss
		3,510.2	85.1	(67.0)	-	3,528.3	
		$ 10,721.5	$ (4,627.7)	$ (11.0)	$ (14.6)	$ 6,068.2	

Reconciliation of change in consolidated Shareholders' equity as at December 31, 2010

Canadian $ millions, as at	Reference		2010 December 31
Shareholders' equity under Canadian GAAP		$	3,510.2
Share-based payments	(f)		(6.1)
Income taxes			(8.8)
Property, plant and equipment	(a)		14.4
Employee benefits	(b)		(8.2)
The effects of changes in foreign exchange rate	(c)(k)		(15.3)
Borrowing costs	(l)		(82.5)
Change in accounting for Ambatovy Joint Venture and Energas	(m)		85.1
Impairment of assets	(n)		10.1
Provisions, contingent liabilities and contingent assets	(d)		(11.8)
Business combinations	(g)		13.2
Service concession arrangements	(i)		0.8
Lease arrangements	(h)		2.6
Financial instruments	(o)		24.6
Total Shareholders' equity under IFRS		$	3,528.3

Reconciliation of consolidated statements of comprehensive income (loss) for the year ended December 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Revenue	(h)(i)	$ 1,771.1	$ (68.7)	$ (33.8)	$ 2.0	$ 1,670.6	**Revenue**
Operating, selling, general and administrative expenses	(g)(h)(i)(k)	1,234.4	(45.9)	(16.4)	78.1	1,250.2	Cost of sales
			(22.8)	(17.4)	(76.1)	420.4	**Gross profit**
	(f)(g)(k)		(2.1)	4.9	84.9	87.7	Administrative expenses
			(20.7)	(22.3)	(161.0)	332.7	**Operating profit**
			(5.6)	-	-	(5.6)	Share of (loss) of an associate, net of tax
			-	15.6	-	15.6	Gain on acquisition of CVP
Earnings before undernoted items		536.7	(26.3)	(6.7)	(161.0)	342.7	**Earnings from operations and associate**
Depletion, amortization and accretion		162.6	-	-	(162.6)	-	
Impairment of property, plant and equipment		7.9	-	-	(7.9)	-	
Net financing expense		15.8	(1.0)	-	(14.8)	-	
	(h)(o)		3.9	(18.5)	(45.5)	(60.1)	Financing income
	(g)(k)(l)(o)		(10.9)	82.7	69.8	141.6	Financing expense
			(7.0)	64.2	24.3	81.5	**Net finance expense**
Earnings from operations before income taxes and non-controlling interests		350.4	(18.3)	(70.9)	-	261.2	**Earnings before tax**
Non-controlling interests		11.4	(11.4)	-	-	-	
Income taxes	(f)(g)(h)(l)(o)	110.6	(6.9)	(2.0)	-	101.7	Income tax expense
Earnings from continuing operations		228.4	-	(68.9)	-	159.5	**Earnings from continuing operations**
Loss from discontinued operation		14.4	-	0.3	-	14.7	Loss from discontinued operation, net of tax
Net earnings		$ 214.0	$ -	$ (69.2)	$ -	$ 144.8	**Net earnings for the period**
Other comprehensive loss							
Unrealized foreign currency loss on self-sustaining foreign operations	(k)	(117.5)	0.3	19.1	-	(98.1)	Foreign currency translation differences on foreign operations
Comprehensive income		$ 96.5	$ 0.3	$ (50.1)	$ -	$ 46.7	**Comprehensive income**
Earnings from continuing operations per common share							**Earnings from continuing operations per common share**
Basic		$ 0.78				$ 0.54	Basic
Diluted		$ 0.77				$ 0.54	Diluted
Net earnings per share							**Net earnings per share**
Basic		$ 0.73				$ 0.49	Basic
Diluted		$ 0.72				$ 0.49	Diluted

Reconciliation of consolidated statements of cash flow for the year ended December 31, 2010

(Canadian $ millions) Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Operating activities						**Operating activities**
Earnings from continuing operations	$ 228.4	$ -	$ (83.6)	$ -	144.8	Net Earnings
Add (deduct)						Add (deduct)
Non-controlling interests	11.4	(11.4)	-	-		
Depletion, amortization and accretion	257.9	(18.6)	(25.4)	(9.6)	204.3	Depletion, depreciation and amortization
	-	-	(4.8)	9.6	4.8	Accretion expense on environmental rehabilitation provisions
Stock-based compensation expense	8.3	-	3.8	-	12.1	Stock-based compensation expense
Impairment of property, plant and equipment	7.9	-	-	(7.9)	-	
	-	5.6	-	-	5.6	Share of loss of an associate, net of tax
	-	-	(15.6)	-	(15.6)	Gain on CVP acquisition
	-	-	1.5	8.6	10.1	Impairment losses
Fair value adjustment of MAV notes	(10.5)	-	(1.6)	-	(12.1)	Net gain on financial instruments
	-	-	75.0	-	75.0	Current income taxes
Future income taxes	31.3	(2.6)	(2.0)	-	26.7	Deferred income taxes
Unrealized foreign-exchange gain, net	(27.8)	(1.9)	34.8	-	5.1	Unrealized foreign-exchange loss
Liabilities settled for asset-retirement obligations	(16.3)	-	2.9	-	(13.4)	Liabilities settled for environmental rehabilitation
	-	-	(5.1)	-	(5.1)	Service concession arrangement
	-	-	11.8	-	11.8	Cross-guarantee fee amortization
	-	-	(17.2)	(30.8)	(48.0)	Interest income
	-	-	32.7	78.8	111.5	Interest expense
Other items	4.6	(7.2)	23.2	(3.8)	16.8	Other items
	495.2	(36.1)	30.4	44.9	534.4	
Net change in non-cash working capital	17.5	16.4	(109.9)	50.0	(26.0)	Net change in non-cash working capital
	512.7	(19.7)	(79.5)	94.9	508.4	
	-	-	-	39.2	39.2	Interest received
	-	-	-	(75.8)	(75.8)	Interest paid
	-	-	-	(58.3)	(58.3)	Income tax paid
Cash provided by continuing operations	512.7	(19.7)	(79.5)	-	413.5	**Cash provided by operating activities**
Cash used for discontinued operation	(3.7)	-	3.7	-	-	
Cash provided by operating activities	509.0	(19.7)	(75.8)	-	413.5	**Cash provided by operating activities**
Investing activities						**Investing activities**
Capital expenditures	(1,305.8)	1,116.1	60.8	(12.1)	(141.0)	Property, plant and equipment expenditures
	-	-	(5.0)	-	(5.0)	Intangible asset expenditures
Purchase of short-term investments	(75.9)	-	-	-	(75.9)	Short-term investments
Advances, loans receivable and other assets	54.9	12.6	8.5	(90.9)	(14.9)	Increase in advances, loans receivable and other assets
	-	-	-	58.3	58.3	Repayments of advances, loans receivable and other assets
	-	(4.6)	-	32.6	28.0	Investments
	-	(224.7)	-	-	(224.7)	Loans to an associate
	-	(22.9)	-	-	(22.9)	Investment in an associate
Restricted cash	0.7	-	-	-	0.7	Restricted cash
Net proceeds from sale of property, plant, and equipment	1.7	(0.3)	-	-	1.4	Net proceeds from sale of property, plant, and equipment
Acquisition of CVP, net of cash acquired	(32.2)	-	0.4	-	(31.8)	Acquisition of CVP, net of cash acquired
Net change in non-cash capital expenditures	55.3	(65.2)	(2.2)	12.1	-	
Cash used for continuing operations	(1,301.3)	811.0	62.5	-	(427.8)	**Cash used for investing activities**
Cash used for discontinued operation	(0.1)	-	0.1	-	-	
Cash used for investing activities	(1,301.4)	811.0	62.6	-	(427.8)	**Cash used for investing activities**
Financing activities						**Financing activities**
Acquisition of loan from former partner	(10.1)	-	-	-	(10.1)	Acquisition of loan from former partner
Short-term debt borrowings	5.0	-	14.4	-	19.4	Increase in short-term loans
Long-term debt repayments	(64.0)	-	-	-	(64.0)	Repayment of loans and borrowings and other liabilities
Long-term debt borrowings	425.7	(233.1)	-	-	192.6	Increase in loans and borrowings and other liabilities
	-	-	(6.8)	-	(6.8)	Increase in finance lease receivable
	-	-	20.0	-	20.0	Repayment of finance lease receivable
Funding from Ambatovy Joint Venture partners	370.2	(370.2)	-	-	-	
Issuance of common shares	1.1	-	-	-	1.1	Issuance of common shares
Treasury stock - restricted stock plan	(0.8)	-	-	-	(0.8)	Treasury stock - restricted stock plan
Dividends paid to non-controlling interests	(16.9)	16.9	-	-	-	
Dividends paid on common shares	(42.4)	-	-	-	(42.4)	Dividends paid on common shares
Cash provided by continuing operations	667.8	(586.4)	27.6	-	109.0	**Cash provided by financing activities**
Cash provided by discontinued operation	5.4	-	(5.4)	-	-	
Cash provided by financing activities	673.2	(586.4)	22.2	-	109.0	**Cash provided by financing activities**
Effect of exchange rate changes on cash and cash equivalents	0.2	3.5	-	-	3.7	**Effect of exchange rate changes on cash and cash equivalents**
Decrease in cash and cash equivalents	(119.0)	208.4	9.0	-	98.4	**Increase in cash and cash equivalents**
Cash and cash equivalents at beginning of year	449.8	(276.1)	(9.0)	-	164.7	**Cash and cash equivalents at beginning of year**
Cash and cash equivalents at end of year	$ 330.8	$ (67.7)	$ -	$ -	$ 263.1	**Cash and cash equivalents at end of year**
Cash and cash equivalents consist of:						**Cash and cash equivalents consist of:**
Cash on hand and balances with banks	$ 163.6	$ (67.7)	$ -	$ -	$ 95.9	Cash on hand and balances with banks
Cash equivalents	167.2	-	-	-	167.2	Cash equivalents

Impact of applying IFRS 1 – First-time Adoption of IFRS

IFRS 1, "First-time Adoption of International Financial Reporting Standards, provides guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at January 1, 2010 with adjustments to assets and liabilities taken to retained earnings unless certain mandatory exceptions and optional exemptions are applied.

Mandatory exceptions

The mandatory exceptions applicable to the Corporation include the following:

(i) Estimates

In accordance with IFRS 1, hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies between Canadian GAAP and IFRS.

(ii) Asset and liabilities of subsidiaries, associates and joint ventures

If a parent adopts IFRS after a subsidiary, associate or joint venture, the exemptions otherwise available to it to revalue assets and liabilities are not permitted. The Ambatovy Joint Venture has reported under IFRS since its inception which was previous to the Corporation acquiring an interest in this investment in an associate. This mandatory exception did not have an impact to the Corporation as there were no accounting policy differences that were identified between the Ambatovy Joint Venture and the Corporation.

Optional exemptions

In addition to the mandatory exceptions, the Corporation has applied some exemptions available to it under IFRS at the Transition Date to its January 1, 2010 consolidated statements of financial position. Note that only material adjustments are discussed qualitatively below and that a reader may not be able to directly tie numbers with a specific letter reference to the various reconciliations of the financial statements on the preceding pages. Also note that the impact at January 1, 2010, is the same for the period September 30, 2010 , and December 31, 2010 for the exemptions described below:

IFRS 2 - Share-based Payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, "Share-based Payment, to equity and liability instruments that were granted on or before November 7, 2002 , or equity and liability instruments that were granted subsequent to November 7, 2002 and vested or were settled before the Transition Date. The Corporation has elected not to apply IFRS 2 for awards that vested or were settled prior to January 1, 2010.

The transition rules in IFRS 1 and IFRS 2 applied by the Corporation resulted in the following:

- Share-based payments granted prior to November 7, 2002 are exempt from the application of IFRS 2 as a result of applying the IFRS 1 exemption;
- Share-based payments granted subsequent to November 7, 2002 are impacted if they have not vested or remain unsettled as at January 1, 2010; and

At January 1, 2010, and on a prospective basis, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 3.

IFRS 3 - Business Combinations

IFRS 1 provides an exemption not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the Transition Date. The Corporation has elected not to restate any business combinations that occurred prior to its Transition Date. Additionally, goodwill arising on business combinations occurring before the Transition Date has not been adjusted from the carrying amount previously determined under Canadian GAAP as a result of applying this exemption.

IFRS 6 - Exploration for and Evaluation of Mineral Resources

IFRS 1 provides an exemption from retrospectively applying the full cost method of accounting for Oil and Gas assets in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources.

The Corporation has applied this exemption that permits the following capitalization measurement basis to be retained for E&E costs incurred prior to the Transition Date:

- Capitalized amounts for E&E assets determined under Canadian GAAP; and

- Capitalized development and production assets determined for the cost centre under Canadian GAAP and the allocation of this amount to the respective assets based on reserve volumes.

IFRIC 4 - Determining Whether an Arrangement Contains a Lease

IFRS 1 permits first time adopters to determine whether an arrangement contains a lease on the basis of facts and circumstances existing at the Transition Date, rather than the date when the arrangement was entered into or amended. The Corporation has elected to apply this exemption and has assessed its agreements based on the facts and circumstances existing at the Transition Date.

An additional exemption is provided to a first time adopter that, under its previous GAAP, has already made an assessment as to whether an arrangement contains a lease, provided their previous conclusion is consistent with the criteria within IAS 17, and IFRS Interpretations Committee Interpretation 4 (IFRIC 4). Conclusions made under Emerging Issues Abstract 150, "Determining Whether an Arrangement Contains a Lease", (EIC 150) are eligible for this exemption, however EIC 150 did not apply to arrangements entered into or modified before 2005. The Corporation assessed all arrangements that were previously "grandfathered" by EIC 150 under IFRIC 4.

IFRIC 12 - Service Concession Arrangements

IFRS 1 permits first time adopters to apply the transitional provisions in IFRIC 12. The Corporation has elected to apply this exemption and has used the previous carrying amounts of plant and equipment that were subject to IFRIC 12, as the carrying amount of the intangible asset subject to the service concession arrangement at the Transition Date.

IFRIC 18 – Transfers of Assets from Customers

An entity may receive equipment or other assets from its customers to be used to provide goods or services to these customers. Coal has been provided with certain mining equipment from customers as part of the coal supply agreements at various mines. The mining equipment is then used to deliver coal to these customers. IFRS 1 provides an exemption not to apply IFRIC 18 to transfers of assets that occurred before the Transition Date. The Corporation has applied this exemption to all transfers of assets that occurred before the Transition Date.

IAS 16 - Property, Plant and Equipment (a)

At the Transition Date, an entity may elect to measure an item of property, plant and equipment, including E&E costs, at its fair value and use that fair value as its deemed cost at that date. It may also elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as the item's deemed cost if it is comparable to fair value or reflects the cost or depreciated cost under IFRS. This exemption is available on an item-by-item basis and need not be applied to an entire class of assets. The Corporation has applied this exemption to certain equipment that was valued by an independent valuator.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Increase in property, plant and equipment	$	12.3
Increase to retained earnings	$	(12.3)

IAS 19 - Employee Benefits (b)

IFRS 1 provides the option under IAS 19, Employee Benefits, to retrospectively measure net defined benefit plans assets or liabilities as determined under IAS 19 or to recognize cumulative actuarial gains and losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Corporation has elected to recognize all cumulative actuarial losses that existed at the Transition Date in opening retained earnings for all of its employee benefit plans.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Decrease in advances, loans receivable and other assets	$	(2.4)
Increase in other liabilities (non-current)		(10.0)
Decrease in deferred income tax liability (non-current)		3.2
Decrease to retained earnings	$	9.2

IAS 21 - The Effects of Changes in Foreign Exchange Rates (c)

IFRS 1 provides an exemption to not apply the guidance of IAS 21, The Effects of Changes in Foreign Exchange Rates, retrospectively for cumulative translation differences relating to foreign operations that existed at the Transition Date. Retrospective application of IAS 21 would require the Corporation to determine cumulative currency translation differences from the date a subsidiary or other investee was formed or acquired. The Corporation has elected to apply the exemption under IFRS 1 and reset all cumulative translation gains and losses to zero at its Transition Date. This election is only permitted upon transition to IFRS. For the entities already reporting at the entity level under IFRS, this election is not available, except for any cumulative translation differences that would be created as a result of consolidation at the corporate level.

The accumulated other comprehensive loss was $84.9 million under Canadian GAAP at January 1, 2010. The net adjustment made under the IFRS 1 exemption at January 1, 2010, totalled $96.6 million.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Increase in accumulated other comprehensive income	$	(96.6)
Decrease to retained earnings	$	96.6

The above adjustment to accumulated other comprehensive loss includes the following:

- The change in the method of accounting for the Corporation's investment in the Ambatovy Joint Venture. See IAS 21 – The Effect of Changes in Foreign Exchange Rates (k), and IAS 27, IAS 28 and IAS 31 – Accounting for Investments in Joint Ventures (m);
- The change in the method of accounting for the Corporation's investment in Energas on adoption of IFRS, and a change in the functional currency of Energas. See IAS 21 – The Effect of Changes in Foreign Exchange Rates (k);
- Any remaining cumulative translation difference balance was reset to zero through the application of the IFRS 1 exemption.

IAS 23 - Borrowing Costs

IFRS 1 provides that where an application of IAS 23, Borrowing Costs, constitutes a change in accounting policy, an entity shall apply the standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the Transition Date. An exemption under this standard permits prospective treatment of borrowing costs on such qualifying assets. The Corporation has chosen to apply the exemption for qualifying assets. In applying this exemption, other than the impact of applying IAS 27, 28, and 31 (as described below), there was no change to the opening consolidated statements of financial position at the Transition Date.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Changes in Existing Decommissioning, Restoration and Similar Liabilities included in the Cost of Property, plant and equipment (d)

IFRIC 1, Changes in Existing Decommission, Restoration and Similar Liabilities, requires specified changes in a decommissioning, restoration or a similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. IFRS 1 allows a first-time adopter to elect not to comply with the requirements of IFRIC 1 for changes that occurred in such rehabilitation obligations before the date of transition to IFRS.

In order to meet this requirement, the Corporation has elected to apply this exemption to certain environmental rehabilitation provisions by measuring the liability at the date of transition to IFRS in accordance with IAS 37, “Provisions, Contingent Liabilities, and Contingent Assets”. To do this, the Corporation estimated the amount to be included in the cost of the related asset when the liability first arose by discounting the liability back to that date using the weighted-average historical risk-adjusted discount rate for the intervening period and then calculated the accumulated depreciation on that amount, as at the Transition Date, on the basis of the estimated useful life under IFRS.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Increase in property, plant and equipment	$	10.7
Increase in environmental rehabilitation and other provisions (non-current)		(26.3)
Increase in deferred income tax assets (non-current)		3.0
Decrease in deferred income tax liability (non-current)		1.9
Decrease to retained earnings	$	10.7

IAS 38 - Intangible Assets (e)

IFRS 1 permits first time adopters to elect to use the fair value of an intangible asset at the date of an event such as privatization or initial public offering as its deemed cost at the date of the event provided that the intangible asset qualifies for recognition in accordance with IAS 38. As a result, certain amounts related to fair value increases that were applied to Property, plant and equipment on the Corporation’s acquisition of the remaining units of Royal Utilities it did not already own on May 2, 2008, were reclassified from Property, plant and equipment to Intangible assets.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Decrease in property, plant and equipment	$	(252.8)
Increase in intangible assets		252.8
(Increase) decrease to retained earnings	$	-

IAS 39 – Financial Instruments: Recognition and Measurement

IAS 39 indicates an exemption to classify financial instruments as fair value through profit and loss (FVTPL) is available for all financial assets and liabilities that have a reliably measurable fair value and are designated as FVTPL upon initial recognition. Recognition as FVTPL results in all changes in fair value being recorded through the statement of comprehensive income (loss). The Corporation elected to designate the MAV notes as FVTPL.

Impact of adoption of IFRS accounting policies

The following provides a summary of the most significant changes in policy resulting in differences in transitioning the consolidated financial statements from Canadian GAAP to IFRS. Note that only material adjustments are discussed qualitatively below and that a reader may not be able to directly tie numbers with a specific letter reference to the various reconciliations of the financial statements on the preceding pages.

IFRS 2 - Share-based Payments (f)

FORFEITURES

Canadian GAAP – Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required at the time the award is granted of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Corporation adjusted its expense to reflect this difference.

CASH-SETTLED SHARE-BASED PAYMENTS (RSUS, DSUS, OPTIONS WITH TANDEM SARS, SARS)

Canadian GAAP – A liability is accrued based upon the intrinsic value of the award with changes recognized in the consolidated statement of comprehensive income (loss) each period as the awards vest. Options with Tandem SARs, and SARs are accrued to the extent they have appreciated above the grant price.

IFRS – The liability for Options with Tandem SARs and SARs is measured at fair value at the grant date by applying the Black-Scholes option pricing model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date with changes in fair value recognized in the consolidated statements of comprehensive income (loss) over the remaining vesting period. Changes in fair value of awards that have vested are immediately recognized in the consolidated statements of comprehensive income (loss). The determination of the liability and expense for RSUs and DSUs is unchanged from Canadian GAAP, except to estimate forfeitures for RSUs.

EQUITY-SETTLED SHARE-BASED PAYMENTS (EQUITY-SETTLED OPTIONS, RSPS AND SHARES ISSUED UNDER THE SHARE PURCHASE PLAN)

At the Transition Date, the Corporation has equity-settled employee share-based payment plans (settled by the issue of shares from treasury) composed of 20,000 fully vested stock options and 947,600 common shares issuable under its Share Purchase Plan.

Canadian GAAP – The equity settled stock options were fully vested at the Transition Date and therefore the related expense had been fully recognized in prior periods. An exemption available under Canadian GAAP, when specific requirements are met, permits the Share Purchase Plan to be treated as non-compensatory.

IFRS – Transactions for shares issued under the Share Purchase Plan are measured at fair value on the date of grant using the Black-Scholes model with the expense and equity recorded each period to recognize the compensation cost over the related vesting period. At the Transition Date, the Corporation also used the Black-Scholes model in order to measure the fair value of the shares under its Share Purchase Plan on a retrospective basis.

The Corporation applied the exemption under IFRS 1 and therefore did not revalue shares that were fully vested at the transition date.

Shares issuable under the RSP are purchased in the market at the date of grant and valued at the grant/purchase value and the cost is amortized over the vesting period but not re-measured after the initial recognition.

The impact arising from these changes is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Increase (decrease) in administrative expenses	$ 3.8	$ 1.3	$ 2.2
Decrease in income tax expense	(0.7)	(0.1)	(0.2)
Decrease in net earnings	$ 3.1	$ 1.2	$ 2.0

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Increase in contributed surplus	(1.6)	(1.4)	(0.4)
Increase in accounts receivable	0.4	0.3	0.2
Increase in trade accounts payable and accrued liabilities	(8.7)	(7.4)	(6.0)
Increase in deferred income tax asset (non-current)	0.2	0.2	0.2
Decrease in deferred income tax liability (non-current)	2.0	1.7	1.4
Decrease to retained earnings	$ 7.7	$ 6.6	$ 4.6

IFRS 3 – Business Combinations (g)

Refer to note 6 for a description of the acquisition of Coal Valley partnership on June 30, 2010.

Canadian GAAP – For step acquisitions, the acquiree is not required to re-measure the previously held equity interest. Canadian GAAP also requires direct costs of the business combination to be included as part of the purchase price. Any excess of fair value over purchase price paid (negative goodwill) is allocated to fair values of the acquired assets such that no gain is recognized.

IFRS – For step acquisitions, the acquirer is required to re-measure the previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss in the consolidated statements of comprehensive earnings (loss). IFRS requires all transaction costs to be expensed. Any excess of fair value over purchase paid is treated as a bargain purchase, with the resulting gain recognized in net earnings (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Increase (decrease) in cost of sales	$ (12.7)	$ 2.0	$ (13.6)
Increase in administrative expense	0.4	-	0.4
Decrease in financing expense	(0.1)	-	(0.1)
Decrease in income tax expense	(0.8)	(0.5)	(0.5)
(Increase) decrease in net earnings	$ (13.2)	$ 1.5	$ (13.8)

Canadian $ millions, as at	2010 December 31	2010 September 30
Consolidated statement of financial position		
Increase in property plant and equipment	$ 20.5	$ 21.0
Increase in deferred income tax asset (non-current)	2.2	2.2
Increase in intangible assets	8.8	9.8
Increase in intangible liability	(6.9)	(7.4)
Increase in deferred income tax liability (non-current)	(7.4)	(7.8)
Increase in environmental rehabilitation and other provisions (non-current)	(4.0)	(4.0)
Increase to retained earnings	$ (13.2)	$ (13.8)

IFRIC 4 - Determining Whether an Arrangement Contains a Lease (h)

Canadian GAAP – EIC 150 permitted an entity to not revisit arrangements that existed prior to the issuance date of the standard, December 9, 2004.

IFRS - At the Transition Date, based on the criteria within IFRIC 4 the Corporation was required to assess whether any of its arrangements that were not previously assessed under EIC 150 contained leases. An arrangement contains a lease if the fulfillment of the arrangement is dependent on the use of a specific asset, and the arrangement conveys a right to use that specific asset. At Coal's Prairie operations, it was determined that coal supply arrangements related to the operation of a 50% owned mine Genesee and a contract mine Highvale, as well as certain agreements to operate draglines, and other assets, were leasing arrangements. It was determined that Sherritt contributed assets to these arrangements; however, the utility customer had the primary right to use those assets. In effect, Sherritt performs leasing services and is reimbursed with a return on its investment in these assets. As a result, property, plant and equipment was derecognized and a finance lease receivable was recognized equal to the Corporation's net investment in the lease. The difference between the original carrying amount of the assets and the net investment in the lease was recognized in retained earnings on the Transition Date. Lease principal payments are recorded as a reduction in the lease receivable and interest payments are recorded as finance income.

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Decrease in revenue	$ 41.3	$ 10.4	$ 30.7
Decrease in cost of sales	(25.7)	(6.5)	(19.1)
Increase in financing income	(17.0)	(4.3)	(12.7)
Increase in income tax expense	0.4	0.1	0.3
Increase in net earnings	$ (1.0)	$ (0.3)	$ (0.8)

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Decrease in property, plant and equipment	$ (232.2)	$ (233.5)	$ (239.0)
Increase in loans receivable and Finance lease receivable	235.8	236.8	241.3
Increase in deferred income tax liability (non-current)	(1.0)	(0.9)	(0.7)
Increase to retained earnings	$ (2.6)	$ (2.4)	$ (1.6)

IFRIC 12 - Service concession arrangements (i)

Canadian GAAP – No specific guidance under Canadian GAAP.

IFRS – IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concessions whereby the private sector entity provides a service to the public sector entity, which sets or regulates the services provided with the infrastructure and their prices, and obtains any significant residual interest in the infrastructure.

At Power, the Boca de Jaruco and Puerto Escondido facilities located in Cuba were determined to be operating under service concession arrangements. Sherritt constructs infrastructure used to provide a public service, and operates and maintains that infrastructure for a fee received over a specified period of time. At the end of the service concession arrangement the residual interest in the infrastructure is transferred to the Cuban government for proceeds of nil. Energas bears the demand risk on revenues related to assets covered under service concession arrangements as receipts are based on usage rather than an unconditional right to receive cash. As a result these assets have been classified as intangible assets that represent the Corporation's right to charge the Government of Cuba for future electricity and by-products delivered.

As the operator, Sherritt derecognized the property, plant, and equipment it had previously recorded and reclassified the carrying values to service concession intangible assets. The amortization of the service concession intangible asset is recognized in cost of sales over the remaining term of the service concession arrangement, which ends in 2023. For certain assets reclassified upon transition, the remaining term of the service concession arrangement was greater than the useful lives previously used to calculate depreciation, which resulted in an increase in net earnings compared to Canadian GAAP.

In exchange for the design, construction and operating services provided at Boca de Jaruco or Puerto Escondido Cuba, the Corporation records a new intangible asset and a corresponding construction revenue amount to reflect the right to charge the Cuban government for the future supply of electricity. New construction, enhancements and upgrades are expensed as incurred and are classified as construction expenses. The net result of the construction activity is a nil impact to net earnings. Once operational the carrying amount of the new service concession intangible asset, including capitalized interest, is amortized on a straight line basis over the remaining contract term. There are no other impacts to the consolidated statements of comprehensive income (loss). Repair, maintenance and replacement costs incurred in relation to service concession intangible assets are expensed as incurred.

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Increase in revenue	$ (5.1)	$ (0.6)	$ (3.5)
Increase in cost of sales	4.3	0.4	2.9
Increase in net earnings	$ (0.8)	$ (0.2)	$ (0.6)

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Decrease in property, plant and equipment	$ (63.6)	$ (66.8)	$ (57.2)
Increase in intangible assets	71.9	73.2	73.3
Decrease in other assets	(7.5)	(5.8)	(16.1)
Increase to retained earnings	$ (0.8)	$ (0.6)	$ -

IAS 1 - Presentation of Financial Statements (j)

At the Transition Date, the Corporation made several changes to the presentation of its consolidated statements of financial position. These changes are primarily a result of reclassifying all or a portion of certain accounts and/or renaming of accounts as a result of differences in IFRS terminology:

- Long-term advances and loans receivable were reclassified from Other assets to Advances, loans receivable and other assets;
- Current portion of Long-term debt and other long-term liabilities were reclassified to separate Loans and borrowings from Other liabilities;
- Deferred revenue was reclassified to Current portion of other liabilities; and
- Long-term debt and other long-term liabilities were reclassified to separate Loans and borrowings from Other liabilities.

Under IFRS, the presentation of certain accounts is prescribed. Adopting IFRS resulted in the reclassifications for deferred income taxes. Deferred income tax assets and liabilities must be presented as non-current, resulting in the following:

- Under Canadian GAAP, the term used was future taxes. The IFRS term is deferred taxes.
- Future income taxes (current asset and current liability) were reallocated to deferred income taxes (non-current asset and non-current liability).

Also, IFRS permits the components of net earnings to be classified by either their function or nature. The Corporation has chosen to present by function. Under Canadian GAAP, the income and expenses were presented as a hybrid between function and nature.

IAS 21 - The Effect of Changes in Foreign Exchange Rates (k)

TRANSITION OF ENERGAS

Canadian GAAP – Energas was considered an integrated foreign operation that used the temporal method for translating foreign currencies and had a Canadian dollar functional currency. The indicators used to determine if a foreign operation is integrated or self-sustaining are equally weighted. Gains or losses resulting from these translation adjustments are recognized in the consolidated statements of comprehensive income (loss).

IFRS – The concept of an integrated or self-sustaining foreign operation does not exist under IFRS. The Corporation determined that the functional currency of Energas is the United States dollar. The indicators used to determine the functional currency of a foreign operation are based on the transactions carried out in the entities primary economic environment. The various factors evaluated in making the determination of functional currency are ranked differently between Canadian GAAP and IFRS. As a result of a United States dollar functional currency, Energas' operations have been translated at the current rate, which translates foreign denominated assets, liabilities and transactions at the exchange rate at the reporting date with all exchange gains and losses included in comprehensive income (loss) and deferred in accumulated other comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Decrease in cost of sales	$ (1.6)	$ (0.3)	$ (1.4)
Decrease in administrative expense	(0.2)	(0.2)	(0.2)
Increase in financing expense	2.6	1.4	1.1
(Increase) decrease in net earnings	$ 0.8	$ 0.9	$ (0.5)
Foreign currency translation adjustment	$ 3.3	$ 2.1	$ 1.1

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Decrease in inventories	$ (0.2)	$ (0.2)	$ (0.2)
Decrease in prepaids	(0.1)	-	-
Decrease in property, plant and equipment	(29.2)	(25.8)	(25.2)
Increase in accumulated other comprehensive income (foreign exchange)	3.3	1.1	-
Decrease to retained earnings	$ 26.2	$ 24.9	$ 25.4

The change in the functional currency for Energas resulted in an increase in the accumulated other comprehensive loss of $24.5 million at the Transition Date. However, this amount was reset to zero though the application of the IFRS 1 exemption and had no net impact on the accumulated other comprehensive loss balance.

SUBORDINATED LOANS TO AMBATOVY

Canadian GAAP – The subordinated loans receivable from the Ambatovy Project is included as part of the net investment in the Ambatovy Joint Venture because the loans meet the criteria of being long-term in nature. The loans were eliminated on consolidation.

IFRS – Loans are to be included in the net investment in an associate if the settlement is neither planned nor likely in the foreseeable future. The subordinated loans to Ambatovy are expected to be settled in the future. Therefore, the criteria to include the loan in the net investment account are not met and are presented as a separate line on the consolidated statements of financial position. The loan is in U.S. dollars and will be revalued each month. As a result, foreign-exchange gains and losses are reflected in the consolidated statements of comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Increase in financing expense	$ 28.4	$ 15.1	$ 7.2
Decrease in net earnings	$ 28.4	$ 15.1	$ 7.2
Foreign currency translation adjustment	$ (35.1)	$ (17.3)	$ (12.8)

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Increase in advances, loans receivable and other assets	$ 620.9	$ 569.1	$ 391.8
Increase in accounts receivable	1.4	10.3	0.8
Decrease in investment in associated entity	(607.9)	(566.1)	(384.9)
Increase in accumulated other comprehensive income	(58.2)	(35.9)	(23.1)
Decrease to retained earnings	$ 43.8	$ 22.6	$ 15.4

The change in the method of accounting for the Corporation's investment in the Ambatovy Joint Venture on adoption of IFRS resulted in a decrease of approximately $23.1 million of opening accumulated other comprehensive loss. The IFRS 1 election was applied to this amount to reset this balance to zero at the Transition Date.

IAS 23 - Borrowing Costs (I)

BORROWING COSTS AND CROSS-GUARANTEE FEE ASSET AMORTIZATION RELATED TO THE AMBATOVY JOINT VENTURE

Canadian GAAP – Interest on loans directly attributable to the development of the Ambatovy mine and amortization of a cross-guarantee fee asset were capitalized to Property, plant and equipment.

IFRS – Under IFRS, the Ambatovy Joint Venture is accounted for using the equity method. As such, the investment is not a qualifying asset that permits the Corporation to capitalize interest costs and the capitalization of amortization of the cross-guarantee fee asset.

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Increase in financing expense	$ 54.8	$ 14.3	$ 40.3
Decrease in income tax expense	(4.3)	(1.1)	(3.1)
Decrease in net earnings	$ 50.5	$ 13.2	$ 37.2

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Decrease in Property, plant and equipment	$ (93.0)	$ (78.4)	$ (38.2)
Decrease in Deferred income tax liability (non-current)	10.5	9.2	6.2
Decrease to Retained earnings	$ 82.5	$ 69.2	$ 32.0

IAS 27, IAS 28 and IAS 31 - Accounting for Investments in Joint Ventures (m)

Canadian GAAP – The Corporation's investment in the Moa joint Venture and Carbon Development Partnership are accounted for using proportionate consolidation. The Corporation's investments in the Ambatovy Joint Venture and Energas are considered investments in variable interest entities as defined by Accounting Guideline 15 Consolidation of Variable Interest Entities (AcG-15) and are therefore fully consolidated with non-controlling interest in the net assets reported separately.

IFRS – The Moa joint Venture and Carbon Development Partnership continue to be accounted for using proportionate consolidation. IFRS has guidance relating to Special Purpose Entities (SPE) requires consolidation if control existed on a basis other than ownership interest. The criteria to be an SPE under IFRS are different than VIE under Canadian GAAP.

The Corporation determined that Energas and Ambatovy Joint Venture were not SPE's to Sherritt resulting in the deconsolidation of the entities on the Transition Date. Under IFRS, Energas is considered a jointly controlled entity and is accounted for using proportionate consolidation and the Ambatovy Joint Venture is considered an investment in an associate and is accounted for using the equity method.

In June 2009, Sherritt entered into the additional loan agreements that resulted in amendments to the shareholders agreement. As a result of interpreting the Ambatovy Joint Venture shareholders' agreement under IFRS, it was determined that the appropriate accounting would be to account for the Ambatovy Joint Venture as an Investment in an associate which is presented as a single line item on the statement of financial position and the statement of comprehensive income. Also at June 30, 2009, the Corporation was required to determine its initial cost in the investee which included the cost of acquired mineral rights and the Corporation's share of net loss to the Transition Date. The Corporation recorded an adjustment of $118.3 million to increase its investment in Ambatovy to reflect fair value. The acquired mineral rights within the investment will be amortized using the units-of-production method once the Ambatovy Project commences operations. These adjustments were denominated in U.S. dollars, and as a result increased accumulated other comprehensive at the Transition Date. This amount was reversed through the application of the IFRS 1 election. See adjustment IAS 21 – The Effects of Changes in Foreign Exchange Rates (c).

IFRS requires the Corporation to classify the funding it has provided in the form of debt towards the development of Ambatovy as a separate loan receivable recorded in Advances, loans receivable and other assets, and not part of the net investment: see adjustment IAS 21 - The Effect of Changes in Foreign Exchange Rates (k). Interest revenue relating to the loans is eliminated. This is an accounting policy choice as IFRS is silent on how to account for revenue generated between group companies and an associate.

The change in the method of accounting for the Corporation's investment in Energas on adoption of IFRS, and the change in functional currency of Energas resulted in an increase in the accumulated other comprehensive loss. See adjustment IAS 21 – The Effects of Changes in Foreign Exchange Rates (c).

Given the magnitude of the adjustments resulting from de-consolidating the Ambatovy Joint Venture and Energas, the impact on the consolidated statements of financial position has been included in a separate column in the various reconciliations of the financial statements under Canadian GAAP to IFRS.

IAS 36 - Impairment of Assets (n)

Canadian GAAP – If an indication of impairment is identified, the asset's carrying amount is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying amount, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying amount. A reversal of a previously recognized impairment is not permitted.

IFRS – If an indication of impairment is identified, the asset's carrying amount is compared to the asset's recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. Reversal of impairment losses up to the expected depreciated value is required for assets other than goodwill if certain criteria are met.

At the Transition Date, the Corporation performed impairment testing on its long-lived assets which resulted in no material impairment. The Corporation reversed impairment losses previously recognized on certain equipment.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Increase in property, plant and equipment	$ 10.7	$ 10.7	$ 10.7
Increase in deferred income tax liability (non-current)	(0.5)	(0.5)	(0.5)
Increase to retained earnings	$ (10.2)	$ (10.2)	$ (10.2)

IAS 39 – Financial Instruments: Recognition and Measurement (o)

Canadian GAAP – The fair value of the Ambatovy call option was assumed to be the original cost ascribed to it when the Corporation acquired its ownership in the Ambatovy Joint Venture with its acquisition of Dynatec Corporation. Management determined that, given the nature of the asset, the fair value of the call option could not be reliably determined as the variability in the range of reasonable fair value estimates was significant, and the probabilities of the various estimates within the range could not be reasonably assessed. Under Canadian GAAP, if fair value cannot initially be reliably determined, it is common practise to continue to carry the item at cost until expiry.

IFRS – Under IFRS, an instrument is measured at cost only as long as it can be demonstrated that fair value cannot be reliably determined. At the Transition Date, the variability in the range of reasonable fair value estimates allowed a reliable determination of fair value to be made.

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 September 30	For the nine months ended 2010 September 30
Consolidated statement of comprehensive income			
Increase in financing income	$ (1.6)	$ 1.7	$ (1.5)
Increase in financing expense	1.9	1.3	0.7
Decrease in income tax expense	(0.1)	-	-
(Increase) decrease in net earnings	$ 0.2	$ 3.0	$ (0.8)

Canadian $ millions, as at	2010 December 31	2010 September 30	2010 January 1
Consolidated statement of financial position			
Increase in other assets	$ 27.0	$ 28.1	$ 27.3
Increase in deferred income tax liability (non-current)	(2.4)	(2.5)	(2.5)
Increase to retained earnings	$ (24.6)	$ (25.6)	$ (24.8)

Supplementary 2010 annual disclosure under IFRS

Post-employment benefits

The Corporation sponsors defined benefit and defined contribution pension arrangements covering substantially all employees. The following table summarizes the significant actuarial assumptions used to calculate the pension expense and obligations under the defined benefit pension plans:

As at December 31	2010
Accrued benefit obligation	
Discount rate	5.6%
Rate of compensation increases	3.5%
Average remaining service period of active employees	0-15 years
Benefit costs	
Expected long-term rate of return on plan assets	3.1 - 6.3%
Discount rate	6.3%
Plan assets	
Expected return on plan assets	3.1 - 6.3%

Actuarial reports and updates are prepared by independent actuaries for funding and accounting purposes. Net pension plan expense was:

Canadian $ millions, for the year ended December 31	2010
Current service cost	
Defined benefit	$ 4.7
Defined contribution	11.4
Interest cost	7.2
Actual loss on plan assets	7.9
Actuarial loss	9.0
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	40.2
Adjustments to recognize the long-term nature of employee future benefit costs	
Difference between expected return and actual return on plan assets	(13.8)
Deferral of actuarial loss	(8.5)
	17.9
IFRIC 14 valuation allowance provided against the accrued benefit asset	0.5
Net pension plan expense	$ 18.4

Information on defined benefit pension plans, in aggregate, is set out below:

Canadian $ millions, for the year ended December 31	2010
Accrued benefit obligation	
Balance, beginning of year	$ 113.5
Current service cost	4.7
Interest cost	7.2
Benefits paid	(6.3)
Actuarial gain /loss	9.0
Balance, end of year	$ 128.1

Canadian $ millions, for the year ended December 31		2010
Plan assets		
Fair value, beginning of year	$	98.5
Actual return (loss) on plan assets		10.9
Employer contributions		6.6
Employee contributions		-
Benefits paid		(6.3)
Fair value, end of year	$	109.7
Funded status - surplus (deficit)	$	(18.4)
Unamortized past service costs		-
Unamortized net actuarial losses		3.6
Unamortized net transitional (asset) obligation		-
IFRIC 14 valuation allowance		(0.5)
Net pension asset (liability)	$	(15.3)

Canadian $ millions, as at December 31		2010
Pension asset	$	2.0
Pension liability		(17.3)
	$	(15.3)

Total cash payments for post-retirement benefits for 2010, composed of contributions to defined benefit pension plans and defined contribution plans, were $18.0 million.

As at December 31, 2010, for pension plans with an accrued benefit obligation in excess of plan assets, the accrued benefit obligation was $105.7 million and the fair value of the plan assets was $82.5 million.

The measurement date for the plan assets and the accrued benefit obligations for the Corporation's defined benefit pension plans is December 31. Actuarial valuations are performed at least every three years and rendered to date using current salary levels to determine the actuarial present value of the accrued benefit obligation. An actuarial valuation was performed on certain plans as at December 31, 2010. The next required actuarial valuation for funding purposes for certain plans will be December 31, 2013.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plans were as follows:

As at December 31	2010
Equity securities	59%
Debt securities	34%
Other	7%

Income taxes

Income tax expense is composed of the following:

Canadian $ millions, for the year ended December 31	2010
Current tax expense	
Current period	$ 75.0
Initial recognition of tax assets	-
Adjustment for prior periods	-
	75.0
Deferred tax expense	
Origination and reversal of temporary differences	29.6
Reduction in tax rate	-
Initial recognition of tax assets	(2.9)
Non-recognition/(recognition) of tax assets (not) previously recognized	-
	26.7
	$ 101.7

The following table reconciles income taxes calculated at a combined Canadian federal/provincial income tax rate with the income tax expense in the consolidated financial statements:

Canadian $ millions, for the year ended December 31	2010
Earnings before tax	$ 261.2
Income tax expense at the combined basic rate of 28.21%	73.7
Increase (decrease) in taxes resulting from:	
Difference between Canadian and foreign tax rates	27.4
Reduction in deferred income tax rates	(0.7)
Tax rate differential on temporary difference movements	(3.0)
Non-deductible impairments	-
Non-deductible losses and writedowns	3.5
Recognition of tax assets	(1.1)
Tax rate differential on loss carryback	(3.1)
Cuban tax contingency reserve	12.4
Movement in deferred taxes on business acquisition	(9.8)
Other items	2.4
	$ 101.7

Deferred tax assets (liabilities) relate to the following temporary differences and loss carryforwards:

Canadian $ millions, for the year ended December 31, 2010	Opening balance	Recognized in net earnings	Recognized in other compre-hensive income	Business Acquisition	Closing balance
Deferred tax assets					
Tax loss carryforwards	$ 64.4	$ (17.8)	$ -	$ 1.3	$ 47.9
Environmental rehabilitation obligations	29.4	3.6	(0.4)	8.4	41.0
Finance lease obligations	23.0	0.7	-	3.6	27.3
Pension and other benefit plans and reserves	7.7	0.2	-	-	7.9
Property, plant and equipment	17.5	(10.8)	0.6	-	7.3
MAV note impairment	4.6	(1.5)	-	-	3.1
Deferred financing costs	0.7	(0.7)	-	-	-
Foreign currency denominated loans	-	-	-	-	-
Other	-	-	-	-	-
	147.3	(26.3)	0.2	13.3	134.5
Set off of deferred tax liabilities	(127.6)	-	-	-	(133.1)
Net deferred tax assets	19.7				1.4
Deferred tax liabilities					
Property, plant and equipment	$ (321.5)	$ 13.2	$ 2.3	$ (23.2)	$ (329.2)
Cuban tax contingency reserve	(3.4)	(12.0)	0.3	-	(15.1)
Foreign currency denominated loans	(3.9)	(2.2)	-	-	(6.1)
Pension and other benefit plans and reserves	(5.1)	0.7	0.2	(0.1)	(4.3)
Ambatovy call option	(4.3)	0.1	-	-	(4.2)
Deferred financing costs	(0.8)	(0.3)	(1.0)	-	(2.1)
Other	(7.4)	0.1	0.5	0.2	(6.6)
Environmental rehabilitation obligation	-	-	-	-	-
Finance lease obligations	-	-	-	-	-
	(346.4)	(0.4)	2.3	(23.1)	(367.6)
Set off of deferred tax assets	127.6	-	-	-	133.1
Net deferred tax liabilities	(218.8)				(234.5)
Net deferred tax assets (liabilities)	$ (199.1)	$ (26.7)	$ 2.5	$ (9.8)	$ (233.1)

As at December 31, 2010 the Corporation had temporary differences of $1,049.2 million associated with investments in subsidiaries, associated entities and interests in joint ventures for which no deferred tax liabilities have been recognized, as the Corporation is able to control the timing of the reversal of these temporary differences and it is not probable that these temporary differences will reverse in the foreseeable future.

As at December 31, 2010, the Corporation had non-capital losses of $175.6 million and capital losses of $119.9 million which may be used to reduce future taxable income.

The Corporation has not recognized a deferred tax asset on $6.1 million of non-capital losses, $74.5 of capital losses and $30.3 million of other deductible temporary differences since the realization of any related tax benefit through future taxable profits is not probable. The capital losses have no expiry dates and the other deductible temporary differences do not expire under current tax legislation. The non-capital losses for which no benefit has been recognized are located primarily in Canada and expire as follows:

Canadian $ millions, for the years ended December 31	Recognized Losses	Unrecognized losses	Total
Expiration Date			
2014	$ -	$ 0.1	$ 0.1
2015	12.0	0.1	12.1
2026	21.5	0.1	21.6
2027	46.8	2.0	48.8
2028	55.3	2.6	57.9
2029	33.9	1.0	34.9
2030	-	0.2	0.2
Total	$ 169.5	$ 6.1	$ 175.6