MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of April 24, 2012, should be read in conjunction with Sherritt's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2012 and the MD&A for the year ended December 31, 2011. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

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

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

Key financial and operational data	2
Executive summary	3
Review of operations	6
Metals	6
Coal	11
Oil and Gas	15
Power	18
Other	21
Liquidity and capital resources	22
Managing risk	26
Accounting pronouncements	26
Summary of quarterly results	26
Off-balance sheet arrangements	27
Transactions with related parties	27
Controls and procedures	28
Supplementary information	28
Sensitivity analysis	28
Non-GAAP measures - EBITDA	29
Forward-looking statements	30

Key financial and operational data

$ millions , except per share amounts, for the three months ended March 31	2012	2011	Change
Financial highlights			
Revenue	**$ 462.2**	$ 474.5	(3%)
EBITDA[1]	**146.4**	164.4	(11%)
Earnings from operations and associate	**90.1**	113.1	(20%)
Net earnings for the period	**32.3**	63.6	(49%)
Comprehensive (loss) income	**(4.5)**	22.2	(120%)
Net earnings per share, basic ($ per share)	**0.11**	0.22	(50%)
Net earnings per share, diluted ($ per share)	**0.11**	0.22	(50%)
Cash flow			
Cash provided by operating activities	**$ 122.8**	$ 107.3	14%
Spending on capital and intangible assets[2]	**$ 40.9**	$ 41.6	(2%)
Production volumes			
Nickel (tonnes)(50% basis)	**4,299**	4,303	-
Cobalt (tonnes)(50% basis)	**477**	470	1%
Coal - Prairie Operations (millions of tonnes)	**8.6**	8.6	-
Coal - Mountain Operations (millions of tonnes)	**1.0**	1.1	(9%)
Oil - Cuba - net working-interest production (barrels per day)	**10,724**	11,702	(8%)
Electricity (gigawatt hours) (33⅓% basis)	**155**	148	5%
Unit costs[3]			
Nickel (US$ per pound)[4]	**$ 5.13**	$ 4.07	26%
Coal - Prairie Operations ($ per tonne)[5]	**13.32**	12.72	5%
Coal - Mountain Operations ($ per tonne)	**89.08**	78.26	14%
Oil - Cuba ($ per barrel)	**13.06**	11.19	17%
Electricity ($ per megawatt hour)	**17.16**	18.67	(8%)
Averaged-realized prices[3]			
Nickel ($ per pound)	**$ 8.66**	$ 11.73	(26%)
Cobalt ($ per pound)	**14.10**	17.55	(20%)
Coal - Prairie Operations ($ per tonne)[5]	**17.01**	15.04	13%
Coal - Mountain Operations ($ per tonne)	**104.04**	91.44	14%
Oil - Cuba ($ per barrel)	**78.47**	61.92	27%
Electricity ($ per megawatt hour)	**41.48**	40.54	2%

$ millions, except as noted, as at	2012 March 31	2011 December 31	Change
Financial condition			
Current ratio	**3.35:1**	3.73:1	(10%)
Net working capital balance	**$ 964.1**	$ 1,016.7	(5%)
Cash, cash equivalents and short-term investments	**592.9**	631.4	(6%)
Total assets	**6,478.3**	6,497.5	-
Total loans and borrowings	**1,696.2**	1,744.7	(3%)
Shareholders' equity	**3,715.2**	3,731.7	-
Long-term debt to total assets[6]	**27%**	28%	(4%)

(1) For additional information see the Non-GAAP measures - EBITDA section.
(2) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Project or service concession arrangements.
(3) Management uses unit cost and average-realized price statistics to monitor the performance of the Corporation's operating divisions. These non-GAAP measures do not have a standardized meaning under International Financial Reporting Standards (IFRS) and may not be comparable to similar measures provided by other companies. Average-realized price is calculated by dividing revenue by sales volume for the given product. For additional information on unit cost calculation, see the Review of operations section for each division.
(4) Net direct cash cost is inclusive of by-product credits and third-party feed costs.
(5) Excludes royalties, activated carbon and char operating costs and revenue.
(6) Calculated as total loans and borrowings divided by total assets excluding goodwill. This leverage ratio is monitored by management and lenders.

Executive summary

Q1 2012 HIGHLIGHTS

- Revenue for the three months ended March 31, 2012 was $462.2 million compared to $474.5 million in the prior year. Lower revenue was primarily the result of lower nickel prices. These reductions were partly offset by higher revenue as a result of higher oil prices and the overall impact of a weaker Canadian dollar relative to the U.S. dollar compared to the prior year.
- EBITDA[1] for the three months ended March 31, 2012 was $146.4 million compared to $164.4 million in the prior year. Lower EBITDA was primarily a result of lower revenue discussed above and higher operating costs at Metals primarily due to higher input commodity prices.
- Net earnings for the three months ended March 31, 2012 were $32.3 million compared to $63.6 million in the prior year. In addition to the impact of revenue and operating costs described above, net earnings were lower as a result of a $27.7 million increase in net finance expense.
- Net finance expense was higher primarily due to a higher net loss on financial instruments of $17.4 million, as well as higher interest expense and accretion on higher loans and borrowings balances, and lower interest income on lower average investment balances. The largest component of the increase in the net loss on financial instruments was a non-cash change in the fair value estimate of the Ambatovy call option of $13.7 million. The Ambatovy call option relates to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin Inc.'s 5% equity interest in the Ambatovy Joint Venture at any time over a two-year period following the completion of construction and the satisfaction of certain completion tests. The fair value of the option is updated each quarter and can be volatile as it is derived from a mathematical model, Black-Scholes, that is used to price derivative financial instruments that depends on estimates primarily related to future cash flows, interest rates, risk, and timing.
- Operating cash flow for the three months ended March 31, 2012, was $122.8 million compared to $107.3 million in the prior year, as the change in non-cash working capital more than offset lower net earnings.
- At Ambatovy, the current estimate of total project costs remains US$6.4 billion inclusive of financing charges, working capital and foreign exchange. Total project costs in the first quarter of 2012 were US$239.9 million (100% basis). Cumulative total project costs to March 31, 2012 were US$6.0 billion (100% basis). Total capital costs are expected to remain within the US$5.5 billion (100% basis) estimate.
- At Ambatovy, all of the systems in the pressure acid leach (PAL) area are either in operation or start-up. Of the key PAL process components, the slurry thickener, three ore leach autoclaves, neutralization circuit and countercurrent decantation (CCD) wash circuit are operable. The final step in the PAL process – sulphide precipitation – which results in the production of mixed sulphides, is in start-up and is expected to be operational in April. First metal remains scheduled for the second quarter of 2012.
- At March 31, 2012, total available liquidity was approximately $1.0 billion. Total debt at March 31, 2012 was $1.7 billion including $786.6 million related to non-recourse Ambatovy Partner loans to Sherritt. The Corporation's liquidity profile includes a current ratio of 3.35:1, a net working capital balance of $964.1 million, and cash, cash equivalents, and short-term investments of $592.9 million. The Corporation's long-term debt to total assets ratio was 27%.

[1] For additional information, see the Non-GAAP measures – EBITDA section.

Consolidated financial results

$ millions, except per share amounts, for the three months ended March 31		**2012**		2011	Change
Revenue by segment					
Metals	**$**	**114.8**	$	140.4	(18%)
Coal		**245.3**		245.9	-
Oil and Gas		**82.2**		70.5	17%
Power		**16.6**		14.4	15%
Corporate and other		**3.3**		3.3	-
		462.2		474.5	(3%)
EBITDA[(1)] by segment					
Metals	**$**	**31.3**	$	65.9	(53%)
Coal		**53.1**		47.7	11%
Oil and Gas		**65.2**		54.8	19%
Power		**5.9**		4.8	23%
Corporate and other		**(9.1)**		(8.8)	3%
		146.4		164.4	(11%)
Earnings (loss) from operations and associate					
Metals	**$**	**24.3**	$	57.4	(58%)
Coal		**25.8**		23.5	10%
Oil and Gas		**46.4**		39.4	18%
Power		**3.3**		2.2	50%
Corporate and other		**(9.7)**		(9.4)	3%
		90.1		113.1	(20%)
Net finance expense		**45.3**		17.6	157%
Income taxes		**12.2**		31.5	(61%)
Loss from discontinued operation, net of tax		**0.3**		0.4	(25%)
Net earnings	**$**	**32.3**	$	63.6	(49%)
Net earnings per share					
Basic	**$**	**0.11**	$	0.22	(50%)
Diluted	**$**	**0.11**	$	0.22	(50%)
Effective tax rate		**27%**		33%	(18%)

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

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

- Metals' earnings from operations and associate of $24.3 million for the three months ended March 31, 2012 were $33.1 million lower than in the same period in 2011, primarily as a result of lower nickel and cobalt prices and higher input commodity prices, partly offset by higher fertilizer revenue and the impact of a weaker Canadian dollar relative to the U.S. dollar;
- Coal's earnings from operations of $25.8 million for the three months ended March 31, 2012 were $2.3 million higher than in the same period in 2011, primarily due to higher coal mining revenue at Prairie Operations, partly offset by a loss at Mountain Operations due to lower export sales volume that more than offset the increase in export coal prices;
- Oil and Gas' earnings from operations of $46.4 million for the three months ended March 31, 2012 were $7.0 million higher than in the same period in 2011, primarily due to an increase in the average-realized price for oil produced in Cuba;
- Power's earnings from operations of $3.3 million for the three months ended March 31, 2012 were $1.1 million higher than in the same period in 2011, primarily due to higher volume and a higher average-realized sales price;

- Net finance expense of $45.3 million for the three months ended March 31, 2012 was $27.7 million higher compared to the same period in the prior year. Finance expense was $8.0 million higher than the same period in the prior year, primarily due to higher interest expense and accretion on loan and borrowing balances and higher foreign exchange losses. Finance income was $19.7 million lower than the same period in the prior year, primarily due to a loss on financial instruments. The net loss on financial instruments was $17.4 million higher compared to the first quarter of 2011 as a result of the following; a reduction in the value of the Ambatovy call option of $11.8 million in the first quarter of 2012, an increase in the value of the Ambatovy call option of $1.9 million in the first quarter of 2011, and an increase in the value of the master asset vehicle notes of $3.7 million in the first quarter of 2011 that were later sold in 2012. The reduction in fair value of the Ambatovy call option in the first quarter of 2012 was a result of changes in various inputs used in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and publicly-traded stock prices of companies with comparable projects, and the reduced time to expiration of the option; and
- The effective consolidated tax rate for the three months ended March 31, 2012 was 27% compared to 33% in the same period in the prior year. This decrease in the effective tax rate is primarily the result of changes in the relative mix of earnings, including foreign exchange gains and losses, which were incurred by the various divisions in different tax rate jurisdictions, as well as the recognition of the tax benefit of certain tax losses that had not previously been recognized.

Review of operations

METALS

Financial review

$ millions, for the three months ended March 31	2012	2011	Change
Revenue			
Nickel	**$ 82.8**	$ 110.7	(25%)
Cobalt	**14.4**	17.8	(19%)
Fertilizers	**15.0**	8.2	83%
Other	**2.6**	3.7	(30%)
	114.8	140.4	(18%)
Cost of sales[1]			
Mining, processing and refining	**65.1**	53.7	21%
Third-party feed costs	**1.3**	2.2	(41%)
Fertilizers	**9.5**	7.9	20%
Selling costs	**3.1**	2.6	19%
Other	**2.9**	6.0	(52%)
	81.9	72.4	13%
Administrative expenses[1]	**1.6**	2.1	(24%)
EBITDA[2]	**31.3**	65.9	(53%)
Depletion, depreciation and amortization	**8.2**	7.4	11%
Share of (earnings) loss of associate	**(1.2)**	1.1	(209%)
Earnings from operations and associate	**$ 24.3**	$ 57.4	(58%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures – EBITDA section.

The change in earnings from operations and associated entity between 2012 and 2011 is detailed below:

$ millions, for the three months ended March 31	2012
Lower realized nickel prices, denominated in U.S. dollars	**$ (30.3)**
Lower realized cobalt prices, denominated in U.S. dollars	**(3.7)**
Higher fertilizer prices	**1.7**
Higher metal and fertilizer sales volumes	**0.8**
Higher mining and processing costs net of lower third-party feed costs	**(8.6)**
Weaker Canadian dollar relative to the U.S. dollar	**3.5**
Other	**3.5**
Change in earnings from operations, compared to 2011	**$ (33.1)**

Metal prices

Prices, for the three months ended March 31	2012	2011	Change
Nickel - average-realized ($ per pound)	**$ 8.66**	$ 11.73	(26%)
Cobalt - average-realized ($ per pound)	**14.10**	17.55	(20%)
Nickel - average-reference (US$ per pound)	**8.91**	12.20	(27%)
Cobalt - average-reference (US$ per pound) (1)	**14.59**	18.38	(21%)

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

The average nickel reference price decreased US$3.29 per pound reflecting lower global demand and the projected increase in nickel supply from projects currently in development. The average cobalt reference price decreased US$3.79 per pound, primarily as a result of global production outpacing demand. Average-realized prices in 2012 were positively impacted by the weaker Canadian dollar relative to the U.S. dollar.

Production and sales

Production (tonnes) (50% basis), for the three months ended March 31	2012	2011	Change
Mixed sulphides	**4,676**	4,844	(3%)
Finished nickel	**4,299**	4,303	-
Finished cobalt	**477**	470	1%

Sales, for the three months ended March 31	2012	2011	Change
Finished nickel (thousands of pounds)(50% basis)	**9,555**	9,438	1%
Finished cobalt (thousands of pounds)(50% basis)	**1,017**	1,014	-
Fertilizer (tonnes)(1)	**26,627**	17,694	50%

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

Production of 9,352 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides was 336 tonnes (100% basis) lower reflecting lower throughput at the processing plant as a result of reduced mining truck availability, which has since been resolved. Finished nickel production of 8,598 tonnes (100% basis) and finished cobalt production of 954 tonnes (100% basis) was consistent with the prior year as a result of stable refinery operation and processing of feed from inventory.

Finished nickel sales were higher due to timing of shipments. Fertilizer sales volumes were 8,933 tonnes higher in 2012, as sales in the prior year were impacted by the high level of snow cover in Western Canada that delayed spring fertilizer application.

Unit costs

Net direct cash cost[1], for the three months ended March 31		2012		2011	Change
Mining, processing and refining costs	**$**	**6.50**	$	5.52	18%
Third-party feed costs		**0.14**		0.24	(42%)
Cobalt by-product credits		**(1.50)**		(1.91)	(21%)
Other[2]		**(0.01)**		0.22	(105%)
Net direct cash cost (US$ per pound of nickel)	**$**	**5.13**	$	4.07	26%
Natural gas costs ($ per gigajoule)		**2.14**		3.68	(42%)
Sulphur (US$ per tonne)		**274.30**		199.85	37%
Sulphuric acid (US$ per tonne)		**198.04**		174.09	14%

(1) Net direct cash cost is a non-GAAP measure. Net direct cash cost is calculated by dividing cost of sales per the Financial review table, above, (adjusted for the following items: cobalt, fertilizers and other revenue per the Financial review table, above, and other costs of $0.8 million, primarily related to the impact of opening and closing inventory values (2011 – $4.8 million)), by the number of finished nickel pounds sold, translated to U.S. dollars using an average U.S. to Canadian dollar exchange rate of 1.00 (2011 – 0.99). Unit costs may not calculate based on amounts presented due to rounding.
(2) Includes fertilizer profit or loss, marketing costs, premiums, and other by-product credits.

Components of mining, processing and refining costs[1], for the three months ended March 31	2012	2011	Change
Fixed costs	**20%**	22%	(9%)
Sulphur	**10%**	8%	25%
Sulphuric acid	**18%**	19%	(5%)
Fuel oil	**20%**	18%	11%
Maintenance	**11%**	11%	-
Other variable	**21%**	22%	(5%)
	100%	100%	-

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

Net direct cash cost of nickel increased US$1.06 per pound, primarily due to higher mining, processing and refining costs and lower cobalt by-product credits, partly offset by lower third-party feed costs and higher fertilizer by-product credits. Increased mining, processing and refining costs primarily reflected higher commodity input prices. Third-party feed costs decreased as a result of lower availability of third-party feed.

Spending on capital[1]

$ millions, for the three months ended March 31		2012		2011	Change
Sustaining[2]	**$**	**4.9**	$	4.5	9%
Expansion		**0.9**		1.8	(50%)
Total	**$**	**5.8**	$	6.3	(8%)

(1) Spending on capital related to the Corporation's 50% interest in the Moa Joint Venture, and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.
(2) Includes leased expenditures of $0.9 million and $nil million for the three months ended March 31, 2012 and 2011, respectively.

Capital spending for the Moa Joint Venture primarily focused on sustaining activities. Expansion spending for the Moa Joint Venture includes capitalized interest related to financing of the Phase 2 Expansion and the Moa acid plant. Capitalization of interest ceased during the quarter due to prolonged administrative delays.

Ambatovy Project update

- All of the systems in the pressure acid leach (PAL) area are either in operation or start-up. Of the key PAL process components, the slurry thickener, three ore leach autoclaves, neutralization circuit and countercurrent decantation (CCD) wash circuit are operable. The final step in the PAL process – sulphide precipitation – which results in the production of mixed sulphides, is in start-up and is expected to be operational in April. First metal remains scheduled for the second quarter of 2012.
- Capital costs are expected to remain within the US$5.5 billion estimate. The current estimate of total project costs remains at US$6.4 billion inclusive of financing charges, working capital and foreign exchange.
- Total project costs may vary until commercial production and will primarily depend on changes to the project schedule and fluctuations in the market price for nickel and cobalt. Variability in the project schedule is most likely to arise from three categories of potential risk:
    - Parts and equipment. There remains an inherent risk that parts and equipment may fail or fail to perform in accordance with design due to mechanical or engineering issues during early operation. Given the location and associated logistics, replacement components may not be immediately available;
    - Construction quality risk. Programs were implemented to rectify all known quality deficiencies, but latent issues may still exist that may affect metal recoveries and operations; and
    - Operational risk. The pace of the start-up process and production ramp-up is directly affected by the performance of core operators and maintenance teams. The commissioning process has been utilized to train and familiarize the new operators with the facility. However, their performance in an operating plant remains untested. Supplementary operators and maintenance personnel, experienced in both start-up activities and steady-state operations, have been mobilized to assist further in the training and start-up to mitigate the short-term risks. In addition, a system has been instituted that will monitor the qualifications and performance of this group and mitigate issues over the medium and long term.
- If the risks outlined above do not materialize in a significant manner, the Ambatovy operations are expected to reach commercial production (defined as an average of 70% mixed sulphides production capacity over a 30-day period) by the end of 2012 or early 2013. Commercial production is a significant milestone as it defines the point at which all operating costs, net of revenue, are expensed rather than capitalized. The date at which the project becomes cash-flow neutral is difficult to predict as it depends on several external factors, including the nickel reference price which has demonstrated significant volatility in 2012.
- Total project costs in the first quarter of 2012 were US$239.9 million ($240.4 million) (100% basis), inclusive of capital costs of US$45.7 million ($45.8 million) (100% basis). Cumulative total project costs at March 31, 2012 were US$6.0 billion (100% basis). Approximately US$230.0 million ($231.5 million) (100% basis) in funding was provided by the Ambatovy Joint Venture partners in the first quarter of 2012 with Sherritt funding its US$92.0 million ($92.6 million) share directly.
- As of March 31, 2012, approximately 90% of the construction personnel have been demobilized. The remaining construction personnel are working on start-up and maintenance activities and will be demobilized in a staged manner.
- Management continues to work diligently to manage the potential impact of weather, labour and other country risks that could put pressure on the schedule, potentially impacting total project costs. During the quarter there was a cyclone in the area which did not cause damage to the project or mine site, but resulted in an 8-day delay on the schedule due to the evacuation of staff, plant shut down, and restart of project activities. During the quarter there was also a labour disturbance at the Mine Site, and in a separate incident, protestors blocked access to the processing plant site in Toamasina. Both disturbances were handled successfully through discussions among management, employees, local authorities and protestors, resulting in minimal impact to the project schedule or costs.

- The Transition Government of Madagascar continues to progress the "Roadmap", which was designed by the Southern African Development Community to facilitate Madagascar's return to democratic rule, although several key milestones are outstanding. The project continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. The project continues to have active working relations with relevant Malagasy Ministries to facilitate the commissioning and start-up of operations.

Outlook for 2012

Production volumes and spending on capital and project For the three and twelve months ended	**Actual March 31 2011**	Projected December 2012
Production		
Mixed sulphides (tonnes, 100% basis)		
Moa Joint Venture	**9,352**	38,000
Ambatovy Joint Venture	**-**	9,000 – 14,500
	9,352	47,000 – 52,500
Finished nickel (tonnes, 100% basis)		
Moa Joint Venture	**8,598**	33,900
Ambatovy Joint Venture	**-**	8,000 – 13,000
	8,598	41,900 – 46,900
Finished cobalt (tonnes, 100% basis)		
Moa Joint Venture	**954**	3,375
Ambatovy Joint Venture	**-**	800 – 1,300
	954	4,175 – 4,675
Spending on capital ($ millions)		
Moa Joint Venture (50% basis), Fort Saskatchewan (1)	**6**	60
Project capital spending (US$ millions, 100% basis)		
Ambatovy Joint Venture	**46**	100 – 250

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

For the Moa Joint Venture, the estimate for full-year 2012 production of mixed sulphides and finished metal production remains unchanged from prior estimates. Guidance for spending on capital for the Moa Joint Venture is unchanged from prior guidance, and does not include any significant expansion-related expenditures. The Moa Joint Venture partners continue to review options and update costs pertaining to the completion of the Phase 2 Expansion and construction of a sulphuric acid plant at Moa.

For the Ambatovy Joint Venture, first metal is scheduled for the second quarter of 2012 and estimated full-year 2012 production of mixed sulphides and finished metal remains unchanged from prior guidance. Spending on capital for 2012 at Ambatovy is expected to range between US$100 million and US$250 million (100% basis). The amount of capital ultimately required during the year will be dependent largely on the performance of key equipment during start-up.

COAL

Financial review

$ millions, for the three months ended March 31	Prairie Operations 2012	Prairie Operations 2011	Prairie Operations Change	Mountain Operations and coal development assets 2012	Mountain Operations and coal development assets 2011	Mountain Operations and coal development assets Change	Total 2012	Total 2011	Total Change
Mining revenue	**$ 145.6**	$ 133.2	9%	**$ 86.2**	$ 96.1	(10%)	**$ 231.8**	$ 229.3	1%
Coal royalties	**10.8**	11.8	(8%)	**-**	-	-	**10.8**	11.8	(8%)
Potash royalties	**2.7**	4.8	(44%)	**-**	-	-	**2.7**	4.8	(44%)
	159.1	149.8	6%	**86.2**	96.1	(10%)	**245.3**	245.9	-
Cost of sales[1]	**113.5**	112.2	1%	**74.6**	82.1	(9%)	**188.1**	194.3	(3%)
Administrative expenses[1]	**2.1**	2.4	(13%)	**2.0**	1.5	33%	**4.1**	3.9	5%
EBITDA[2]	**43.5**	35.2	24%	**9.6**	12.5	(23%)	**53.1**	47.7	11%
Depletion, depreciation and amortization	**14.0**	13.4	4%	**13.3**	10.8	23%	**27.3**	24.2	13%
Earnings (loss) from operations	**$ 29.5**	$ 21.8	35%	**$ (3.7)**	$ 1.7	(318%)	**$ 25.8**	$ 23.5	10%

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures – EBITDA section.

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions, for the three months ended March 31	2012
Prairie Operations	
Higher mining revenue, net of cost of sales	**$ 11.1**
Lower coal and potash royalties	**(3.1)**
Other	**(0.3)**
Change in earnings from operations, compared to 2011	**$ 7.7**
Mountain Operations and coal development assets	
Higher export coal prices, denominated in U.S. dollars	**11.3**
Higher mining costs	**(8.4)**
Higher depreciation and amortization	**(2.5)**
Lower export sales volumes	**(3.3)**
Lower domestic sales volumes	**(1.3)**
Other	**(1.2)**
Change in earnings from operations, compared to 2011	**$ (5.4)**

Coal prices

Average-realized prices ($ per tonne)[1], for the three months ended March 31	2012	2011	Change
Prairie Operations	**$ 17.01**	$ 15.04	13%
Mountain Operations	**104.04**	91.44	14%

(1) Average-realized price is a non-GAAP measure. It is calculated by dividing revenue from the Financial review table above by the number of tonnes sold. For Prairie Operations revenue excludes royalties, activated carbon, char and other of $21.3 million (2011 – $23.1 million) and tonnes sold excludes activated carbon and char of 28.0 thousand tonnes (2011 – 31.4 thousand tonnes). Average-realized price may not calculate based on amounts presented due to rounding.

In Prairie Operations, the average-realized price increased $1.97 per tonne reflecting higher realized prices earned at all mines. The largest factors in the increase were attributable to the Highvale mine (contract mining operations) as a result of higher cost recoveries and the Boundary Dam mine as a result of having a significant fixed component of mining revenue on lower sales volume. The Boundary Dam mine sales volume was lower due to unscheduled maintenance activities at the customer's power generating unit which returned to service in February 2012.

In Mountain Operations, the average-realized price increased $12.60 per tonne, primarily due to higher thermal export coal pricing.

Royalty revenue

$ millions, for the three months ended March 31	2012	2011	Change
Prairie Operations			
Coal royalties	**$ 10.8**	$ 11.8	(8%)
Potash royalties	**2.7**	4.8	(44%)

Coal royalties were lower due to the timing of mining activities in royalty assessable areas. Potash royalties were lower due to lower production volumes from potash producers given weaker demand in the first quarter of 2012.

Production and sales

Production (millions of tonnes), for the three months ended March 31	2012	2011	Change
Prairie Operations	**8.6**	8.6	-
Mountain Operations	**1.0**	1.1	(9%)

Sales (millions of tonnes), for the three months ended March 31	2012	2011	
Prairie Operations	**8.1**	8.5	(5%)
Mountain Operations	**0.8**	1.0	(20%)

In Prairie Operations, sales volumes were lower, primarily as a result of lower volumes at the Boundary Dam mine, as discussed above. Overall, production volumes were consistent with the prior period. Activated carbon established a quarterly production record of 2,127 tonnes (50% basis) which was 729 tonnes higher than in the prior period.

In Mountain Operations, production volumes were lower as production levels at the Obed Mountain mine were reduced to achieve an optimal thermal export sales mix. Sales volumes were lower due to port and rail congestion that delayed the timing of a vessel scheduled to ship in the first quarter of 2012.

Unit costs

Unit cost ($ per tonne), for the three months ended March 31	2012	2011	Change
Prairie Operations [1]	**$ 13.32**	$ 12.72	5%
Mountain Operations [2]	**89.08**	78.26	14%

(1) Unit cost is a non-GAAP measure. It is calculated by dividing cost of sales from the Financial review table above (adjusted to exclude cost of sales relating to royalties, activated carbon, char and other of $5.6 million (2011 – $5.0 million)), by the number of tonnes sold (adjusted to exclude tonnes relating to activated carbon and char of 28.0 thousand tonnes (2011 – 31.4 thousand tonnes)). Unit costs may not calculate based on amounts presented due to rounding.

(2) Unit cost is a non-GAAP measure. It is calculated by dividing cost of sales from the Financial review table above (adjusted to exclude cost of sales relating to coal development assets and other of $0.9 million (2011 – $0.1 million)), by the number of tonnes sold. Unit costs may not calculate based on amounts presented due to rounding.

Components of unit cost (%), for the three months ended March 31	**2012**	2011	Change
Prairie Operations			
Labour	**42%**	44%	(5%)
Repairs and maintenance	**26%**	27%	(4%)
Fuel	**16%**	16%	-
Other [1]	**16%**	13%	23%
Total	**100%**	100%	-
Mountain Operations			
Labour	**22%**	21%	5%
Repairs and maintenance	**15%**	14%	7%
Fuel	**11%**	10%	10%
Rentals and contractors	**16%**	15%	7%
Ex-Mine[2]	**30%**	32%	(6%)
Other [3]	**6%**	8%	(25%)
Total	**100%**	100%	-

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

In Prairie Operations, unit costs increased $0.60 per tonne due to higher cost recoveries at the Highvale mine (contract mining operations), partly offset by lower unit costs at the Poplar River and Boundary Dam mines as a result of higher production volumes.

In Mountain Operations, unit costs increased $10.82 per tonne due to lower Obed Mountain mine production volumes as discussed in the Production and sales section.

Spending on capital

$ millions, for the three months ended March 31		**2012**		2011	Change
Prairie Operations					
Sustaining[1][2]	**$**	**7.2**	$	15.5	(54%)
Mountain Operations					
Sustaining[3]		**16.1**		4.3	274%
Total	**$**	**23.3**	$	19.8	18%

(1) Includes leased expenditures of $2.9 million and $9.5 million for the three months ended March 31, 2012 and 2011, respectively.
(2) Includes capital expenditures of $1.1 million and $4.9 million for the three months ended March 31, 2012 and 2011, respectively, related to assets that are categorized as finance lease receivables.
(3) Includes leased expenditures of $1.9 million and $2.4 million for the three months ended March 31, 2012 and 2011, respectively.

During 2012, in addition to the acquisition of $2.9 million of leased equipment, Prairie Operations spent $4.3 million, primarily related to the replacement of a dragline component at the Bienfait mine which is expected to be completed in the second half of 2012. Capital spending was lower due to the timing of equipment arrivals at the mines.

In Mountain Operations, in addition to the acquisition of $1.9 million of leased equipment, Coal Valley mine spent $14.2 million of which $9.8 million related to the purchase of loading equipment and $4.4 million related to initial mining activities in a new mining area where coal production has not yet commenced.

Regulatory update

The status of the draft regulations published by the federal government on August 27, 2011, "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity" (the Draft Regulations), remains uncertain. The Draft Regulations would require, among other things, that new and certain refurbished coal-fired plants commissioned on or after July 1, 2015, achieve an emissions intensity performance standard of 375 tonnes of CO_2 per gigawatt hour. In general, for units commissioned prior to that date, the same standard would take effect 45 years from the unit's commissioning date or upon the expiration of the unit's power purchase agreement, whichever comes later. The Corporation provided written comments to the federal government within a prescribed 60-day comment period. The Corporation has also continued to actively engage with key stakeholders, including provincial and federal governments, to express its concerns with the Draft Regulations.

Outlook for 2012

Production volumes, royalties and spending on capital For the three and twelve months ended	**Actual** **March 31** **2011**	Projected December 2012
Production		
Prairie Operations (millions of tonnes)	**9**	33
Mountain Operations (millions of tonnes)	**1.0**	4.0
Royalties ($ millions)		
Coal	**11**	39
Potash	**3**	19
Spending on capital ($ millions)		
Prairie Operations	**7**	97
Mountain Operations	**16**	65

For Prairie Operations, full-year 2012 production and spending on capital remains consistent with prior guidance. Full-year 2012 coal and potash royalties are unchanged from prior guidance.

For Mountain Operations, full-year 2012 production is 7% (0.3 million tonnes) lower than previous guidance, reflecting both a delay in the receipt of licenses that were required to enter a new mining area (received at the end of the first quarter of 2012), and delays at equipment suppliers that affected the scheduled delivery of a large shovel, and continued management of production levels at the Obed Mountain mine to achieve an optimal export thermal sales mix. Spending on capital for full-year 2012 remains consistent with prior guidance.

OIL AND GAS

Financial review

$ millions, for the three months ended March 31	2012	2011	Change
Revenue			
Cuba	**$ 76.6**	$ 65.2	17%
Spain	**4.1**	4.0	2%
Pakistan	**0.3**	0.3	-
Processing	**1.2**	1.0	20%
	82.2	70.5	17%
Cost of sales[1]	**14.5**	13.4	8%
Administrative expenses[1]	**2.5**	2.3	9%
EBITDA[2]	**65.2**	54.8	19%
Depletion, depreciation and amortization	**18.8**	15.4	22%
Earnings from operations	**$ 46.4**	$ 39.4	18%

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures - EBITDA section.

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions, for the three months ended March 31	2012
Higher realized oil and gas prices	**$ 12.3**
Lower gross working-interest volumes	**(1.7)**
Increased depletion, depreciation and amortization	**(3.7)**
Weaker Canadian dollar relative to the U.S. dollar	**0.9**
Other	**(0.8)**
Change in earnings from operations, compared to 2011	**$ 7.0**

Oil prices

Prices, for the three months ended March 31	2012	2011	Change
Average-realized prices			
Cuba ($ per barrel)	**$ 78.47**	$ 61.92	27%
Spain ($ per barrel)	**120.21**	105.29	14%
Pakistan ($ per boe)[1]	**8.08**	7.98	1%
Reference price (US$ per barrel)			
Gulf Coast Fuel Oil No. 6	**108.06**	86.45	25%
Brent	**119.70**	105.95	13%

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

The average-realized price for oil production in Cuba increased by $16.55 per barrel, primarily as a result of higher oil reference prices and the impact of a weaker Canadian dollar relative to the U.S. dollar. The average-realized price for oil produced in Spain was higher for the same reasons.

Production and sales

Daily production volumes[1], for the three months ended March 31	**2012**	2011	Change
Gross working-interest oil production in Cuba[2][3]	**20,079**	20,874	(4%)
Net working-interest oil production			
Cuba (heavy oil)			
Cost recovery	**3,069**	4,197	(27%)
Profit oil	**7,655**	7,505	2%
Total	**10,724**	11,702	(8%)
Spain (light/medium oil)[4]	**376**	425	(12%)
Pakistan (natural gas)[4]	**355**	357	(1%)
Total	**11,455**	12,484	(8%)

(1) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.
(3) For further information on gross working-interest oil production in Cuba, cost recovery, and profit oil see page 43 of the 2011 annual report.
(4) For Spain and Pakistan, net working-interest production is equal to gross working-interest production.

Gross working-interest (GWI) oil production in Cuba decreased 795 bopd, primarily due to natural reservoir declines partly offset by production from two new wells that were completed in the period and are now producing oil, and the optimization of production from existing wells.

Cost-recovery oil production in Cuba decreased 1,128 bopd, primarily due to higher oil prices, as well as lower cost-recovery spending. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, increased by 150 bopd.

Production in Spain and Pakistan was lower due to natural reservoir declines.

Unit costs

Unit cost[1] ($ per net boe), for the three months ended March 31	**2012**	2011	Change
Cuba	**$ 13.06**	$ 11.19	17%
Spain	**46.51**	33.35	39%
Pakistan	**2.74**	3.77	(27%)
Weighted-average	**$ 13.94**	$ 11.73	19%

(1) Unit cost is a non-GAAP measure. Unit cost is calculated by dividing cost of sales from the Financial review table above (adjusted to exclude costs which do not impact oil production of $nil (2011 – $0.3 million)) by net working-interest production. Unit costs may not calculate based on amounts presented due to rounding.

Components of unit cost - Cuba (%), for the three months ended March 31	**2012**	2011	Change
Labour	26%	26%	-
Maintenance	12%	10%	20%
Treatment and transportation	17%	21%	(19%)
Freight and duty	5%	5%	-
Production chemicals	6%	9%	(33%)
Fuel and electricity	9%	6%	50%
Insurance	3%	5%	(40%)
Other	22%	18%	22%
	100%	100%	-

Unit costs in Cuba increased $1.87 per barrel, primarily due to lower net production and higher fuel, electricity and other costs, partly offset by lower production chemical and insurance costs.

Unit costs in Spain increased $13.16 per barrel, primarily due to increased production expenses and employee costs and lower oil production in the first quarter of 2012, partly offset by a stronger Canadian dollar relative to the Euro.

Spending on capital

$ millions, for the three months ended March 31		**2012**		2011	Change
Development and facilities	**$**	**7.8**	$	14.5	(46%)
Exploration		**1.6**		0.2	700%
Total	**$**	**9.4**	$	14.7	(36%)

In the first quarter of 2012, development and facilities capital spending was composed primarily of $6.1 million for development drilling activities and $0.5 million related to facility improvements. Spending on capital in the first quarter of 2012 was $5.3 million lower, primarily due to reduced equipment and inventory purchases in Cuba.

During the first quarter of 2012, Sherritt completed the drilling of two wells which are currently producing oil.

Of the three wells that were being assessed at December 31, 2011, one is currently being tested, one has been suspended pending further evaluation, and the third did not produce commercial quantities of oil and is being relinquished.

Exploration spending in 2012 was focused in the United Kingdom North Sea prospect area and in the Alboran Sea prospect area off the southern coast of Spain.

Outlook for 2012

Production volumes and spending on capital For the three and twelve months ended	**Actual March 31 2011**	Projected December 2012
Production		
Gross working-interest oil (Cuba) (bopd)	**20,079**	20,000
Net working-interest production, all operations (boepd)	**11,455**	11,780
Spending on capital ($ millions)		
Cuba	**7**	51
Other	**2**	18

Guidance for full-year 2012 GWI oil production in Cuba, net working-interest production (all operations), and spending on capital remains consistent with prior estimates.

POWER

Financial review

$ millions (33⅓% basis), for the three months ended March 31	2012	2011	Change
Revenue			
Electricity sales	**$ 6.4**	$ 6.0	7%
By-products and other	**1.9**	1.6	19%
Fixed-price lease contracts[1]	**1.3**	1.3	-
Construction activity	**7.0**	5.5	27%
	16.6	14.4	15%
Cost of sales[2]	**2.7**	2.8	(4%)
Cost of construction	**7.0**	5.5	27%
Administrative expenses[2]	**1.0**	1.3	(23%)
EBITDA[3]	**5.9**	4.8	23%
Depletion, depreciation and amortization	**2.6**	2.6	-
Earnings from operations	**$ 3.3**	$ 2.2	50%

(1) Composed of fixed lease payments received in relation to the 25 MW power plant in Madagascar.
(2) Excluding depletion, depreciation and amortization.
(3) For additional information see the Non-GAAP measures - EBITDA section.

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions, for the three months ended March 31	2012
Higher electricity volumes	**$ 0.3**
Higher realized by-product prices	**0.1**
Lower administrative expenses	**0.3**
Weaker Canadian dollar relative to the U.S. dollar	**0.1**
Other	**0.3**
Change in earnings from operations, compared to 2011	**$ 1.1**

Electricity prices

Price ($ per MWh)[1], for the three months ended March 31	2012	2011	Change
Average-realized price	**$ 41.48**	$ 40.54	2%

(1) Megawatt hours (MWh).

The average-realized price of electricity was $0.94 per MWh higher, primarily due to a weaker Canadian dollar relative to the U.S. dollar.

Production and sales

Production/Sales (33⅓% basis), for the three months ended March 31	2012	2011	Change
Electricity sold (GWh)[1]	**155**	148	5%

(1) Gigawatt hours (GWh).

Production was slightly higher due to a decrease in maintenance activity compared to the same period in the prior year.

Unit costs

For the three months ended March 31		2012		2011	Change
Unit cost[1] ($ per MWh)	**$**	**17.16**	$	18.67	(8%)

(1) Unit cost is a non-GAAP measure. The unit cost is calculated by dividing cost of sales from the Financial review table above by the number of MWh of electricity sold. Unit costs may not calculate based on amounts presented due to rounding.

Components of unit cost (%), for the three months ended March 31	2012	2011	Change
Labour	33%	34%	(3%)
Maintenance	22%	20%	10%
Freight and duty	7%	4%	75%
Insurance	9%	10%	(10%)
Other	29%	32%	(9%)
Total	100%	100%	-

Unit costs were $1.51 per MWh lower, primarily due to increased production while cost of sales remained consistent with the prior year.

Spending on capital and service concession arrangements

$ millions (33⅓% basis), for the three months ended March 31		2012		2011	Change
Sustaining	**$**	**0.2**	$	-	-
Growth		**1.1**		0.6	83%
Total	**$**	**1.3**	$	0.6	117%

Sustaining capital expenditures were primarily related to the purchase of equipment and major long-term spare parts. Growth spending related to capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project.

$ millions (33⅓% basis), for the three months ended March 31		2012		2011	Change
Service concession arrangements	**$**	**7.0**	$	5.5	27%

Service concession arrangement expenditures relate to the 150 MW Boca de Jaruco project. Engineering for the project is substantially complete and all major equipment has been ordered, the majority of which is on site. The project is scheduled to begin production in the first half of 2013. Sherritt's estimate of the total project cost remains $271.0 million.

Outlook for 2012

Production volumes and spending on capital (33⅓% basis) and project For the three and twelve months ended	**Actual** **March 31** **2011**	Projected December 2012
Production		
Electricity (GWh)	**155**	550
Spending on capital ($ millions)		
Cuba[1]	**1**	8
Project capital spending ($ millions)		
150 MW Boca de Jaruco (100% basis)	**21**	109

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

Full-year 2012 guidance on production and spending on capital remain unchanged.

For the 150 MW Boca de Jaruco Combined Cycle Project, spending in 2012 remains unchanged from prior guidance and the Project remains on schedule to begin production in the first half of 2013.

OTHER

Technologies

Technologies continued to support the Ambatovy Project construction and commissioning activities with rotational assignment of its personnel to site and by providing consulting support from Technologies' office in Fort Saskatchewan.

Commissioning of a Brazilian gold pressure oxidation project continued and significant pilot test work was completed for a number of other gold and other industry clients.

Development of coal to liquid technology continued with a third party. Work continued on the detailed design and installation of a pilot plant to further evaluate the process.

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

For the three months ended March 31, 2012, Technologies generated external revenue of $3.1 million, consistent with the prior year.

Sulawesi Project update

The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Under the terms of its earn-in and shareholders' agreement, with a subsidiary of Rio Tinto Limited (Rio Tinto), the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project in Indonesia upon funding expenditures of US$30.0 million and meeting certain other conditions by October 1, 2013. In addition, upon meeting the above conditions, the Corporation may elect to spend an additional US$80.0 million by June 30, 2017 towards producing a feasibility study from which a development decision will be made. If the Corporation elects not to spend the US$80.0 million it would forfeit its interest in the Sulawesi Project companies.

In compliance with Indonesia's mining law, Rio Tinto has concluded agreements to divest a 20% interest in the Sulawesi Project to Indonesian interests. Following such divestiture, which is expected to occur prior to production, Sherritt and Rio Tinto together will indirectly own and control an 80% interest in the Sulawesi Project, which will give Sherritt a 46% economic interest, and Rio Tinto a 34% economic interest, respectively.

Pursuant to Indonesian Government Regulation No. 24 of 2012 which came into force on February 21, 2012, all foreign-owned mining companies in Indonesia must offer at least 51% of their shares to Indonesian interests by the end of the 10th year after the commencement of production. The implementation of this government regulation may result in a diminution of Sherritt's economic interest in the Sulawesi Project. The Corporation is studying the impact of this and other Indonesian government regulations directed at the mining industry on the Sulawesi Project.

In the first quarter of 2012, the Corporation incurred US$0.4 million of expenditures related to advancing the prefeasibility work. At March 31, 2012, the Corporation has incurred US$9.7 million of qualified expenditures and continues to advance work on permitting related to the next phase of a resource drilling program, environmental and social baseline studies, and the project prefeasibility study.

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

Liquidity and capital resources

Based on the Corporation's financial position and liquidity at March 31, 2012, and projected future earnings, management expects to be able to fund its working capital and project needs, and meet its other obligations including debt repayments.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

$ millions, as at March 31, 2012	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 in more than 5 years
Trade accounts payable and accrued liabilities	$ 217.0	$ 217.0	$ -	$ -	$ -	$ -	$ -
Income taxes payable	23.8	23.8	-	-	-	-	-
Advances and loans payable	145.4	15.0	11.4	10.7	10.2	14.7	83.4
Loans and borrowings[1]	2,786.8	95.1	71.9	420.7	463.1	181.9	1,554.1
Finance leases and other equipment financing	160.1	53.9	41.6	26.8	27.7	10.1	-
Operating leases	52.2	17.3	13.4	4.5	3.0	2.9	11.1
Capital commitments	16.9	16.9	-	-	-	-	-
Environmental rehabilitation provision	393.7	32.8	35.9	36.6	25.7	20.9	241.8
Pensions	99.8	9.3	9.4	9.6	9.7	9.6	52.2
Total	$ 3,895.7	$ 481.1	$ 183.6	$ 508.9	$ 539.4	$ 240.1	$ 1,942.6

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

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Ambatovy Joint Venture

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

- Capital purchase commitments of $32.8 million due within the next year;
- Environmental rehabilitation commitments of $151.9 million, with no significant repayments due in the next four years; and
- Ambatovy Joint Venture senior debt financing of US$840.0 million ($839.2 million), with principal repayments beginning the later of six months after financial completion of the Ambatovy Project or 30 months after final draw down, but not later than June 2013.

Sulawesi Project

The Corporation expects to fund US$30.0 million in exploration and development costs by October 1, 2013, and can elect to spend an additional US$80.0 million by June 30, 2017. The Corporation has incurred US$9.7 million of qualifying expenditures as of March 31, 2012.

150 MW Boca de Jaruco project

The Corporation expects to fund $100.5 million (100% basis) related to the remainder of its service concession arrangement commitment for the 150 MW Boca de Jaruco project which is expected to be completed in the first half of 2013.

INVESTMENT LIQUIDITY

At March 31, 2012, cash and cash equivalents, and short-term and long-term investments were located in the following countries:

$ millions, as at March 31, 2012	Cash and cash equivalents	Short-term investments	Investments	Total
Canada	$ 132.0	$ 429.0	$ 5.6	$ 566.6
Cuba	12.6	-	51.1	63.7
Other	19.3	-	-	19.3
Total	$ 163.9	$ 429.0	$ 56.7	$ 649.6

Cash and short-term investments

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

At March 31, 2012, included in cash equivalents was $67.4 million in Government of Canada treasury bills having original maturity dates of less than three months. Included in short-term investments was $429.0 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

Included in cash, cash equivalents and short-term investments was $43.7 million (50% basis) of cash held by the Moa Joint Venture. All cash held by the Moa Joint Venture is for the exclusive use of the joint venture.

The table above does not include $10.0 million of cash held by the Ambatovy Joint Venture (which is included as part of the investment in an associate balance in the consolidated statement of financial position). The cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

Investments

As a result of the agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa Joint Venture to its Cuban beneficiaries. At March 31, 2012, the balance of the CDs was $51.1 million.

AVAILABLE CREDIT FACILITIES

At March 31, 2012, the Corporation and its divisions had borrowed $1.7 billion under available credit facilities. Total credit available under these facilities was $435 million.

The following table outlines the maximum amount and amounts available to the Corporation for credit facilities that have amounts available at March 31, 2012 and December 31, 2011. A detailed description of these facilities is provided in the Loans, borrowings and other liabilities note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

$ millions, as at	2012 March 31		2011 December 31	
	Maximum	**Available**	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility[1]	**$ 115**	**$ 100**	$ 115	$ 109
Line of credit	**20**	**20**	20	20
Letters of credit facility[2]	**64**	**6**	64	6
Long-term				
Ambatovy Joint Venture partner loans (US$)[3]	**213**	**127**	213	127
Senior credit facility agreement[4]	**235**	**182**	235	159
Total Canadian equivalent	**$ 647**	**$ 435**	$ 651	$ 424
Supplementary information				
Ambatovy Project financing (US$) (40%)[5]	**$ 840**	**$ -**	$ 840	-
Finance leases[6]	**$ 190**	**$ 58**	$ 190	$ 41

(1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At March 31, 2012, the Corporation had $15.2 million of letters of credit outstanding.
(2) Uncommitted letter of credit facility entered into and available to CVRI.
(3) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.
(4) Available to Prairie Mines and Royalty Ltd (PMRL), a subsidiary of Royal Utilities. At March 31, 2012, PMRL had drawn $14.0 million on this facility and had $39.1 million of letters of credit outstanding.
(5) Due to the equity accounting for Ambatovy Joint Venture previously discussed, this loan is not included in loans and borrowings on the Corporation's statement of financial position.
(6) Finance leases include only those that have been committed by lenders.

Covenants

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

At March 31, 2012, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next twelve months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

SOURCES AND USES OF CASH

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

$ millions, for the three months ended March 31		**2012**		2011	Change
Cash from operating activities					
Cash from operating activities before change in non-cash working capital	**$**	**117**	$	141	(17%)
Change in non-cash working capital		**6**		(34)	(118%)
	$	**123**	$	107	15%
Cash provided by (used for) investing and financing activities					
Property, plant, equipment and intangible expenditures	**$**	**(22)**	$	(24)	(8%)
Loans to an associate		**(23)**		(59)	(61%)
Net repayment of loans and borrowings and other financial liabilities		**(47)**		(4)	1075%
Investment in an associate		**(70)**		(34)	106%
Decrease in investments		**7**		7	-
Dividends paid on common shares		**(11)**		(11)	-
Repayment of short-term loans		**-**		(14)	(100%)
Other		**5**		4	25%
	$	**(161)**	$	(135)	19%
		(38)		(28)	36%
Cash, cash equivalents and short-term investments:					
Beginning of the period		**631**		760	(17%)
End of the period	**$**	**593**	$	732	(19%)

The significant items affecting the sources and uses of cash during the three months ended March 31, 2012 are described below:

- Cash from operating activities before change in non-cash working capital decreased compared to the prior year, primarily as a result of lower net earnings. The change in non-cash working capital is primarily due to higher deferred revenue related to fertilizer pre-sales and the collection of overdue receivables at Oil and Gas, partly offset by an increase in inventories, primarily related to the timing of shipments at Metals and Coal;
- Cash used for spending on property, plant, equipment and intangibles was $22 million. A discussion of these expenditures is included in the Review of operations sections for each division;
- A total of $93 million (US$92 million) was provided in cash to the Ambatovy Joint Venture as Sherritt's share of the joint venture funding requirements. Of the funding provided, $23 million was provided as a loan and the remaining $70 million was a direct contribution to Sherritt's investment in the joint venture;
- Of the cash used for the repayment of loans and borrowings, $29 million was used to repay some of the senior credit facility and $11 million was used to repay some of the Corporation's finance lease obligations;
- The decrease in investments of $7 million primarily relate to amounts collected by the Corporation on the Cuban certificates of deposit.

Common shares

As at April 24, 2012, the Corporation had 296,150,140 common shares outstanding. An additional 4,244,317 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

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

Managing risk

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

Accounting pronouncements

There have been no new accounting pronouncements issued in the first quarter of 2012 that are expected to impact the Corporation. For a summary of recent pronouncements, see the Recent accounting pronouncements note in the Corporation's audited financial statements for the year ended December 31, 2011.

Summary of quarterly results

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended June 2010 to March 31 2012.

$ millions, except per share amounts, for the three months ended	**2012 Mar. 31**	2011 Dec. 31	2011 Sept. 30	2011 June 30	2011 Mar. 31	2010 Dec. 31	2010 Sept. 30	2010 June 30
Revenue								
Metals	**$ 114.8**	$ 137.7	$ 122.9	$ 149.4	$ 140.4	$ 147.0	$ 127.8	$ 138.3
Coal[1]	**245.3**	303.3	247.2	254.1	245.9	260.6	217.8	189.8
Oil and Gas	**82.2**	74.4	78.5	81.5	70.5	61.9	53.2	63.8
Power	**16.6**	18.6	14.0	13.0	14.4	12.3	11.0	12.3
Corporate and other	**3.3**	2.8	3.8	2.6	3.3	3.4	2.9	2.1
	$ 462.2	$ 536.8	$ 466.4	$ 500.6	$ 474.5	$ 485.2	$ 412.7	$ 406.3
Net earnings	**32.3**	28.1	45.5	60.1	63.6	42.7	22.5	50.2
Net earnings per share								
Basic	**$ 0.11**	$ 0.10	$ 0.16	$ 0.20	$ 0.22	$ 0.15	$ 0.07	$ 0.17
Diluted	**$ 0.11**	$ 0.09	$ 0.15	$ 0.20	$ 0.22	$ 0.14	$ 0.07	$ 0.17

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

Net earnings for the Corporation are primarily affected by commodity prices and exchange rates that impact revenue and costs. Generally, a stronger Canadian dollar relative to the U.S. dollar partly offset higher commodity prices over most of the quarters. Net earnings in the first quarter of 2012 were also impacted by higher net finance expense primarily due to a loss on financial instruments. Net earnings in the fourth quarter of 2011 were also impacted by higher net finance expense primarily due to an early redemption premium paid on the redemption of debentures in December 2011 and other non-recurring costs. The third and fourth quarters of 2010 were impacted by a higher foreign exchange loss and finance expenses related to Ambatovy Partner loans as well as an impairment loss in Oil and Gas in the third quarter and closure costs related to Mineral Products in the fourth

quarter. The second quarter of 2010 was impacted by a gain primarily related to the re-measurement of the Corporation's previously held 50% equity interest when it acquired the remaining 50% of Coal Valley Partnership.

Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts. The Corporation has made a completion guarantee to the Ambatovy Project lenders and has also guaranteed letters of credit issued by Coal and payments under a lease contract entered into by Coal. Details of these arrangements can be found in the Environmental rehabilitation provisions, contingencies and guarantees note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011 and its unaudited interim consolidated financial statements at March 31, 2012.

Transactions with related parties

$ millions, for the three months ended March 31	**2012**	2011
Total value of goods and services:		
Provided to jointly controlled entities	**$ 21.0**	$ 20.0
Provided to associate	**1.1**	0.9
Purchased from jointly controlled entities	**6.8**	5.5
Net financing income from jointly controlled entities	**6.4**	5.9

$ millions, as at	**2012 March 31**	2011 December 31
Accounts receivable from jointly controlled entities	**$ 3.8**	$ 4.1
Accounts receivable from associate	**42.7**	22.1
Accounts payable to jointly controlled entities	**0.6**	-
Accounts payable to associate	**0.4**	0.3
Advances and loans receivable from associate	**974.6**	968.9
Advances and loans receivable from Energas	**174.2**	166.9
Advances and loans receivable from certain Moa Joint Venture entities	**134.7**	142.8

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's disclosure controls and procedures are designed to ensure that all important information about Sherritt, including operating and financial activities, is communicated fully, accurately and in a timely way and that they provide Sherritt with assurance that the financial reporting is accurate.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

As at March 31, 2012, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended March 31, 2012 the Corporation did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's net earnings and earnings per share for the first quarter of 2012 from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor		Increase	Approximate change in Q1 net earnings ($ millions) Increase/(decrease)	Approximate change in Q1 basic EPS Increase/(decrease)
Prices				
Nickel - LME price per pound (50% basis)	US$	0.50	3	0.01
Cobalt - Metal Bulletin price per pound (50% basis)	US$	5.00	3	0.01
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$	5.00	3	0.01
Volume				
Nickel - tonnes (50% basis)[1]		1,000	2	0.01
Cobalt - tonnes (50% basis)[1]		250	2	0.01
Oil - gross working-interest barrels per day		1,000	1	-
Exchange rate				
Strengthening of the Canadian dollar relative to the U.S. dollar	US$	0.05	(11)	(0.04)
Operating costs				
Natural gas - cost per gigajoule (Metals) (50% basis)	$	1.00	(1)	-
Sulphuric acid - cost per tonne (Metals) (50% basis)	US$	25.00	(1)	-
Fuel - WTI oil price (Coal)	US$	10.00	(1)	-

(1) Reflects volume increase on 100% basis for an approximate change in net earnings and basic EPS on a 50% basis.

NON-GAAP MEASURES - EBITDA

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

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

The table below reconciles EBITDA to net earnings from continuing operations.

$ millions, for the three months ended March 31, 2012	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 114.8	$ 245.3	$ 82.2	$ 16.6	$ 3.3	$ 462.2
Cost of sales	90.1	214.8	33.2	12.3	4.4	354.8
Gross profit (loss)	24.7	30.5	49.0	4.3	(1.1)	107.4
Administrative expenses	1.6	4.7	2.6	1.0	8.6	18.5
Operating profit (loss)	23.1	25.8	46.4	3.3	(9.7)	88.9
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	8.2	26.7	18.7	2.6	0.2	56.4
Administrative expenses	-	0.6	0.1	-	0.4	1.1
EBITDA	31.3	53.1	65.2	5.9	(9.1)	146.4
Less:						
Depletion, depreciation and amortization, above	(8.2)	(27.3)	(18.8)	(2.6)	(0.6)	(57.5)
Add:						
Share of earnings of an associate	1.2	-	-	-	-	1.2
Earnings (loss) from operations and associate	24.3	25.8	46.4	3.3	(9.7)	90.1
Net finance expense (income)	36.1	(0.6)	(6.2)	(3.0)	19.0	45.3
Income tax expense (recovery)	4.0	2.8	13.5	0.8	(8.9)	12.2
Net earnings (loss) from continuing operations	$ (15.8)	$ 23.6	$ 39.1	$ 5.5	$ (19.8)	$ 32.6

$ millions, for the three months ended March 31, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 140.4	$ 245.9	$ 70.5	$ 14.4	$ 3.3	$ 474.5
Cost of sales	78.1	217.8	28.6	10.8	2.5	337.8
Gross profit	62.3	28.1	41.9	3.6	0.8	136.7
Administrative expenses	3.8	4.6	2.5	1.4	10.2	22.5
Operating profit (loss)	58.5	23.5	39.4	2.2	(9.4)	114.2
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	5.7	23.5	15.2	2.5	0.7	47.6
Administrative expenses	1.7	0.7	0.2	0.1	(0.1)	2.6
EBITDA	65.9	47.7	54.8	4.8	(8.8)	164.4
Less:						
Depletion, depreciation and amortization, above	(7.4)	(24.2)	(15.4)	(2.6)	(0.6)	(50.2)
Share of loss of an associate	(1.1)	-	-	-	-	(1.1)
Earnings (loss) from operations and associate	57.4	23.5	39.4	2.2	(9.4)	113.1
Net finance expense (income)	12.4	(0.6)	(5.7)	(1.9)	13.4	17.6
Income tax expense (recovery)	17.9	1.4	13.5	0.4	(1.7)	31.5
Net earnings (loss) from continuing operations	$ 27.1	$ 22.7	$ 31.6	$ 3.7	$ (21.1)	$ 64.0

FORWARD-LOOKING STATEMENTS

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

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

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